

SECURITIES AND EXCHANGE COMMISSION

FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1999-04-19**
SEC Accession No. **0001047469-99-015447**

([HTML Version](#) on secdatabase.com)

FILER

NETOBJECTS INC

CIK: **1009386** | IRS No.: **943233791** | State of Incorporation: **DE**
Type: **S-1/A** | Act: **33** | File No.: **333-71893** | Film No.: **99596992**
SIC: **7372** Prepackaged software

Business Address
301 GALVESTON DRIVE
STE 250
REDWOOD CITY CA 94063
6504823200

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NETOBJECTS, INC.

(Exact name of Registrant as specified in its charter)

<TABLE>			
<S>	DELAWARE	<C>	7372
	(State or other jurisdiction of Incorporation or organization)	<C>	94-3233791
			(I.R.S. Employer Identification No.)
</TABLE>			

301 GALVESTON DRIVE
REDWOOD CITY, CALIFORNIA 94063
(650) 482-3200

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

SAMIR ARORA, CHIEF EXECUTIVE OFFICER
301 GALVESTON DRIVE
REDWOOD CITY, CALIFORNIA 94063
(650) 482-3200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

<TABLE>			
<S>	ALAN B. KALIN	<C>	LAURA T. PUCKETT
	MCCUTCHEM, DOYLE, BROWN & ENERSEN, LLP		MARK F. HOFFMAN
	3150 PORTER DRIVE		KATHI A. RAWNSLEY
	PALO ALTO, CALIFORNIA 94304-1212		GRAHAM & JAMES LLP
			600 HANSEN WAY
			PALO ALTO, CALIFORNIA 94304-1043
</TABLE>			
		<C>	JOHN W. WHITE
			CRAVATH, SWAINE & MOORE
			WORLDWIDE PLAZA
			825 EIGHTH AVENUE
			NEW YORK, NEW YORK 10019-7475

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC:

AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box

and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / /

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

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

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

CALCULATION OF REGISTRATION FEE

<TABLE> <CAPTION>		PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE(2)
<S>	TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	<C>	<C>
</TABLE>	Common Stock, par value \$0.01 per share.....	\$89,700,000	\$24,937

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o).

(2) We paid a fee of \$21,100.20 in connection with our original filing on February 5, 1999. Therefore, we are only paying \$3,836.40 in connection herewith.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

SUBJECT TO COMPLETION
APRIL 19, 1999

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

6,000,000 SHARES

[LOGO]

COMMON STOCK

This is the initial public offering of NetObjects, Inc., and we are offering 6,000,000 shares of our common stock. No public market currently exists for our shares. We anticipate that the initial public offering price will be between \$11.00 and \$13.00 per share.

We have applied to list the common stock on the Nasdaq National Market under the symbol "NETO."

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS"

<TABLE>
<CAPTION>

	PER SHARE	TOTAL
	-----	-----
<S>	<C>	<C>
Public offering price.....	\$	\$
Underwriting discounts.....	\$	\$
Proceeds to NetObjects.....	\$	\$

</TABLE>

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NetObjects has granted the underwriters the right to purchase up to 900,000 additional shares of common stock at the initial public offering price to cover over-allotments.

BT ALEX. BROWN

BANCBOSTON ROBERTSON STEPHENS

U.S. BANCORP PIPER JAFFRAY

, 1999

DESCRIPTION OF ARTWORK

OUTSIDE PORTION OF GATEFOLD:

GRAPHIC DEPICTING: e-publishing, e-applications, and e-commerce, with arrows pointing to e-business

INTRODUCTORY TEXT:

The web is changing the world. It's changing the way companies communicate, do business, and grow. To reap the benefits of improved efficiency, businesses need a presence on the web. They need an e-business site. One that builds relationships with employees, partners and customers. One that lets companies implement e-publishing, e-applications and e-commerce. NetObjects software, professional services and online resources make it possible for businesses, large or small, to easily build e-business sites or intranets that let them leverage the power of the web.

HEADLINE COPY: Software Professional Services Online Resources

GRAPHICS OF PRODUCTS, PROFESSIONAL SERVICES and ONLINE RESOURCES:

- (1) two overlapping product boxes: NetObjects Fusion 4.0 for Windows and NetObjects Authoring Server 3.0
- (2) photo of service people
- (3) graphic showing overlapping screen shots of four web sites (left to right): eScriptZone.com, NetObjects corporate site, eSiteStore.com, and eFuse.com

TEXT AT BOTTOM: When it comes to evaluating NetObjects applications, the industry experts have spoken.

GRAPHICS OF LOGOS:

- (1) NetObjects corporate logo
- (2) Internet World logo
- (3) Cross Roads award logo
- (4) PC Magazine award logo
- (5) JavaWorld award logo
- (6) WinList, Windows Magazine award logo

- (7) CNet logo
- (8) IDEA logo
- (9) InfoWorld logo
- (10) IBM e-business logo

LEFT-HAND PAGE OF GATEFOLD:

TITLE: Enabling e-business

INTRODUCTORY TEXT:

More than 300,000 copies of NetObjects Fusion have been delivered to date, and more than 1 million web pages or web sites have been built using NetObjects Fusion. In addition, over 500 businesses worldwide have deployed NetObjects Authoring Server. Take a look at how some of our customers are using NetObjects applications to build e-business web sites that sell products, provide virtual tours, build online catalogs, auction collectible goods, and more.

FOUR GRAPHICS DEPICTING SCREEN SHOTS OF CUSTOMER WEB SITES

CAPTIONS (ONE FOR EACH SCREEN SHOT, LEFT TO RIGHT, TOP TO BOTTOM):

- (1) www.christmas.com
- (2) www.leasesource.com
- (3) www.northstarnursery.com
- (4) www.shell-lubricants.com

RIGHT-HAND PAGE OF GATEFOLD:

FOUR GRAPHICS DEPICTING SCREEN SHOTS OF CUSTOMER WEB SITES

CAPTIONS (ONE FOR EACH SCREEN SHOT, LEFT TO RIGHT, TOP TO BOTTOM):

- (1) www.cellone-sf.com
- (2) www.collectit.net
- (3) www.krause.com
- (4) www.justforfeet.com

PROSPECTUS SUMMARY

YOU SHOULD READ THE FOLLOWING SUMMARY TOGETHER WITH THE MORE DETAILED INFORMATION REGARDING NETOBJECTS AND THE COMMON STOCK BEING SOLD IN THE OFFERING, AS WELL AS OUR CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS.

The terms "NetObjects," "we," "us," and "our" refer to NetObjects, Inc. and our subsidiary, NetObjects Ltd.

We are a leading provider of software and solutions that enable small businesses and large enterprises to build, deploy and maintain web sites on the Internet and corporate intranets. Our solutions address the growing challenges faced by businesses in capturing the explosive growth of the Internet as a medium for conducting business online, or e-business. We help companies build web sites that can publish content, conduct electronic commerce, or e-commerce, and run web applications. With the introduction in 1996 of our award-winning flagship product, NetObjects Fusion, we pioneered software for building entire web sites rather than simple web pages. Since 1996, we have released enhanced versions of NetObjects Fusion. We have introduced other products, including NetObjects Authoring Server, a client-server application for large-scale enterprises and corporate departments, which facilitates collaborative building of intranet sites. We have also built popular online resources, including eFuse.com, launched in December 1998, that target communities of business users and provide sources of information, products and services for building business web sites. In addition, in October 1998 we began offering professional services to help our business customers plan, build and maintain their web sites. We have established a premier Internet brand and estimate that over 300,000 copies of NetObjects Fusion have been delivered to date, and more than 1,000,000 web pages or web sites have been built using NetObjects Fusion.

We have experienced rapid growth since the launch of the first commercial version of NetObjects Fusion in October 1996. Our total revenues have grown from a base of \$0 for fiscal year 1996 to \$7.6 million for fiscal year 1997 and to \$15.3 million for fiscal year 1998. As of December 31, 1998, we had an accumulated deficit of approximately \$55.3 million, \$42.8 million of which has been incurred since April 1997. Revenues from IBM have represented a substantial percentage of our total revenues, representing approximately 36% and 50% of our total revenues in fiscal year 1998 and in the first quarter of fiscal year 1999, respectively. Almost all of our revenues from IBM in fiscal year 1998 resulted from two sources. The first comprised royalties paid by Lotus Development Corporation, an IBM subsidiary, to bundle NetObjects Fusion with Lotus products. The second consisted of services related to integrating our software with IBM's WebSphere software products, under a contract that expired on February 28, 1999. We have no commitments from IBM to pay us software license fees or revenues from services after June 1999. Our software license fees from IBM in the remaining quarters of fiscal year 1999 are likely to decline, perhaps substantially, from the level in the first quarter of fiscal year 1999. We are not expecting to receive any service revenues from IBM going forward.

We incorporated in Delaware in November 1995 and have a limited operating history. On April 11, 1997, IBM acquired approximately 80% of our stock. IBM did not provide us with equity financing in that transaction. Subsequently, through March 31, 1999, IBM has provided us with approximately \$43.0 million of financing through debt financing and cash prepayments of future royalties and charges for services.

Since March 31, 1999, IBM has provided an additional \$2.0 million of financing to us. After the offering, IBM will have only limited commitments to provide additional revenues and will have no obligation to provide additional financing.

3

IBM will retain control of NetObjects after the offering and may continue to cooperate with us in a number of areas, including product bundling and sales and marketing. The interests of IBM could conflict with our interests, however, and IBM is free to compete with us. IBM's controlling interest in us, our dependence on IBM and the conflicts of interests and potential competition associated with IBM's relationship with us represent significant risks for an investor acquiring our stock.

NEITHER IBM'S OWNERSHIP OF OUR SECURITIES NOR IBM'S RELATIONSHIP AND AGREEMENTS WITH US IS A RECOMMENDATION BY IBM THAT INVESTORS SHOULD ACQUIRE OR HOLD OUR STOCK. IBM WILL HAVE THE UNRESTRICTED ABILITY TO SELL ALL OR PART OF ITS NETOBJECTS STOCK WHEN PERMISSIBLE UNDER APPLICABLE SECURITIES LAWS AND AGREEMENTS WITH THE UNDERWRITERS. IBM HAS NO OBLIGATION TO RESELL OUR PRODUCTS BEYOND THE LIMITED AMOUNT REQUIRED BY EXISTING AGREEMENTS. AFTER THE OFFERING, IBM WILL HAVE NO OBLIGATION TO PROVIDE US WITH ADDITIONAL FINANCING. FOR MORE INFORMATION ABOUT THESE RISKS, SEE "RISK FACTORS--OUR RELATIONSHIP WITH IBM WILL CHANGE SUBSTANTIALLY AFTER THE OFFERING, WHICH COULD HARM OUR BUSINESS AND COULD CAUSE OUR REVENUES IN FISCAL YEAR 1999 TO FALL BELOW THOSE OF FISCAL YEAR 1998," "CERTAIN TRANSACTIONS," "PRINCIPAL STOCKHOLDERS" AND "SHARES ELIGIBLE FOR FUTURE

SALE."

Our principal executive offices are located at 301 Galveston Drive, Redwood City, CA 94063, and our telephone number is (650) 482-3200. Our web site can be found at www.netobjects.com. Information contained on any of our web sites does not constitute part of this prospectus.

NetObjects-Registered Trademark-, NetObjects Fusion-TM-, NetObjects Authoring Server-TM-, NetObjects TeamFusion-TM-, NetObjects Fusion Personal Edition-TM-, SiteStructure Editor-TM-, PageDraw-Registered Trademark-, SiteStyles-Registered Trademark-, SiteStyles Manager-TM-, SiteProducer-TM-, StyleObject-TM-, WebDraw-TM-, PublishSet-TM-, AutoSites-TM- and The Web Needs You-TM- are our registered and unregistered trademarks, service marks and trade names. The e-business logo is a trademark of International Business Machines Corporation. This prospectus also includes trademarks, service marks and trade names other than those identified in this paragraph, each of which is the property of its respective holder.

THE OFFERING

<TABLE>	
<S>	<C>
Common stock offered by NetObjects.....	6,000,000 shares
Common stock to be outstanding after the offering(1).....	26,112,862 shares
Use of proceeds.....	Repayment of approximately \$19.0 million of secured debt owed to IBM Credit Corporation, a subsidiary of IBM, debt of approximately \$5.5 million plus accrued interest owed to IBM under notes issued prior to the closing of the offering, working capital requirements and other general corporate purposes.
Proposed Nasdaq National Market symbol.....	NETO
</TABLE>	

The total number of shares that we assume will be outstanding after the offering excludes (a) 2,900,087 shares of common stock issuable at a weighted average exercise price of \$3.13 per share upon exercise of stock options outstanding at March 31, 1999; (b) 266,615 shares of common stock reserved for future issuance under our stock option plan; and (c) 300,000 shares of common stock reserved for issuance under our 1999 Employee Stock Purchase Plan.

(1) See "Capitalization."

SUMMARY FINANCIAL DATA

<TABLE>					
<CAPTION>					
	PERIOD FROM	YEAR ENDED		THREE MONTHS ENDED	
	NOVEMBER 21, 1995	SEPTEMBER 30,		DECEMBER 31,	
	(INCEPTION) TO	SEPTEMBER 30,		SEPTEMBER 30,	
	SEPTEMBER 30,	1996		1997	
	1996	1997	1998	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Total revenues.....	\$ --	\$ 7,567	\$ 15,270	\$ 2,285	\$ 5,617
Cost of revenues.....	--	772	5,093	278	2,083
Gross profit.....	--	6,795	10,177	2,007	3,534
Operating loss.....	(6,741)	(17,564)	(20,970)	(5,892)	(4,094)
Nonrecurring interest charge on beneficial conversion feature of convertible debt(1).....	--	--	--	--	(3,792)
Net loss.....	(6,695)	(17,799)	(22,224)	(6,067)	(8,600)
Basic and diluted net loss per share applicable to common stockholders(2).....	\$ (4.10)	\$ (10.45)	\$ (12.26)	\$ (3.47)	\$ (4.40)
Shares used to compute basic and diluted net loss per share applicable to common stockholders(2).....	1,634	1,703	1,812	1,750	1,956

<TABLE>
<CAPTION>

<S>

BALANCE SHEET DATA:

	DECEMBER 31, 1998	
	ACTUAL	AS ADJUSTED (3)
	<C>	<C>
	(IN THOUSANDS)	
Cash.....	\$ 1,288	\$ 52,138
Working capital (deficit).....	(23,319)	46,344
Total assets.....	7,502	58,352
Short-term borrowings from IBM and IBM Credit Corp.....	(18,813)	--
Long-term obligations, less current portion.....	7,961	271
Accumulated deficit.....	(55,318)	(55,989)
Stockholders' equity (deficit).....	(29,177)	48,176

</TABLE>

(1) Nonrecurring non-cash interest charge based on the difference between the price per share for Series F-2 preferred stock issued to Novell, Inc. and MC Silicon Valley, Inc. and for Series E-2 preferred stock issuable to IBM and another investor upon conversion of convertible notes in accordance with EITF Topic D-60. See note 8 of notes to consolidated financial statements. Under the terms of an April 1997 contract with IBM, we agreed that any funds provided by IBM for our operations during 1997 and 1998 through the sale of equity securities to IBM would have a per share price not higher than \$6.68. In October and November 1998, we issued preferred stock to Novell, Inc. and MC Silicon Valley, Inc. at a price per share of \$9.00. See "Certain Transactions--IBM Relationship."

(2) Does not include the effect of outstanding shares of convertible preferred stock, shares from the assumed conversion of convertible notes and shares issuable upon the exercise of stock options and warrants that are considered anti-dilutive pursuant to Statement of Financial Accounting Standards (SFAS) No. 123. For an explanation of basic and diluted net loss per share applicable to common stockholders and the number of shares used to compute basic and diluted net loss per share applicable to common stockholders, see note 1 of notes to consolidated financial statements.

(3) As adjusted to give effect to

- the pro forma capitalization set forth in "Capitalization";
- our sale of 6,000,000 shares to be sold in the offering at the initial public offering price of \$12.00 per share, less the underwriters' discount and commissions and estimated expenses of the offering; and
- repayment of short-term borrowings.

The information set forth above is unaudited and should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements.

RISK FACTORS

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS PROSPECTUS BEFORE DECIDING TO INVEST IN OUR STOCK.

WE HAVE A HISTORY OF SUBSTANTIAL LOSSES AND EXPECT SUBSTANTIAL LOSSES IN THE FUTURE.

We were incorporated in November 1995 and first recognized revenues in October 1996. As of December 31, 1998, we had an accumulated deficit of approximately \$55.3 million, \$42.8 million of which has been incurred since April 1997. We expect to sustain significant losses for the foreseeable future, which could harm our business and decrease the market price of our stock.

To achieve and sustain profitability, we must, among other things, increase substantially our revenues from our two principal products, NetObjects Fusion, which in fiscal year 1998 accounted for most of our total revenues, and NetObjects Authoring Server, and our related professional services, which have generated insubstantial revenues to date.

OUR AUDITORS HAVE SUBSTANTIAL DOUBT ABOUT OUR VIABILITY AS A BUSINESS.

KPMG LLP, in their independent auditors' report, has expressed "substantial doubt" as to our ability to remain in business. This doubt, which is based on our significant operating losses since we were formed and our significant debt and capital deficit as of September 30, 1998, is also described in note 1(d) of the notes to our consolidated financial statements.

OUR ABILITY TO CONTINUE AS A GOING CONCERN IS DEPENDENT ON THE NET PROCEEDS OF THIS OFFERING.

Without the net proceeds from the offering we will not have enough cash to remain in business.

A SUBSTANTIAL PORTION OF THE NET OFFERING PROCEEDS WILL BE USED TO REPAY DEBT OWED TO IBM AND NOT TO IMPLEMENT OUR BUSINESS MODEL.

The remaining net proceeds from the offering are estimated to be approximately \$41.0 million, after the repayment of a \$19.0 million secured credit facility with IBM Credit Corp. and approximately \$5.5 million that we expect to owe to IBM under notes issued prior to the closing of the offering, and after deducting underwriting discounts and commissions of approximately \$5.0 million and estimated expenses of approximately \$1.5 million. Accordingly, a substantial portion of the net offering proceeds will not be available for our business. In addition, our credit facility will terminate upon repayment and will thus not be available to us for future borrowings.

OUR RELATIONSHIP WITH IBM WILL CHANGE SUBSTANTIALLY AFTER THE OFFERING, WHICH COULD HARM OUR BUSINESS AND COULD CAUSE OUR REVENUES IN FISCAL YEAR 1999 TO FALL BELOW THOSE OF FISCAL YEAR 1998.

WE HAVE DEPENDED HEAVILY ON IBM FOR FINANCING BUT IBM HAS NO OBLIGATIONS TO PROVIDE US WITH FINANCING AFTER THIS OFFERING. Since IBM's acquisition of approximately 80% of our stock, IBM has provided us with approximately \$43.0 million of financing through March 31, 1999. Since March 31, 1999, IBM has provided an additional \$2.0 million of financing. After the offering, IBM will have no obligation to provide us with additional financing. Between April 11, 1997 and March 31, 1999, IBM provided us with:

- \$10.5 million of cash prepayments against future royalties for IBM's licensing of our products and our charges for services. Approximately half of the recorded prepayments had not been recognized as revenues by the end of fiscal year 1998;

- \$10.1 million through our sale to IBM of convertible debt securities and

warrants for the purchase of convertible preferred stock;

- a \$19.0 million secured credit facility with IBM Credit Corp. that has been guaranteed by IBM. We would not have been able to obtain a \$19.0 million loan from an independent third party without the guarantee by IBM. We were not in compliance with a financial covenant in the credit facility as of December 31, 1998, but on February 3, 1999, IBM Credit Corp. waived our compliance through December 31, 1998 and has since agreed to take no action with respect to our noncompliance through May 31, 1999; and
- \$3.5 million through the sale of notes and warrants.

Since March 31, 1999, IBM has provided an additional \$2.0 million under a demand note.

KEY CONTRACTS WITH IBM ARE EXPIRING AND WE HAVE NO COMMITMENTS FOR FUTURE REVENUES FROM IBM, OR FROM OTHER THIRD PARTIES, THAT WOULD REPLACE REVENUES ASSOCIATED WITH EXPIRING IBM CONTRACTS. Revenues from IBM have represented a substantial portion of our total revenues--approximately 36% and 50% of our total revenues in fiscal year 1998 and in the first quarter of fiscal year 1999, respectively. All but approximately \$400,000 of our revenues from IBM to date have been offset against the \$10.5 million prepayment. Our agreement with IBM for services associated with IBM's WebSphere project ended on February 28, 1999. In addition, our contract with Lotus that obligates Lotus to pay us minimum royalties for bundling NetObjects Fusion with Designer for Domino 4.0 that expires in June 1999, and we have no other contract with Lotus that provides commitments for future revenues. Lotus also currently markets, bundles and sells our products and has created foreign language, or "localized," versions of our software, for which IBM pays us reduced royalties on products that it sells outside the U.S. Lotus' obligation to create localized versions of our software expires on December 31, 1999. After that date, we may need to incur substantial additional expense to obtain localized versions of new products or product upgrades from Lotus or other vendors if necessary to satisfy the requirements of key customers like IBM, Lotus and Novell.

We believe all of the remaining \$2.3 million deferred revenues at December 31, 1998 will have been recognized as software license fees and service revenues by June 30, 1999. We have no commitments from IBM to pay us software license fees or revenues from services after June 1999. Our software license fees from IBM in the remaining quarters of fiscal year 1999 are likely to decline, perhaps substantially, from the level in the first quarter of fiscal year 1999. We are not expecting to receive any service revenues from IBM going forward. We currently have no revenue commitments from IBM or other third parties that will replace the revenues associated with these terminating contracts. If we are unable to replace the revenue stream associated with these IBM agreements with new revenues, our losses will increase and our stock price may fall.

WE DEPEND ON IBM PERSONNEL ON OUR BOARD OF DIRECTORS TO MAINTAIN AND PROMOTE OUR RELATIONSHIP WITH IBM. Our ability to work effectively with IBM and to maintain our strategic relationship with IBM depends to a significant extent on the efforts of IBM's representatives on our board of directors and other senior management personnel in Lotus and other IBM software organizations. If they cease to be involved in our business, we may experience difficulties in leveraging our strategic relationship with IBM.

WE HAVE BUSINESS CONFLICTS WITH IBM. Although we have been dependent on IBM, and IBM has provided substantial support to us, IBM makes independent business and product decisions that present conflicts with our business objectives. For example, under our original agreement with IBM with respect to IBM's WebSphere offerings, we were obligated to deliver modified versions of NetObjects Fusion, NetObjects ScriptBuilder and NetObjects Authoring Server. We anticipated that all

three products would be bundled with IBM's WebSphere product offerings. In that event, the agreement provided for IBM to pay us license fees for each of the listed products with a minimum total amount committed to us. Most of the license

fees would have been due for NetObjects Authoring Server, which is our highest priced product. In October 1998, however, IBM purchased all rights to Build IT from Wallop, Inc., and decided to bundle that product instead of NetObjects Authoring Server. We therefore amended our IBM license agreement to provide for revenues from charges for our services based on the amount of our costs and expenses instead of the minimum total amount of license fees. As a result of the agreement and IBM's decision not to bundle NetObjects Authoring Server, we expect to earn less revenues from our WebSphere agreement with IBM than we had expected to earn and will need to find other revenue sources.

IBM CONTROLS US AND IS FREE TO SELL ITS CONTROLLING INTEREST IN US. Before the offering, IBM owned approximately 71% of our common stock, assuming no exercise of outstanding options and warrants and no conversion of convertible notes, and after the offering IBM will own approximately 54% of our common stock assuming no exercise of outstanding options. This percentage will decrease to 52% if the underwriters' over-allotment option is exercised in full. As our majority stockholder, IBM will have the power to determine matters submitted to a vote of our stockholders without the consent of other stockholders, will have the power to prevent or cause a change in control of us and could take other actions that might be favorable to IBM and potentially harmful to us. IBM is under no obligation to provide us with financial or other support after the offering.

IBM CAN ACT IN WAYS THAT MAY BE DISADVANTAGEOUS TO US. IBM is contractually or otherwise free to act in ways that may harm our business. Our restated certificate of incorporation contains provisions expressly acknowledging that:

- IBM retains "freedom of action" to conduct its business and pursue other business opportunities, even in competition with us;
- IBM has no obligation to refrain from investing in our competitors, doing business with our customers or hiring away our key personnel;
- no director appointed by IBM is prohibited from taking actions or from voting on any action because of any actual or apparent conflict of interest between that director and us; and
- no action taken by our board of directors will be void or voidable, or give rise to liability for breach of fiduciary duty or otherwise, solely because a majority of the directors are affiliated with IBM, or because the action is, or is deemed to be by law, beneficial to IBM.

These provisions materially limit the liability of IBM and its affiliates, including IBM's representatives on our board of directors and Lotus, from conduct and actions taken by IBM or its affiliates, even if the conduct or actions are beneficial to IBM and harmful to us.

Furthermore:

- when IBM becomes eligible to sell its stock subject to applicable securities laws, contractual arrangements with the underwriters and the terms of a registration rights agreement, if applicable, IBM will be able to transfer some or all of its stock, including to our competitors. Such a transfer could result in a transfer of IBM's controlling interest in us, which could cause our revenues to decrease and our stock price to fall; and
- IBM is under no obligation to inform us of any corporate opportunity and is free to avail itself of any opportunity or to transfer the opportunity to a third party.

Any of IBM's rights could give rise to conflicts of interests, and we cannot

be certain that any conflicts would be resolved in our favor. Any of the risks arising from our relationship with IBM could harm our business and cause our stock price to fall.

9

IBM COULD OBTAIN AND USE OUR SOURCE CODE IF WE DEFAULT ON OUR OBLIGATIONS UNDER LICENSE AGREEMENTS WITH IBM. Although our license agreements with IBM contain restrictions on IBM's use and transfer of our software and intellectual property, these restrictions are subject to exceptions. Under a software license agreement with IBM, we have placed our key source code in escrow for IBM's benefit. In the event of our default under the contract, IBM will have access rights to this source code and will be free to use it to maintain our products and create derivative works for the benefit of IBM and its customers.

OUR LICENSING ARRANGEMENTS WITH IBM ARE NOT EXCLUSIVE AND IBM IS FREE TO ENTER INTO SIMILAR ARRANGEMENTS WITH OUR COMPETITORS. All of our licensing arrangements with IBM are non-exclusive. IBM has the right to cease promoting and distributing our software at any time. IBM may license its name, logo and technology to, or invest in, other web site building companies, and it may more actively promote the services of our competitors. For example, IBM is currently selling HomePage Builder, an IBM-developed web page building software product, in Japan, and HomePage Creator, an IBM web-based service that allows users to build web pages online.

WE ARE A SUBSIDIARY OF IBM AND ARE SUBJECT TO IBM POLICIES AND IBM CONTRACTS WITH THIRD PARTIES, WHICH MAY CAUSE US TO INCUR ADDITIONAL EXPENSES AND SUBJECT US TO OBLIGATIONS TO THIRD PARTIES. As an IBM subsidiary, we are subject to IBM policies that may not apply to most small public companies, and we may incur additional expenses in complying with these policies. We also are subject to many IBM contracts with third parties. These contracts include patent cross-license agreements between IBM and other companies that provide us with immunity from suit for patent infringement claims by those companies as long as we remain an IBM subsidiary. Under those agreements, we have effectively granted those companies freedom from patent infringement claims that we might make against them. Contractual obligations to third parties which arise because we are an IBM subsidiary may have future adverse consequences that are currently unforeseeable. If we cease to be an IBM subsidiary, we may face material litigation risks associated with patent infringement claims that IBM's patent cross-licensees cannot currently assert against us. In addition, we may be unable to assert patent claims of our own against an IBM cross-licensee, which may remain free of liability for claims under the terms of the cross-license agreement even after we cease to be an IBM subsidiary.

MOST OF OUR REVENUES ARE DERIVED FROM SALES OF A SINGLE PRODUCT.

Most of our revenues from software license fees in fiscal year 1998 were derived from versions of one of our products, NetObjects Fusion, and we expect that this single product will continue to account for the substantial majority of our total revenues in the near-term. To remain competitive, software products typically require frequent updates that add new features. There can be no assurance that we will succeed in creating and selling updated or new versions of NetObjects Fusion. A decline in demand for, or in the average selling price of, NetObjects Fusion, whether as a result of new product introductions or price competition from competitors, technological change or otherwise, would hurt our business or cause our stock price to fall.

WE HAVE MANY ESTABLISHED COMPETITORS, INCLUDING MICROSOFT, AND MAY BE UNABLE TO COMPETE EFFECTIVELY AGAINST THEM.

The market for web site building software and services for the Internet and corporate intranets is relatively new, constantly evolving and intensely competitive. We expect competition to intensify in the future. Many of our current and potential competitors have longer operating histories, greater name recognition and significantly greater financial, technical and marketing resources, and we may be unable to compete effectively against them. Our principal competitors in web site building software include Microsoft Corporation, Adobe Systems Incorporated and Macromedia, Inc. Microsoft's FrontPage, a web site building software product, has a dominant market share. Microsoft

10

has announced but not shipped FrontPage 2000, which may become one of the products in at least one version of Microsoft's Office product suite that

dominates the market for desktop business application software.

OUR ABILITY TO GENERATE FUTURE REVENUES IS UNCERTAIN.

Because our business is evolving rapidly and we have a very limited operating history, we have little experience in forecasting our revenues. Our expense levels are based in part on our expectations of future revenues, and to a large extent those expenses are fixed, particularly in the short-term. We cannot be certain that our revenue expectations will be accurate or that we will be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall.

OUR QUARTERLY OPERATING RESULTS WILL PROBABLY FLUCTUATE.

We believe that period-to-period comparisons of our financial results are not necessarily meaningful, and you should not rely upon them as an indication of our future performance. In addition, IBM's commitments for software license fees, which provided quarterly earnings stability, expire in June 1999 and for service revenues expired in February 1999. Furthermore, the \$10.5 million of cash prepayments under our license agreement with IBM have provided some revenue certainty for us since April 1997, and we expect to have recognized all of the prepayments as revenues by June 30, 1999. Thereafter, our revenues from IBM, if any, are likely to become more variable. The promptness with which sales data, used for recognizing product royalties, are reported to us from third parties may cause quarterly results to be more volatile.

WE ALLOW PRODUCT RETURNS AND PROVIDE PRICE PROTECTION TO SOME PURCHASERS AND RESELLERS OF OUR PRODUCTS AND OUR ALLOWANCES FOR PRODUCT RETURNS MAY BE INADEQUATE.

We have stock-balancing programs for our software products that under specified circumstances allow for the return of software by resellers. These programs also provide for price protection for our software for some of our direct and indirect channel resellers that, under specified conditions, entitle the reseller to a credit if we reduce our price to similar channel resellers. In August 1997, for example, our price reduction for NetObjects Fusion triggered price protection obligations resulting in the need to record an additional allowance in the three months ended September 30, 1997, which reduced our revenues for that quarter. There can be no assurance that actual returns or price protection will not exceed our estimates, and our estimation policy may cause significant quarterly fluctuations.

OUR FINANCIAL PERFORMANCE DEPENDS SUBSTANTIALLY ON MARKET ACCEPTANCE AND GROWTH OF NETOBJECTS AUTHORIZING SERVER AND PROFESSIONAL AND ONLINE SERVICES.

WE INCREASINGLY DEPEND ON NETOBJECTS AUTHORIZING SERVER TO PROVIDE US WITH REVENUES, WHICH WILL NOT MATERIALIZE IF NETOBJECTS AUTHORIZING SERVER IS NOT SUCCESSFUL. We formally announced and shipped NetObjects Authoring Server in September 1998 as a successor to our original NetObjects TeamFusion product released in December 1997. We depend on increasing revenues from NetObjects Authoring Server, and we may not receive these revenues for the following reasons:

- the success of NetObjects Authoring Server will depend on the rapid emergence of a market for large-scale enterprise web site and intranet building products and services;
- information services departments of large enterprises may choose to create and maintain their web and intranet sites internally or may use third-party professional developers to create and maintain their sites;

11

- NetObjects Authoring Server may not meet customer performance needs or be free of significant software defects or bugs;
- NetObjects Authoring Server will have a longer sales cycle than NetObjects Fusion due to higher pricing and different marketing and distribution characteristics;

- there are no product bundles of NetObjects Authoring Server with IBM or Lotus; and
- we may not be able to recruit and retain the additional sales personnel needed to effectively market NetObjects Authoring Server.

We depend heavily on bundling arrangements with third parties to sell our products. We currently do not have any arrangements for bundling NetObjects Authoring Server. If NetObjects Authoring Server does not meet customer needs or expectations, for whatever reason, upgrades or enhancements could be costly, time-consuming or ultimately unsuccessful.

OUR RECENTLY LAUNCHED PROFESSIONAL SERVICES BUSINESS, THROUGH WHICH WE PROVIDE TRAINING AND OTHER SUPPORT FOR OUR PRODUCTS, MAY NOT GENERATE SUFFICIENT REVENUES. In October 1998, we formed a new professional services organization to assist our customers with training, consulting and implementation. We cannot be certain that our professional services business will generate significant revenues or achieve profitability. We believe that software license fees growth will depend on our ability to provide our customers with these services and to educate third-party resellers about how to use our products. We currently outsource much of our customers' services needs, but we plan to increase the number of our services personnel to meet the needs of our customers. Competition for qualified services personnel is intense, and we cannot be certain that we can attract or retain a sufficient number of highly qualified services personnel to meet our business needs.

POSSIBLE MARKET REJECTION OF OUR ONLINE SERVICES COULD IMPEDE MARKET ACCEPTANCE OF OUR PRODUCTS. Since inception, we have invested, and we continue to invest, resources to create and enhance our online services, which we believe support and add to market acceptance of our products. The failure of the market to accept our online services could cause our stock price to fall.

WE MAY NOT BE ABLE TO EXPAND OUR DISTRIBUTION CHANNELS OR SALES FORCE.

WE NEED TO MAINTAIN OUR THIRD-PARTY DISTRIBUTION CHANNEL BECAUSE OUR DIRECT SALES TO THIRD PARTIES WOULD BE INSUFFICIENT TO SUPPORT OUR OPERATING BASE. While we derive some of our revenues from selling our products directly to third parties, most of our revenues are derived from the sale of our products through third-party distributors and resellers. There can be no assurance that third parties will be willing or able to carry our products in the future. If third parties were to reduce or cease carrying our products, our direct sales to third parties would be insufficient to support our operating expense base.

WE NEED TO MAINTAIN AND ESTABLISH NEW BUNDLING ARRANGEMENTS BECAUSE WE MAY BE LESS SUCCESSFUL AT SELLING OUR PRODUCTS ON A STAND-ALONE BASIS. We believe that products that are not sold in a "suite" containing software products or components that perform different functions are less likely to be commercially successful. For example, NetObjects Fusion 4.0 includes software products or components from different vendors such as Allaire Corporation, IBM, iCat, Lotus and NetStudio. IBM also bundles our products with some of its software products, such as the bundling of NetObjects Fusion with WebSphere Studio and NetObjects Fusion with Lotus Designer for Domino. NetObjects Fusion is also bundled with Novell's NetWare for Small Business. We cannot be assured of maintaining or obtaining suitable product or component bundling arrangements with third parties. Failure to maintain and expand our distribution channels or conclude suitable software product bundling arrangements could hurt our business, cause our revenues to decrease and our stock price to fall.

OUR PRODUCTS MAY CONTAIN DEFECTS THAT COULD SUBJECT US TO LIABILITY IN EXCESS OF INSURANCE LIMITATIONS.

Our software products are complex and may contain undetected errors or result in system failures. Despite extensive testing, errors could occur in any of our current or future product offerings after commencement of commercial shipments. Any errors could result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation or damage to our efforts to build brand awareness. We cannot be certain that the contractual limitations of liability will be enforceable, or that our insurance coverage will continue to be available on reasonable terms or will be available in amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims that exceed available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance

requirements, could cause our revenues to decrease and our stock price to fall.

IF WE FAIL TO RESPOND ADEQUATELY TO RAPID TECHNOLOGICAL CHANGES, OUR EXISTING PRODUCTS AND SERVICES WILL BECOME OBSOLETE OR UNMARKETABLE.

The market for our products is marked by rapid technological change, which leads to frequent new product introductions and enhancements, uncertain product life cycles, changes in customer demands and evolving industry standards. New web site building products and services based on new technologies or new industry standards could render our existing products obsolete and unmarketable. We believe that to succeed, we must enhance our current products and develop new products on a timely basis to keep pace with technological developments and to satisfy the increasingly sophisticated requirements of our customers.

OUR PRODUCT AND SOFTWARE DEVELOPMENT EFFORTS ARE INHERENTLY DIFFICULT TO MANAGE AND KEEP ON SCHEDULE, SO DEVELOPMENT DELAYS MAY INCREASE OUR COSTS.

On occasion, we have experienced development delays and related cost overruns, and we cannot be certain that we will not encounter these problems in the future. Any delays in developing and releasing enhanced or new products could cause our revenues to decrease. In addition, we cannot be certain that we will successfully develop and market new products or product enhancements that respond to technological change, evolving industry standards or customer requirements, or that any product innovations will achieve the market penetration or price stability necessary for profitability.

THE LOSS OF OUR KEY PERSONNEL, OR FAILURE TO HIRE ADDITIONAL PERSONNEL, COULD HARM OUR BUSINESS BECAUSE WE WOULD LOSE EXPERIENCED PERSONNEL AND NEW SKILLED PERSONNEL ARE IN SHORT SUPPLY AND COMMAND HIGH SALARIES.

We depend on the continued service of our key personnel, and we expect that we will need to hire additional personnel in all areas. The competition for personnel throughout our industry is intense, particularly in the San Francisco Bay Area, where our headquarters are located. We have experienced difficulties in attracting new personnel, and all of our personnel, including our management, may terminate their employment at any time for any reason. Currently, we are dependent upon the services of Samir Arora, our President, Chief Executive Officer, Chairman of the Board and one of our founders. The loss of Mr. Arora's services would materially impede the operation and growth of our business at this time. Michael Shannahan, our former Chief Financial Officer, resigned as of April 5, 1999. Russell F. Surmanek, Executive Vice President, Finance and Operations and Chief Financial Officer commenced his employment with us on April 5, 1999. Mr. Surmanek has no prior experience with us. If Mr. Surmanek fails to quickly become an effective chief financial officer, or if he ceases to remain in our employ, our business could be harmed and our stock price could fall. We

13

do not maintain key person life insurance for any of our personnel. Furthermore, our failure to attract new personnel or retain and motivate our current personnel could hurt our business. For a discussion of our employees and management, see "Business--Employees" and "Management-- Executive Compensation and Management Changes."

A THIRD PARTY COULD BE PREVENTED FROM ACQUIRING YOUR SHARES OF STOCK AT A PREMIUM TO THE MARKET PRICE BECAUSE OF OUR ANTI-TAKEOVER PROVISIONS.

IBM will own approximately 54% of our outstanding stock immediately following the offering, assuming conversion of all outstanding warrants and convertible notes and no exercise of outstanding options. That ownership interest and provisions of our restated certificate of incorporation, bylaws, a voting agreement between us and IBM and Delaware law could make it more difficult for a third party to acquire us, even if a change in control would result in the purchase of your shares of common stock at a premium to the market price. The anti-takeover provisions are further described in "Certain Transactions" and "Description of Capital Stock."

IF WE FAIL TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS OR FACE A CLAIM OF INTELLECTUAL PROPERTY INFRINGEMENT BY A THIRD PARTY, WE COULD LOSE OUR INTELLECTUAL PROPERTY RIGHTS OR BE LIABLE FOR SIGNIFICANT DAMAGES.

Trademarks and other proprietary rights are important to our success and our competitive position. We seek to protect our trademarks and other proprietary

rights, but our actions may be inadequate to prevent misappropriation or infringement of our technology, trademarks and other proprietary rights or to prevent others from claiming violations of their trademarks and other proprietary rights. Although we have obtained federal registration of the trademark NetObjects Fusion-Registered Trademark-, we know that other businesses use the word "Fusion" in their marks alone or in combination with other words. We do not believe that we will be able to prevent others from using the word "Fusion" for competing goods and services. For example, Allaire markets its application development and server software for web development, including applications for e-commerce, under the federally registered trademark "ColdFusion." Under an agreement with Allaire Corporation, we have agreed that neither company will identify its products and services with the single word "Fusion," unless otherwise agreed as in the case of our co-bundled product "Fusion2Fusion." Business customers may confuse our products and services with similarly named brands, which could dilute our brand names or limit our ability to build market share. To license many of our products, we rely in part on "shrinkwrap" and "clickwrap" licenses that are not signed by the end user and, therefore may be unenforceable under the laws of certain jurisdictions. In addition, we may license content from third parties. We could become subject to infringement actions based upon these third-party licenses, and we could be required to obtain licenses from other third parties to continue offering our products.

We cannot be certain that we will be able to avoid significant expenditures to protect our intellectual property rights, to defend against third-party infringement or other claims or to license content from third parties alleging that our products infringe their intellectual property rights. Incurring significant expenditures to protect our intellectual property rights or to defend against claims or to license content could decrease our revenues and cause our stock price to fall. Our intellectual property is further described in "Business--Intellectual Property."

OUR INTERNATIONAL OPERATIONS ARE NEW AND MAY NOT BE SUCCESSFUL.

International sales represented approximately 15% and 16% of our total revenues in fiscal 1997 and 1998, respectively. We intend to expand the scope of our international operations and currently

14

have a subsidiary in the United Kingdom. Our continued growth and profitability will require continued expansion of our international operations, particularly in Europe, and in Japan, where Mitsubishi Corporation acts as our master distributor and Lotus is a reseller of NetObjects Fusion.

Our international operations are, and any expanded international operations will be, subject to a variety of risks associated with conducting business internationally that could materially adversely affect our business, including the following:

- difficulties in staffing and managing international operations;
- lower gross margins than in the United States;
- slower adoption of the Internet;
- longer payment cycles;
- fluctuations in currency exchange rates;
- seasonal reductions in business activity during the summer months in Europe and other parts of the world;
- recessionary environments in foreign economies; and
- increases in tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries.

Furthermore, the laws of foreign countries may provide little or no protection of our intellectual property rights.

WE MAY BE UNABLE TO MANAGE OUR RAPID GROWTH.

We have expanded our operations rapidly since inception, and we intend to continue to expand them in the foreseeable future. This rapid growth places a significant demand on our managerial and operational resources. To manage growth effectively, we must:

- implement and improve our operational systems, procedures and controls on a timely basis;

- expand, train and manage our workforce and, in particular, our sales and marketing and support organizations in light of our recent decision to offer online and professional services;
- implement and manage new distribution channels to penetrate different and broader markets, including the market for intranet software products; and
- manage an increasing number of complex relationships with customers, co-marketers and other third parties.

We cannot be certain that our systems, procedures or controls will be adequate to support our current or future operations or that our management will be able to manage the expansion and still achieve the rapid execution necessary to exploit fully the market for our products and services. Failure to manage our growth effectively could harm our business.

IF INTERNET AND INTRANET USAGE DOES NOT CONTINUE TO GROW, WE WILL NOT BE SUCCESSFUL.

Sales of our products and services depend in large part on the emergence of the Internet as a viable commercial marketplace with a strong and reliable infrastructure and on the growth of corporate intranets. Critical issues concerning use of the Internet and intranets, including security, reliability, cost, ease of use and quality of service, remain unresolved and may inhibit the growth of, and the degree to which business is conducted over, the Internet and intranets. Failure of the Internet

15

and intranets to develop into viable commercial mediums would harm our business and cause our revenues to decrease and our stock price to fall.

YEAR 2000 PROBLEMS MAY DISRUPT OUR INTERNAL OPERATIONS.

We have made a preliminary assessment of our Year 2000 readiness. We are also in the process of contacting our third-party vendors, licensors and providers of software, hardware and services regarding their Year 2000 readiness. Following this testing and after contacting these vendors and licensors, we will be better able to make a complete evaluation of our Year 2000 readiness to determine what costs will be necessary to be Year 2000 ready, and to determine whether contingency plans need to be developed. Our inability to correct a significant Year 2000 problem, if one exists, could result in an interruption in, or a failure of, certain of our normal business activities and operations. Furthermore, because NetObjects Fusion and NetObjects Authoring Server may interact with external databases for purposes of data storage, the ability of applications integrated with a web site built using NetObjects Fusion or NetObjects Authoring Server to comply with Year 2000 requirements is largely dependent on whether the databases underlying the application are Year 2000 ready. If NetObjects Fusion or NetObjects Authoring Server is connected to a database that is not Year 2000 ready, a web application created or developed for a web site using NetObjects Fusion or NetObjects Authoring Server could work incorrectly and could result in unanticipated expenses to address problems or claims raised by customers that we cannot presently foresee. Any significant Year 2000 problem in our internal systems or in our products could require us to incur significant unanticipated expenses to remedy these problems and could divert management's time and attention, either of which could harm our business or increase our losses, and cause our stock price to fall.

DUE TO OUR SMALL SIZE, LIMITED OPERATIONS AND THE DIFFICULTY OF HIRING PERSONNEL IN OUR INDUSTRY, ANY FUTURE ACQUISITIONS COULD STRAIN OUR MANAGERIAL, OPERATIONAL AND FINANCIAL RESOURCES.

In the future we may make acquisitions of, or large investments in, businesses that offer products, services and technologies that we believe would help us better provide e-business web site and intranet site building software and services to businesses. Although historically we have not made acquisitions of, or investments in, other companies, this may become an important part of our strategy. Any future acquisitions or investments would present risks such as difficulty in combining the technology, operations or workforce of the acquired business with our own, disruption of our ongoing businesses and difficulty in realizing the anticipated financial or strategic benefits of the transaction.

To make these acquisitions or large investments we might use cash, common stock or a combination of cash and common stock. If we use common stock, these acquisitions could further dilute existing stockholders. Amortization of goodwill or other intangible assets resulting from acquisitions could materially

impair our operating results and financial condition. Furthermore, there can be no assurance that we would be able to obtain acquisition financing, or that any acquisition, if consummated, would be smoothly integrated into our business. If we make acquisitions or large investments and are unable to surmount these risks, our business could be harmed, our revenues could decrease and our stock price could fall.

WE MAY BECOME SUBJECT TO BURDENSOME GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES IN AREAS INCLUDING NETWORK SECURITY, ENCRYPTION AND PRIVACY, AMONG OTHERS, BECAUSE WE CONDUCT ELECTRONIC COMMERCE AND PROVIDE INFORMATION AND SERVICES OVER THE INTERNET.

We are not currently subject to direct regulation by any governmental agency, other than laws and regulations generally applicable to businesses, although specific U.S. export controls and import

16

controls of other countries, including controls on the use of encryption technologies, may apply to our products. Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted in the United States and abroad with particular applicability to the Internet. It is possible that governments will enact legislation that may apply to us in areas such as network security, encryption, the use of key escrow, data and privacy protection, electronic authentication or "digital" signatures, illegal and harmful content, access charges and retransmission activities. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is uncertain. Any new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our cost of doing business or increase our legal exposure, any of which could cause our revenues to decrease and our stock price to fall.

A GOVERNMENTAL BODY COULD IMPOSE SALES AND OTHER TAXES ON THE SALE OF OUR PRODUCTS, LICENSE OF OUR TECHNOLOGY OR PROVISION OF SERVICES, WHICH WOULD HARM OUR FINANCIAL CONDITION.

We currently do not collect sales or similar taxes with respect to the sale of products, license of technology or provision of services in states and countries other than states in which we have offices. In October 1998, the Internet Tax Freedom Act, or ITFA, was signed into law. Among other things, the ITFA imposes a three-year moratorium on discriminatory taxes on e-commerce. Nonetheless, foreign countries, or, following the moratorium, one or more states, may seek to impose sales or other tax obligations on companies that engage in online commerce within their jurisdictions. A successful assertion by one or more states or any foreign country that we should collect sales or other taxes on the sale of products, license of technology or provision of services or remit payment of sales or other taxes for prior periods, could hurt our business.

WE MAY SPEND A SUBSTANTIAL PORTION OF THE NET PROCEEDS IN WAYS WITH WHICH YOU MAY NOT AGREE.

We have not designated any specific use for a significant amount of net proceeds from the sale of the common stock offered under this prospectus, other than the repayment of debt to IBM Credit Corp. and IBM. We intend to use the remaining net proceeds primarily for general corporate purposes, including working capital to fund anticipated operating losses and capital expenditures. Accordingly, management will have significant flexibility in applying the remaining net proceeds of the offering. The failure of management to apply the remaining net proceeds effectively could cause our revenues to decrease and our stock price to fall.

THE FUTURE SALE OF COMMON STOCK MAY NEGATIVELY AFFECT OUR STOCK PRICE.

If our stockholders sell substantial amounts of our stock, including shares issued upon the exercise of outstanding options and warrants, in the public market following the offering, then the market price of our stock could fall. These sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. After the offering, 26,112,862 shares of our stock will be outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants. Of those shares, the 6,000,000 shares sold in the offering will be freely tradable except for any shares purchased by our "affiliates," as defined in Rule 144 under the Securities Act. The remaining 20,112,862 shares are

"restricted securities," as that term is defined in Rule 144, and may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act. All officers, directors and a substantial majority of our stockholders have agreed not to sell any shares of common stock, or any securities convertible into or exercisable or exchangeable for common stock, for 180 days after the offering without the prior written consent of BT Alex. Brown. BT Alex. Brown may, in its sole discretion, release all or any portion of the shares

17

subject to lock-up agreements. A more detailed description of shares that may be sold following the offering is contained in "Shares Eligible for Future Sale."

INVESTORS IN THE OFFERING WILL SUFFER IMMEDIATE AND SUBSTANTIAL DILUTION.

Investors purchasing shares in the offering will incur immediate and substantial dilution in net tangible book value per share. To the extent outstanding options and warrants to purchase common stock are exercised, there will be further dilution.

FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements." These forward-looking statements include, without limitation, statements about the market opportunity for web site building software and services, our strategy, competition and expected expense levels, and the adequacy of our available cash resources. Our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the risk factors described above and elsewhere in this prospectus. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

USE OF PROCEEDS

The net proceeds to our Company from the sale of the 6,000,000 shares of common stock, assuming an initial public offering price of \$12.00 per share, after deducting underwriting discount and estimated offering expenses, are estimated to be \$65.5 million (\$75.5 million if the underwriters' over-allotment option is exercised in full).

The principal purposes of the offering are to repay \$19 million of secured debt principal to IBM Credit Corp. that will become due and payable upon the closing of the offering, to repay debt of approximately \$5.5 million under notes that we owe to IBM, to increase our working capital, to create a public market for our common stock, to increase our visibility in the marketplace and to facilitate our future access to public equity markets. The debt to IBM Credit Corp. has an interest rate of LIBOR plus 1.5%, was incurred to fund working capital, and matures on the earlier of the closing of the offering, termination upon 30 days' advance notice from us to IBM Credit Corp. and December 23, 1999. The debt under the notes has an interest rate of 10% and comes due upon the closing of the offering. We have no specific plans for the remaining net proceeds, which we intend to use primarily for general corporate purposes, including working capital to fund anticipated operating losses and capital expenditures. We have no definite capital expenditure plans. We may, when and if the opportunity arises, use an unspecified portion of the net proceeds to acquire or invest in complementary businesses, products and technologies. We have no present understandings, commitments or agreements with respect to any material acquisition or investment in third parties. Pending use of the net proceeds for the above purposes, we intend to invest such funds in interest-bearing, investment-grade securities.

DIVIDEND POLICY

We have never declared or paid cash dividends on our stock. We currently anticipate that we will retain all of our future earnings, if any, for use in the expansion and operations of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future.

18

CAPITALIZATION

The following table sets forth our cash, short-term borrowings and capitalization

- at December 31, 1998;

- pro forma to reflect

- cash payment from IBM of approximately \$2.6 million on January 5, 1999 for the purchase of convertible notes;

- the conversion of all outstanding shares of preferred stock into common stock, including 2,118,789 shares of common stock issuable on automatic conversion of \$10,910,000, net of a discount of \$843,000, in convertible notes and \$208,000 and \$209,060 of related interest accrued in the three months ended December 31, 1998 and March 31, 1999, respectively, at a conversion price of \$6.68 per share, and as adjusted to reflect a change in the conversion ratio to approximately 1.25 shares of common stock for each share of Series E-2 preferred stock;

- the exercise of warrants to purchase 652,223 shares of Series C preferred stock for cash consideration of approximately \$1.2 million;

- issuance of 3,110,924 shares of common stock, reflecting issuance of 1,598,277, 3,482,838, 215,050 and 916,668 shares of common stock through a "cashless exercise" of Series C, Series E, Series E-2 and Series F warrants, respectively, in which shares of common stock are surrendered in payment of the exercise price to purchase convertible preferred stock at a weighted average exercise price of \$6.04 per share, assuming a fair market value per share of common stock in the offering of \$12.00, and as adjusted to reflect a conversion of approximately 1.25 shares of common stock for each share of Series E-2 preferred stock;

- the purchase of 82,350 shares of Series E preferred stock at \$6.68 per share;

- the exercise of options to purchase 92,821 shares of common stock for an average exercise price of \$0.63 per share, repurchases of 27,285 shares of common stock for an average price of \$0.14 per share, and the issuance of 28,653 shares of common stock for services valued at \$275,108;

- accretion of discount on short-term borrowings of \$187,000; and

- as adjusted to reflect

- our sale of 6,000,000 shares to be sold in the offering at the initial public offering price of \$12.00 per share, less the underwriters' discount and commissions and estimated expenses of the offering; and

- repayment of short-term borrowings.

The table excludes (a) 2,900,087 shares of common stock issuable at a weighted average exercise price of \$3.13 per share upon exercise of stock options outstanding at March 31, 1999; (b) 266,615 shares of common stock reserved for future issuance under our stock option plan; and (c) 300,000 shares of common stock reserved for issuance under our 1999 Employee Stock Purchase Plan.

The table assumes no exercise of the underwriters' over-allotment option. Exercise of the over-allotment option in full would (a) reduce the proportion of shares held by existing stockholders to 74.5% of the total number of shares outstanding after the offering; and (b) increase the

19

number of shares purchased by investors in the offering to 6,900,000 shares, or 25.5% of the resulting total number of shares.

The information set forth below is unaudited and should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements.

<TABLE>
<CAPTION>

	DECEMBER 31, 1998			
	ACTUAL	PRO FORMA ADJUSTMENTS	PRO FORMA	AS ADJUSTED
<S>	<C>	<C>	<C>	<C>
	(IN THOUSANDS)			
Cash.....	\$ 1,288	\$ 4,378	\$ 5,666	\$ 52,138
Short-term borrowings from IBM Credit Corp.....	\$ 18,813	\$ 187	\$ 19,000	--
Capital lease obligations, less current portion.....	271	--	271	271
Convertible notes from IBM and related party.....	7,690	(7,690)	--	--
Total long-term obligations.....	7,961	(7,690)	271	271
Preferred stock, \$0.01 par value; 11,965,826 issued and outstanding, actual; none issued and outstanding, pro forma; none issued and outstanding, as adjusted.....	113	(113)	--	--
Common stock, \$0.01 par value; 2,088,561 shares issued and outstanding, actual; 20,112,862 shares issued and outstanding, pro forma; 26,112,862 shares issued and outstanding, as adjusted...	21	150	171	231
Additional paid-in capital.....	26,567	12,515	39,082	104,494
Deferred stock-based compensation.....	(441)	--	(441)	(441)
Stockholders' notes receivable.....	(113)	--	(113)	(113)
Accumulated other comprehensive losses.....	(6)	--	(6)	(6)
Accumulated deficit.....	(55,318)	(671)	(55,989)	(55,989)
Total stockholders' equity (deficit).....	(29,177)	11,881	(17,296)	48,176
Total capitalization.....	\$ (21,287)	\$ 4,191	\$ 17,025	\$ 48,447

</TABLE>

20

DILUTION

Our pro forma net tangible book deficit at December 31, 1998 was \$17,296,000, or (\$0.86) per share, as adjusted to give effect to

- the pro forma capitalization;

- our sale of 6,000,000 shares to be sold in the offering at the initial public offering price of \$12.00 per share, less the underwriters' discount and commissions and estimated expenses of the offering; and

- repayment of short-term borrowings.

Pro forma net tangible book deficit per share represents the amount of our total pro forma tangible assets less pro forma total liabilities divided by the aggregate pro forma number of shares of common stock outstanding. After giving effect to the application of the estimated net proceeds of the offering, which reflect an estimate of underwriting discounts and commissions and an estimate of offering expenses from the sale of 6,000,000 shares of common stock to be sold in the offering at the initial public offering price of \$12.00 per share, our adjusted pro forma net tangible book value at December 31, 1998 would have been approximately \$48 million or \$1.84 per share of common stock. This represents an immediate increase in the pro forma net tangible total book value of \$2.70 per share of common stock to existing stockholders and an immediate dilution of \$10.16 per share to new investors. The following table illustrates this per share dilution:

<TABLE>		
<S>		
Assumed initial public offering price per share.....	<C>	<C> \$ 12.00

Pro forma net tangible book deficit per share at December 31, 1998.....	\$ (0.86)	
Increase in pro forma net tangible book value per share attributable to new investors.....	2.70	

Adjusted pro forma net tangible book value per share after the offering...		1.84

Dilution per share to new investors.....		\$ 10.16

</TABLE>		

The following table summarizes, on a pro forma basis at December 31, 1998, after giving effect to the offering, the differences between existing stockholders and investors in the offering with respect to the number of shares of common stock purchased from us, the total consideration paid and the average price paid per share:

<TABLE>						
<CAPTION>						
	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE	
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE	
	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Existing stockholders.....	20,112,862	77.0%	\$ 20,455,000	22.1%	\$	1.02
New investors.....	6,000,000	23.0	72,000,000	77.9	\$	12.00
	-----	-----	-----	-----		
Total.....	26,112,862	100.0%	\$ 92,455,000	100.0%		
	-----	-----	-----	-----		
	-----	-----	-----	-----		
</TABLE>						

SELECTED CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data presented below are derived from our consolidated financial statements. The financial statements for the period from November 21, 1995 (inception) to September 30, 1996, and as of and for the fiscal years ended September 30, 1997 and 1998, have been audited by KPMG LLP, independent auditors, and are included elsewhere in this prospectus. The balance sheet data as of September 30, 1996 is derived from audited consolidated financial statements of NetObjects that are not included in this prospectus. The selected historical consolidated financial data as of December 31, 1998 and for the three months ended December 31, 1997 and 1998 have been derived from unaudited consolidated financial statements included elsewhere in this prospectus, that include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and results of operations for those periods. The selected consolidated financial data set forth below is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements, the related notes and the

independent auditor's report, which contains an explanatory paragraph that states that our recurring losses from operations and net capital deficiency raise substantial doubt about our ability to continue as a going concern, included elsewhere in this prospectus. The consolidated financial statements and the selected consolidated financial data do not include any adjustments that might result from the outcome of that uncertainty. The operating results for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year or any other period:

<TABLE>
<CAPTION>

	PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) TO SEPTEMBER 30, 1996		YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
			1997	1998	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:						
Revenues:						
Software license fees.....	\$ --	\$ 7,392	\$ 9,703	\$ 2,086	\$ 2,622	
Service revenues.....	--	--	--	--	190	
Software license fees from IBM.....	--	175	2,700	199	1,318	
Service revenues from IBM.....	--	--	2,867	--	1,487	
Total revenues.....	--	7,567	15,270	2,285	5,617	
Cost of revenues:						
Software license fees.....	--	772	2,531	278	495	
Service revenues.....	--	--	--	--	184	
IBM service revenues.....	--	--	2,562	--	1,404	
Total cost of revenues.....	--	772	5,093	278	2,083	
Gross profit.....	--	6,795	10,177	2,007	3,534	
Operating expenses:						
Research and development.....	2,765	8,436	10,231	3,070	2,204	
Sales and marketing.....	2,998	12,161	17,114	4,060	4,430	
General and administrative.....	978	3,762	3,575	769	894	
Stock-based compensation.....	--	--	227	--	100	
Total operating expenses.....	6,741	24,359	31,147	7,899	7,628	
Operating loss.....	(6,741)	(17,564)	(20,970)	(5,892)	(4,094)	
Interest income (expense).....	46	(234)	(1,194)	(168)	(712)	
Nonrecurring interest charge on beneficial conversion feature of convertible debt (1)....	--	--	--	--	(3,792)	
Loss before income taxes.....	(6,695)	(17,798)	(22,164)	(6,060)	(8,598)	
Income taxes.....	--	1	60	7	2	
Net loss.....	\$ (6,695)	\$ (17,799)	\$ (22,224)	\$ (6,067)	\$ (8,600)	
Basic and diluted net loss per share applicable to common stockholders (2).....	\$ (4.10)	\$ (10.45)	\$ (12.26)	\$ (3.47)	\$ (4.40)	
Shares used to compute basic and diluted net loss per share applicable to common stockholders (2).....	1,634	1,703	1,812	1,750	1,956	

</TABLE>

22

<TABLE>
<CAPTION>

	SEPTEMBER 30,			DECEMBER 31,
	1996	1997	1998	1998
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:				
Cash.....	\$ 1,090	\$ 303	\$ 459	\$ 1,288
Working capital (deficit).....	(1,749)	(10,116)	(30,229)	(23,319)

Short-term borrowings from IBM and IBM Credit Corp.....	--	--	20,666	18,813
Long-term obligations, less current portion.....	173	633	336	7,961
Total assets.....	2,129	4,605	5,145	7,502
Accumulated deficit.....	(6,695)	(24,494)	(46,718)	(55,318)
Stockholders' deficit.....	(1,357)	(8,913)	(28,925)	(29,177)

</TABLE>

- (1) Nonrecurring non-cash interest charge based on the difference between the price per share for Series F-2 preferred stock issued to Novell, Inc. and MC Silicon Valley, Inc. and for Series E-2 preferred stock issuable to IBM and another investor upon conversion of convertible notes in accordance with EITF Topic D-60. See note 8 of notes to consolidated financial statements. Under the terms of an April 1997 contract with IBM, we agreed that any funds provided by IBM for our operations during 1997 and 1998 through the sale of equity securities to IBM would have a per share price not higher than \$6.68. In October and November 1998, we issued preferred stock to Novell, Inc. and MC Silicon Valley, Inc. at a price per share of \$9.00. See "Certain Transactions--IBM Relationship."
- (2) Does not include the effect of outstanding shares of convertible preferred stock, shares from the assumed conversion of convertible notes and shares issuable upon the exercise of stock options and warrants that are considered anti-dilutive pursuant to SFAS No. 123. For an explanation of basic and diluted net loss per share applicable to common stockholders and the number of shares used to compute basic and diluted net loss per share applicable to common stockholders, see note 1 of notes to consolidated financial statements.

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

OVERVIEW

We provide software and solutions that enable small businesses and large enterprises to build, deploy and maintain Internet and intranet web sites and applications. We pioneered the web site building products category with the introduction of NetObjects Fusion in October 1996, and we have released several other award-winning software products, including NetObjects Authoring Server, a successor to NetObjects TeamFusion. In October 1998, we began offering online and professional services to serve the site building and maintenance needs of our customers. We were incorporated in November 1995 and first recognized revenues in October 1996, when we provided our first commercial version of NetObjects Fusion.

We recognize revenues from software license fees upon delivery of our software products to our customers, net of allowances for estimated returns and price protection, as long as we have no significant obligations remaining and we believe that collection of the resulting receivable is probable. Software license fees earned from products bundled with OEM resellers, including IBM, are generally recognized upon the OEM resellers shipping the bundled products to their customers. We recognize service revenues from IBM in connection with the integration of our software with IBM's WebSphere software products using the percentage-of-completion method. We are deferring the recognition of profit on this arrangement until the amount of profit can be reasonably estimated. We defer recognition of maintenance revenues, paid primarily for support and upgrades, upon receipt of payment and recognize the related revenues ratably over the term of the contract, which typically is 12 months. These payments generally are made in advance and are nonrefundable. For a description of reserve policy risks, see "Risk Factors--We allow product returns and provide price protection to some purchasers and resellers of our products, and our allowances for product returns may be inadequate."

Through September 30, 1998, we recognized revenues in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 91-1, SOFTWARE REVENUE RECOGNITION. On October 1, 1998, we adopted the provisions of SOP 97-2 and SOP 98-9, which supersede SOP 91-1. See note 1 of notes to consolidated financial statements.

We earn revenues from software license fees primarily through indirect sales of our products by resellers, through direct sales of our products by NetObjects salespersons and through important strategic relationships such as our relationship with IBM. Sales of our products by resellers include sales by distributors, direct and original equipment manufacturer resellers, value-added resellers and online sales. During fiscal year 1997, our total revenues from software license fees rose from \$0 to \$7.6 million, and again grew significantly

in fiscal year 1998, to \$12.4 million, as a result of our introduction of new versions of our main product NetObjects Fusion and, secondarily, the release of other related products. In fiscal year 1998, our total revenues from IBM grew to approximately \$5.6 million from approximately \$175,000 in fiscal year 1997. Our total revenues from IBM in fiscal year 1998 and for the three months ended December 31, 1998 included revenues of \$2.9 million and \$1.5 million, respectively, for our charges for services under the WebSphere agreement.

We initiated relationships with our primary distributors in North America, Europe and Asia Pacific in fiscal year 1997. Revenues generated by sales of our products by resellers accounted for substantially all of our revenues from sources other than IBM for fiscal years 1997 and 1998. We anticipate that revenues derived from sales of our products by resellers will decrease as a percentage of our total revenues. We anticipate that revenues derived from our direct sales will continue to increase as a percentage of our total revenues. We derive our non-North American revenues through sales of our products by resellers and distributors.

24

In April 1997, when IBM acquired approximately 80% of our outstanding stock from existing investors, we agreed to grant IBM the right to market and sell some of our products to its customers for 10 years under an agreement that allowed us to receive nonrefundable cash prepayments totaling \$10.5 million between April 1997 and December 31, 1998. We requested and received the full amount of these prepayments between April and December 1997. These prepayments have been reflected as deferred revenues from IBM on our balance sheet until recognized. In the three months ended December 31, 1997, IBM began reselling our products, and in the three months ended March 31, 1998, we began providing services under the WebSphere agreement that ended on February 28, 1999. As IBM reports sales of our products, and as we have performed services for IBM, we recognize revenues and the deferred revenue from IBM declines by the same amount. At December 31, 1998, approximately \$2.3 million of the prepayments remained as deferred revenue from IBM. As a result, we will not receive cash on sales by IBM of our products or for services that we provide to IBM until the prepayment balance has been reduced to zero. Our dependence on IBM has risks that are discussed in "Risk Factors--Our relationship with IBM will change substantially after the offering, which could harm our business and could cause our revenues in fiscal year 1999 to fall below those of fiscal year 1998."

From our inception through the end of fiscal year 1996, our operating activities related primarily to recruiting personnel, raising capital, purchasing operating assets, conducting research and development, building the NetObjects brand and establishing the market for our products. During fiscal year 1997, we continued to invest significantly in research and development, marketing, building our domestic and international sales channels and general and administrative infrastructure. During both fiscal years we engaged in many activities designed to gain corporate brand identity, seed the market with our product, establish the site building product category and educate the market about our products and services. In addition, we invested in a broad range of marketing activities such as advertising, tradeshow, direct mail and public relations. We also entered into many co-marketing and distribution arrangements with well-known companies such as AT&T, Apple Computer, Inc., Compaq Computer, Inc., Microsoft, Netscape Communications Corp. and PeopleSoft that allowed us to identify our NetObjects Fusion brand with their brands. Most of these arrangements have not generated revenues for us, and their principal benefit has been to help us achieve substantial brand recognition in a relatively short period. The costs of these activities and arrangements, which were not offset by revenues, have contributed substantially to our significant losses since inception, and as of December 31, 1998, we had an accumulated deficit of approximately \$55.3 million.

We believe that our success will depend largely on our ability to extend our technological leadership and to continue to build our brand position. Accordingly, we intend to continue to invest heavily in research and development and sales and marketing. As a result, we expect to continue to incur substantial operating losses for the foreseeable future.

KPMG LLP, in their independent auditors' report, have expressed "substantial doubt" as to our ability to continue as a going concern based on significant operating losses since inception and significant debt and capital deficit as of September 30, 1998. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty. Our ability to continue as a going concern is dependent upon the net proceeds from this offering. The net proceeds from the offering are estimated to be approximately \$41.0 million, after the repayment of a \$19.0 million secured credit facility with IBM Credit Corp. and approximately \$5.5 million that we expect to owe to

IBM under notes outstanding as of the closing date of the offering, and after deducting underwriting discounts and commissions of approximately \$5.0 million and estimated expenses of approximately \$1.5 million. The credit facility will terminate upon repayment.

25

Our prospects must be considered in light of our limited operating history and the risks, expenses and difficulties frequently encountered by companies in early stages of development, particularly companies in rapidly evolving markets such as the market for web site building software and services. To achieve and sustain profitability, we must, among other things:

- increase substantially our revenues from our two principal products, NetObjects Fusion, which in fiscal year 1998 accounted for most of our total revenues, and NetObjects Authoring Server, and our professional services, which have generated insubstantial revenues to date;
- continue to develop successfully new versions of our products, such as NetObjects Fusion 4.0, which was released in December 1998;
- continue to be a leading provider of e-business software for building web sites and corporate intranet sites;
- respond quickly and effectively to competitive, market and technological developments;
- expand substantially our sales and marketing operations;
- develop our professional services business, which we launched in October 1998;
- control expenses;
- continue to attract, train and retain qualified personnel in the competitive software industry; and
- maintain existing relationships and establish new relationships with leading Internet hardware and software companies.

There can be no assurance that we will achieve or sustain profitability, as more fully discussed in "Risk Factors--We have a history of substantial losses and expect substantial losses in the future," "--Our auditors have substantial doubt about our viability as a business," and "--Our ability to continue as a going concern is dependent on the net proceeds of this offering."

26

The following table sets forth financial data for the periods indicated as a percentage of total revenues:

<TABLE>
<CAPTION>

	YEAR ENDED		THREE MONTHS	
	SEPTEMBER 30,	SEPTEMBER 30,	ENDED	ENDED
	1997	1998	1997	1998
<S>	<C>	<C>	<C>	<C>
Revenues:				
Software license fees.....	97.7%	63.5%	91.3%	46.6%
Service revenues.....	--	--	--	3.4
Software license fees from IBM.....	2.3	17.7	8.7	23.5
Service revenues from IBM.....	--	18.8	--	26.5
Total revenues.....	100.0	100.0	100.0	100.0
Cost of revenues:				
Software license fees.....	10.2	16.6	12.2	8.8
Service revenues.....	--	--	--	3.3
Service revenues from IBM.....	--	16.8	--	25.0
Total cost of revenues.....	10.2	33.4	12.2	37.1
Gross profit.....	89.8	66.6	87.8	62.9
Operating expenses:				

Research and development.....	111.5	67.0	134.4	39.2
Sales and marketing.....	160.7	112.0	177.6	78.9
General and administrative.....	49.7	23.4	33.7	15.9
Stock-based compensation.....	--	1.5	--	1.8
	-----	-----	-----	-----
Total operating expenses.....	321.9	203.9	345.7	135.8
	-----	-----	-----	-----
Operating loss.....	(232.1)	(137.3)	(257.9)	(72.9)
	-----	-----	-----	-----
Interest expense.....	(3.1)	(7.8)	(7.3)	(12.7)
Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	--	--	--	(67.5)
Income taxes.....	--	0.4	0.3	--
	-----	-----	-----	-----
Net loss.....	(235.2)%	(145.5)%	(265.5)%	(153.1)%
	-----	-----	-----	-----

</TABLE>

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1997 AND 1998

REVENUES. Total revenues increased from approximately \$2.3 million to approximately \$5.6 million for the three months ended December 31, 1997 and 1998, respectively, primarily because of growing market acceptance of our products and approximately \$1.5 million attributed to our performance of WebSphere services.

For the three months ended December 31, 1997 and 1998, respectively, non-North American revenues were 14% and 18% of total revenues, respectively. The increase in non-North American revenues was due to the expansion of our indirect sales channel in Europe, services revenues for the first time and OEM arrangements with Internet service providers in Europe in December 1998. We sell our products in United States dollars in international markets. We invoice professional services in local currency. We do not expect international sales as a percentage of total revenues to increase during the balance of fiscal year 1999.

27

Revenues from IBM increased from approximately 8.7% to 50% of our total revenues for the three months ended December 31, 1997 and 1998, respectively. Our agreement with IBM for WebSphere services ended on February 28, 1999. In addition, our product bundling arrangement with Lotus for Designer for Domino 4.0 expires in June 1999. We believe that all of the IBM deferred revenues, which were \$2.3 million at December 31, 1998, will have been recognized as revenues by June 30, 1999. We have no commitments from IBM to pay us software license fees or services revenues after June 1999. Our software license revenues from IBM in the remaining quarters of fiscal year 1999 are likely to decline, perhaps substantially, from the level in the first quarter of fiscal year 1999. We are not expecting to receive any services revenues from IBM going forward. For a discussion of the risks associated with the loss of IBM revenues and our ability to replace those revenues, see "Risk Factors--Our relationship with IBM will change substantially after the offering, which could harm our business and could cause our revenues in fiscal year 1999 to fall below those of fiscal year 1998."

COST OF REVENUES. Our cost of software license fees includes the cost of product media, duplication, manuals, packaging materials, shipping, technology licensed to us and fees paid to third-party vendors for order fulfillment, and was approximately \$278,000 and \$495,000 for the three months ended December 31, 1997 and 1998, respectively, which represented approximately 13% and 19%, respectively, of non-IBM software license fees. The increase in percentage terms arose primarily from the increase in royalties we pay to third parties for software included in NetObjects Fusion 4.0 that was not included in the version that we sold in the three months ended December 31, 1997. Our cost of services consists of personnel costs and related overhead as well as fees paid to third parties who assist us in providing services to our customers. Our cost of IBM services revenues consists solely of personnel costs and related overhead for the services provided.

Gross margins may be affected by the mix of distribution channels we use, the mix of products sold, the mix of product revenues versus services revenues and the mix of international versus domestic revenues. We typically realize higher gross margins on direct channel sales relative to indirect channels and higher gross margins on domestic indirect channel sales relative to international indirect sales. If sales through indirect channels increase as a percentage of total revenues, or if, as we anticipate, services revenues

increase as a percentage of total revenues, our gross margins will be adversely affected.

RESEARCH AND DEVELOPMENT. Our research and development expenses consist primarily of salaries and consulting fees to support product development. To date, we have expensed all research and development costs as we have incurred them because we generally establish the technological feasibility of our products upon completion of a working model. We have not yet incurred significant costs between the date of completion of a working model and the date of general release of a product. We believe that continued investment in research and development is critical to attaining our strategic objectives and, as a result, we expect research and development expenses to continue to increase. Research and development expenses were approximately \$3.1 million and \$2.2 million for the three months ended December 31, 1997 and 1998, respectively, and 134% and 39%, respectively, of total revenues. The decrease in total dollars and in percentage terms in the three months ended December 31, 1998 occurred primarily because a number of our development engineers and part-time consultants were providing services under our WebSphere contract with IBM. The associated expenses are reflected in our cost of IBM revenues from services instead.

SALES AND MARKETING. Our sales and marketing expenses consist primarily of salaries, commissions, consulting fees, tradeshow expenses, advertising, marketing materials and the cost of customer service operations. We intend to continue to increase staff in our enterprise sales organization and increase our aggressive brand building and marketing campaign and, therefore, expect sales and marketing expenses to continue to increase. Sales and marketing expenses were approximately

28

\$4.1 million and \$4.4 million for the three months ended December 31, 1997 and 1998, respectively, representing 178% and 79%, respectively, of total revenues. The increase resulted primarily from the growth in our sales personnel, increased sales commissions and costs related to the continued development and implementation of our branding and marketing campaigns. As our total revenues grew at a faster rate than expenses, our sales and marketing expenses decreased as a percentage of total revenues for the three months ended December 31, 1998.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses consist primarily of salaries and fees for professional services. We expect general and administrative expenses to increase as we expand our staff, incur additional costs related to growth of our business and become a publicly traded company. General and administrative expenses were approximately \$769,000 and \$894,000 for the three months ended December 31, 1997 and 1998, respectively, representing approximately 34% and 16%, respectively, of total revenues. The increased amount resulted primarily from additional personnel and facility expenses related to our growth, while the decrease in percentage terms occurred because total revenues grew at a faster rate than general and administrative expenses.

STOCK-BASED COMPENSATION. Beginning with the three months ended March 31, 1998 we have been amortizing aggregate stock-based compensation of \$768,000 attributable to the grant of stock options over the 48-month period in which the options vest in a manner consistent with Financial Accounting Standards Board (FASB) Interpretation No. 28. Of the total deferred stock-based compensation expense, approximately \$100,000 was amortized during the three months ended December 31, 1998. For the fiscal quarter ending March 31, 1999 we expect to record approximately \$1.7 million in additional deferred stock-based compensation that we will amortize over the vesting period in accordance with FASB Interpretation No. 28.

INTEREST EXPENSE. Our interest expense consists primarily of interest on our borrowings and amounted to approximately \$168,000 and \$712,000 for the three months ended December 31, 1997 and 1998, respectively. The increase was due primarily to the increase in borrowing over the period. In connection with the in-the-money convertible notes we issued to IBM and another existing investor that convert to Series E-2 preferred stock at \$6.68 per share we recorded approximately \$3.8 million of interest expense in accordance with EITF Topic D-60 in the three months ended December 31, 1998. The terms of the Series E-2 preferred stock provide for an increase in the conversion ratio of Series E-2 preferred stock to common stock from 1:1 to 1:1.25 as of April 8, 1999 in the event we did not complete an initial public offering with proceeds of at least \$30.0 million by that date. This increase in the conversion ratio will result in an additional non-recurring, non-cash interest charge of approximately \$3.7 million during the fiscal quarter ended March 31, 1999.

In connection with the revolving loan and security agreement with IBM Credit Corp., in December 1997, we issued warrants to purchase 83,333 shares of Series F preferred stock at \$10.80 per share. In addition, in connection with the convertible notes we issued warrants to purchase 163,715 shares of Series E preferred stock at \$6.68 per share. The Series E and Series F preferred stock warrants were valued based upon the Black-Scholes pricing model which resulted in approximately \$191,000 of additional interest expense in the three-month period ended December 31, 1998. The remaining discount of approximately \$1 million will be amortized over the term of the notes. In February and March 1999, we issued warrants to purchase 51,335 shares of Series E-2 preferred stock at an exercise price of \$6.68 per share. Using the Black-Scholes model, we valued the warrants at \$444,000 and the resulting discount will be amortized over the term of the notes.

INCOME TAXES. We had a net operating loss for each period from our inception through December 31, 1998. We recorded income tax expense due to withholding tax on payments made by Mitsubishi, our exclusive master distributor of our products in Japan.

29

YEARS ENDED SEPTEMBER 30, 1997 AND 1998

REVENUES. Our total revenues increased from approximately \$7.6 million to \$15.3 million for the fiscal years ended September 30, 1997 and 1998, respectively. The increase was due primarily to growing market acceptance of our products and \$2.9 million of WebSphere services revenues. None of the increase was due to product price increases, although we introduced NetObjects TeamFusion in 1998, which had a higher sales price than our previous products. Approximately 80% of the increase was due to increased sales volume of NetObjects Fusion. In August 1997, we reduced the price of NetObjects Fusion from a suggested retail price of \$495 to \$295, and provided credits for unsold inventory to many of our distributors and other resellers, thereby reducing revenues from software license fees for the three months ended September 30, 1997 to a lower amount than in the preceding quarter. Although the price reduction of NetObjects Fusion resulted in reduced revenues during the three months ended September 30, 1997, the increased sales volume in subsequent periods more than offset this price reduction.

Our non-North American revenues were approximately 15% and 16% of total revenues for the fiscal years ended September 30, 1997 and 1998, respectively. The increase in non-North American revenues was due in part to the expansion of the indirect sales channel in Europe as well as the initiation of our master distributor agreement with Mitsubishi, which also invested in us in November 1998, to manufacture and sell our products in Japan. We have not been exposed to significant foreign currency translation and transaction exposure from our operations in fiscal 1997 and 1998.

Our revenues from IBM were approximately 2% and 36% of total revenues for the fiscal years ended September 30, 1997 and 1998, respectively. The increased revenues from IBM were generated primarily from our product bundles with Lotus Designer for Domino and our provision of WebSphere services beginning in March 1998.

COST OF REVENUES. Our cost of software license fees was approximately \$772,000 and \$2.5 million for the fiscal years ended September 30, 1997 and 1998, respectively, representing approximately 10% and 26%, respectively, of total revenues from sources other than IBM. Approximately \$800,000 of the increase can be attributed to increased production costs associated with a doubling of units shipped in 1998 over 1997. In addition, royalty costs grew by approximately \$300,000 due to our increased bundling of third party components and products within NetObjects Fusion and NetObjects TeamFusion. Finally, approximately \$400,000 of the increase was due to write-offs of product inventory made obsolete by new product releases. Cost of IBM service revenues consists solely of the costs of providing WebSphere services.

RESEARCH AND DEVELOPMENT. Our research and development expenses were approximately \$8.4 million and \$10.2 million for the fiscal years ended September 30, 1997 and 1998, respectively, and 111% and 67%, respectively, of total revenues. The increase in fiscal 1998 resulted primarily from increases in internal development personnel and independent contractor expenses. The decrease in percentage terms occurred as revenues grew at a faster rate than expenses.

SALES AND MARKETING. Our sales and marketing expenses were approximately \$12.2 million and \$17.1 million for the fiscal years ended September 30, 1997

and 1998, respectively, representing approximately 161% and 112%, respectively, of total revenues. Approximately \$2.9 million of the increase resulted from salary and associated overhead expense increases for additional personnel. Most of the remaining \$2.1 million represented additional spending in marketing communications to increase market awareness of the NetObjects brand and products. The decrease in percentage terms occurred as revenues grew at a faster rate than expenses.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses were approximately \$3.8 million and \$3.6 million for the fiscal years ended September 30, 1997 and 1998, respectively,

30

representing approximately 50% and 23%, respectively, of total revenues. Total general and administrative expenses were higher in fiscal year 1997 than in fiscal year 1998 principally because of costs incurred in connection with IBM's acquisition of approximately 80% of our stock in fiscal 1997, including approximately \$300,000 in professional fees. The decrease in percentage terms occurred as revenues grew at a faster rate than expenses.

STOCK-BASED COMPENSATION. We amortized approximately \$227,000 of the total deferred stock-based compensation in fiscal year 1998.

INTEREST EXPENSE. Our interest expense consisted primarily of interest on our borrowings and increased from approximately \$234,000 to \$1.2 million for the fiscal years ended September 30, 1997 and 1998, respectively, as we increased our borrowings during fiscal year 1998. Fiscal year 1998 interest expense included \$201,000 for the Series F preferred stock warrants issued to IBM Credit Corp.

PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) THROUGH SEPTEMBER 30, 1996

During the period from November 21, 1995 (inception) through September 30, 1996, our operating activities related primarily to recruiting personnel, raising capital, purchasing operating assets, conducting research and development, building the NetObjects brand and establishing the market for our products. We recognized no revenue and incurred operating expenses of \$6.7 million during the period. Accordingly, a comparison of the operating results for that period with the operating results for fiscal year 1997 is not meaningful and has been omitted.

31

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited quarterly results of operations data for the eight quarters ended December 31, 1998. We believe that this information has been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this prospectus, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results of operations. The quarterly data should be read in conjunction with our audited consolidated financial statements and notes to consolidated financial statements appearing elsewhere in this prospectus. The operating results for any quarter are not necessarily indicative of the operating results for any future period:

<TABLE>
<CAPTION>

	MAR. 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:							
Software license fees.....	\$ 2,115	\$ 2,332	\$ 1,721	\$ 2,086	\$ 2,485	\$ 2,524	\$ 2,608
Service revenues.....	--	--	--	--	--	--	--
Software license fees from IBM.....	--	75	100	199	1,016	1,069	416
Service revenues from IBM.....	--	--	--	--	206	1,225	1,436
Total revenues.....	2,115	2,407	1,821	2,285	3,707	4,818	4,460
Cost of revenues:							
Software license fees.....	143	240	305	278	704	840	709
Service revenues.....	--	--	--	--	--	--	--
IBM service revenues.....	--	--	--	--	184	1,095	1,284
Total cost of revenues.....	143	240	305	278	888	1,935	1,993
Gross profit.....	1,972	2,167	1,516	2,007	2,819	2,883	2,468

Operating expenses:								
Research and development.....	1,671	2,500	2,711	3,070	2,785	2,175	2,201	
Sales and marketing.....	1,888	3,833	4,454	4,060	4,353	4,444	4,257	
General and administrative.....	1,016	1,180	926	769	977	878	951	
Stock-based compensation.....	--	--	--	--	53	74	100	
Total operating expenses.....	4,575	7,513	8,091	7,899	8,168	7,571	7,509	
Operating loss.....	(2,603)	(5,346)	(6,575)	(5,892)	(5,349)	(4,688)	(5,041)	
Net other expense.....	75	37	53	175	303	335	441	
Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	--	--	--	--	--	--	--	
Net loss.....	\$ (2,678)	\$ (5,383)	\$ (6,628)	\$ (6,067)	\$ (5,652)	\$ (5,023)	\$ (5,482)	
Revenues:								
Software license fees.....	100.0%	96.9%	94.5%	91.3%	67.0%	52.4%	58.5%	
Service revenues.....	--	--	--	--	--	--	--	
Software license fees from IBM.....	--	3.1	5.5	8.7	27.4	22.2	9.3	
Service revenues from IBM.....	--	--	--	--	5.6	25.4	32.2	
Total revenues.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Cost of revenues:								
Software license fees.....	6.8	10.0	16.7	12.2	19.0	17.5	15.9	
Service revenues.....	--	--	--	--	--	--	--	
Service revenues from IBM.....	--	--	--	--	5.0	22.7	28.8	
Total cost of revenues.....	6.8	10.0	16.7	12.2	24.0	40.2	44.7	
Gross profit.....	93.2	90.0	83.3	87.8	76.0	59.8	55.3	
Operating expenses:								
Research and development.....	79.0	103.9	148.9	134.3	75.1	45.1	49.4	
Sales and marketing.....	89.3	159.2	244.6	177.7	117.4	92.2	95.4	
General and administrative.....	48.0	49.0	50.8	33.7	26.4	18.2	21.3	
Stock-based compensation.....	--	--	--	--	1.4	1.6	2.2	
Total operating expenses.....	216.3	312.1	444.3	345.7	220.3	157.1	168.3	
Operating loss.....	(123.1)	(222.1)	(361.0)	(257.9)	(144.3)	(97.3)	(113.0)	
Net other expense.....	3.5	1.5	2.9	7.6	8.2	7.0	9.9	
Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	--	--	--	--	--	--	--	
Net loss.....	(126.6)%	(223.6)%	(363.9)%	(265.5)%	(152.5)%	(104.3)%	(122.9)%	

<CAPTION>

DEC. 31,
1998

<S>

<C>

Revenues:	
Software license fees.....	\$ 2,622
Service revenues.....	190
Software license fees from IBM.....	1,318
Service revenues from IBM.....	1,487
Total revenues.....	5,617
Cost of revenues:	
Software license fees.....	495
Service revenues.....	184
IBM service revenues.....	1,404
Total cost of revenues.....	2,083
Gross profit.....	3,534
Operating expenses:	
Research and development.....	2,204
Sales and marketing.....	4,430
General and administrative.....	894
Stock-based compensation.....	100
Total operating expenses.....	7,628
Operating loss.....	(4,094)
Net other expense.....	714

Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	3,792

Net loss.....	\$ (8,600)

Revenues:	
Software license fees.....	46.7%
Service revenues.....	3.4
Software license fees from IBM.....	23.4
Service revenues from IBM.....	26.5

Total revenues.....	100.0

Cost of revenues:	
Software license fees.....	8.8
Service revenues.....	3.3
Service revenues from IBM.....	25.0

Total cost of revenues.....	37.1

Gross profit.....	62.9

Operating expenses:	
Research and development.....	39.2
Sales and marketing.....	78.9
General and administrative.....	15.9
Stock-based compensation.....	1.8

Total operating expenses.....	135.8

Operating loss.....	(72.9)
Net other expense.....	(12.7)
Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	(67.5)

Net loss.....	(153.1)%

</TABLE>

Our total revenues fluctuate from quarter to quarter due to many factors, including new product and product upgrade introductions. In addition, we attempt to limit sales of existing products during the months preceding the release of upgraded products in order to reduce returns of the older product from some of our direct and indirect channel resellers. The timing of our recognition of revenues from strategic arrangements with other companies such as AT&T, IBM or Netscape has contributed to fluctuations in revenues from quarter to quarter. During the three months ended September 30, 1997, we reduced the suggested retail price of NetObjects Fusion from \$495 to \$295, and provided price protection credits to our indirect channel distributors for unsold inventory. Consequently, our total revenues for the quarter declined substantially as a percentage of the preceding quarter's revenues. While unit volumes increased in quarters subsequent to the price reduction, the price reduction reduced total revenue growth in subsequent quarters. In addition, our quarterly revenues may fluctuate significantly in the remaining quarters of 1999 because of the loss of IBM revenue commitments.

FACTORS AFFECTING OPERATING RESULTS. As a result of our limited operating history and the emerging nature of the markets in which we compete, we are unable to forecast accurately our revenues. The success of our business and our revenue growth to date have depended on our ability to create web site building software that appeals to our customers, to update our main product, NetObjects Fusion, with new features and to release and deliver new versions of NetObjects Fusion on time. We need to develop new products in addition to NetObjects Fusion and NetObjects Authoring Server and to ship the new products on time. Failure to do so will materially affect the amount and timing of future revenues. Furthermore, the \$10.5 million of cash prepayments under our license agreement with IBM have provided some revenue certainty for us since April 1997. We expect to have recognized all of the prepayments as revenues by June 30, 1999. After that date, our revenues from IBM, if any, are likely to become more variable.

Our expense levels are based in part on our expectations with regard to future revenues. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenues shortfall. As a result, any significant shortfall in demand for our products and services relative to our expectations

would harm our business and cause our revenues to decrease. Further, as a strategic response to changes in the competitive environment, we may from time to time implement pricing, service or marketing changes that could have a material adverse effect on our business, prospects, financial condition and results of operations. See "Risk Factors--Our ability to generate future revenues is uncertain," "--Our quarterly operating results will probably fluctuate," and "Business-- Competition."

We expect to experience significant fluctuations in our future quarterly operating results due to a variety of factors, many of which are outside our control, including:

- the expiration of commitments from IBM for software license fees in June 1999 and service revenues in February 1999;
- the timing of the introduction or enhancement of our products and services and market acceptance of those products and services;
- a longer sales cycle for products for large enterprise customers and for NetObjects Authoring Server;
- competitors' introductions of other types of software products; for example, Microsoft's introduction of Windows 98 adversely impacted our sales temporarily;
- the amount and timing of operating costs and capital expenditures related to expansion of our business, operations and infrastructure;

33

- price reductions by us or our competitors or changes in how their products and services are priced;
- the mix of distribution channels through which our products are licensed and sold; and
- the promptness with which sales data are reported to us from third parties.

In addition to fluctuations in revenues from IBM, our revenues may become more variable due to factors such as seasonal demand for our products and services, for example, annual reductions in sales in Europe in July and August, costs of litigation and intellectual property protection, technical difficulties with respect to the use of our products, general economic conditions and economic conditions specifically related to businesses dependent upon the Internet. The promptness with which sales data, used in recognizing product royalties, is delivered to us from third parties also may affect quarterly operating results. It often is difficult to forecast the effect these factors, or any combination thereof, would have on our results of operations for any given fiscal quarter. We have used, and expect to continue to use, price promotions to increase the trial, purchase and use of our products, as well as to increase the overall recognition of our brands. The effect of these promotions on revenues in a particular period may be significant and extremely difficult to forecast. Quarterly sales and operating results depend primarily on the volume and timing of orders received in the quarter, both of which are difficult to forecast. We typically recognize a substantial portion of our revenues in the last month of each quarter. Based on the foregoing, we believe that our quarterly revenues, expenses and operating results could vary significantly in the future, and that period-to-period comparisons should not be relied upon as indications of future performance.

We generally distribute our software products in "trial" form to the public electronically from our web site. The "trial" version generally allows the customer to use the product but either has an expiration period, in which case the product is automatically deleted from a hard drive, or prohibits the site from being published. These features may cause some customers to delay purchasing decisions until they have thoroughly tested the product, or they may be able to override the "trial" features and use the product in an unlicensed manner, which could harm our business and cause our stock price to fall.

Due to the factors noted above, it is likely that in some future quarters our operating results will fall below the expectations of securities analysts and investors, which would harm our business and cause our stock price to fall.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations primarily through a combination of private placements of equity securities and borrowings, which yielded an aggregate of \$47.3 million of net proceeds from November 1995 through December 31, 1998. Since December 1997, approximately \$5.5 million and \$19.0 million of this financing have been provided by IBM and IBM Credit Corp., respectively, in the form of a secured credit facility. In addition, we have received cash prepayments from IBM of approximately \$10.5 million which are recorded as deferred revenues from IBM on our balance sheet. We have paid interest to IBM on the amounts of prepayments that we received in advance of the scheduled prepayment period set forth in our license agreement with IBM. All of this interest expense ceased at December 31, 1998. Our credit facility with IBM will be repaid out of the proceeds of this offering and the credit facility will terminate.

We will not receive additional cash on sales of our products by IBM or for services that we provide to IBM until the balance of the deferred revenues from IBM has been reduced to zero. At December 31, 1998 approximately \$2.3 million of the cash prepayments provided by IBM had not been recognized and were reflected as deferred revenue from IBM on our balance sheet.

34

We also have established equipment lease lines under which we may finance the purchase of up to approximately \$2.7 million in furniture, computer equipment and software, approximately \$720,000 of which is provided by IBM Credit Corp. The lease terms range from three to five years. At December 31, 1998 approximately \$200,000 was available under these lease lines.

Net cash used in operating activities in the period from November 21, 1995 (inception) to December 31, 1996 and for the years ended September 30, 1997 and 1998 was \$4.8 million, \$10.8 million and \$19.0 million, respectively, and \$8.2 million in the three months ended December 31, 1998. Net cash used for operating activities in each of these periods resulted primarily from our net losses, offset in part by increases in our accounts payable, accrued expenses and non-cash expenses.

Net cash used in investing activities in the period from November 21, 1995 (inception) to December 31, 1996 and for the years ended September 30, 1997 and 1998 was \$551,000, \$1.0 million and \$792,000, respectively, and \$703,000 in the three months ended December 31, 1998. Net cash used in investing activities in each of these periods was related to the purchases of property and equipment. The property and equipment purchased consisted primarily of computer hardware and software.

Net cash provided by financing activities in the period from November 21, 1995 (inception) to December 31, 1996 and for the years ended September 30, 1997 and 1998 was \$6.5 million, \$11.0 million and \$20.0 million, respectively, and \$9.8 million in the three months ended December 31, 1998. The cash provided by financing activities was the result of net proceeds from borrowings and the sale of our preferred stock and common stock.

As of December 31, 1998, we had approximately \$1.3 million in cash. Other than the \$19.0 million of short-term borrowings from IBM, our principal commitments consisted of obligations outstanding under operating leases. Although we have no material commitments for capital expenditures, they may increase consistent with our anticipated growth in operations, infrastructure and personnel. We will continue to add computer hardware resources. There can be no assurance, however, that our growth rate will continue at current levels or that it will meet our current expectations.

In October 1998, we issued units consisting of convertible notes and warrants to IBM and Perseus Capital L.L.C., a private equity fund in which several of our directors are investors, for a total of \$10.9 million. Prior to the closing of this offering, the convertible notes will be converted into shares of Series E-2 preferred stock, which converts to common stock automatically at the closing of this offering. The notes bear interest at 10% per annum. By December 31, 1998, we had received \$8.3 million of the \$10.9 million amount. We received the remaining \$2.6 million in January 1999. In October and November 1998, we sold 388,888 shares of Series F-2 preferred stock for a total of \$3.5 million. In February and March 1999, we obtained an additional approximately \$3.5 million through the issuance of notes and warrants to IBM to continue to finance our operations. In April 1999, we borrowed \$2.0 million from IBM under a 10% demand note. We expect IBM to exercise its right to require the repayment of the additional notes in full upon the closing of this offering.

After the offering, we anticipate moderate growth in our operating expenses

for the foreseeable future to execute our business plan, particularly in sales and marketing expenses and to a lesser extent research and development and general and administrative expenses. As a result, we expect our operating expenses, as well as planned capital expenditures, to continue to constitute a material use of our cash resources. In addition, we may require cash resources to fund acquisitions or investments in complementary businesses, technologies or product lines. We believe that the net proceeds from the offering, together with our current cash and cash equivalents, will be sufficient to

35

meet our anticipated cash requirements for working capital and capital expenditures through September 30, 2000. Thereafter, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities, or obtain additional credit facilities. We currently have no plans, other than this offering, to remedy our deficiency in cash generated from operations relative to anticipated expenditures. Our liquidity problems are also discussed in "Risk Factors--We have a history of substantial losses and expect substantial losses in the future," "--Our auditors have substantial doubt about our viability as a business," "--Our ability to continue as a going concern is dependent on the net proceeds of this offering" and "--A substantial portion of the net offering proceeds will be used to repay debt owed to IBM and not to implement our business model."

YEAR 2000 READINESS

Many existing software programs are coded to accept only two digit entries in their date fields. As a result, these programs are unable to distinguish whether "00" means the year 1900 or the year 2000, which could result in system failures or miscalculations causing disruptions to operations. Although we believe that our products are Year 2000 ready, because NetObjects Fusion and NetObjects Authoring Server may interact with external databases for purposes of data storage, the ability of applications integrated with a web site built using NetObjects Fusion or NetObjects Authoring Server to comply with Year 2000 requirements is largely dependent on whether any databases underlying the application are Year 2000 ready. If NetObjects Fusion or NetObjects Authoring Server is connected to a database that is not Year 2000 ready, a web application created or developed for a web site built using NetObjects Fusion or NetObjects Authoring Server could work incorrectly and could result in unanticipated expenses to address problems or claims raised by customers that we cannot presently foresee. Furthermore, the purchasing patterns of customers or potential customers may be affected by Year 2000 issues as businesses expend significant resources to correct their current systems for Year 2000 readiness.

STATE OF READINESS. Our assessment plans consist of the following:

- quality assurance testing of NetObjects Fusion and NetObjects Authoring Server;
- contacting third-party vendors of software that we have purchased for our internal financial systems, and other third-party service providers of telecommunications, internet services, utilities and other services and supplies;
- contacting providers of material non-information technology systems;
- assessment of repair or replacement requirements;
- repair or replacement;
- implementation; and
- creation of contingency plans in the event of Year 2000 failures.

COSTS. To date, we have not incurred significant costs in identifying or evaluating Year 2000 compliance issues. Most of our expenses have related to, and are expected to continue to relate to, the indirect operating costs associated with time spent by employees in the evaluation process and Year 2000 compliance matters generally. At this time, we do not possess the information necessary to estimate the potential costs of the replacement of third-party software or hardware that are determined not to be Year 2000 compliant. Although we do not anticipate that these expenses will be material, these expenses, if higher than anticipated, could harm our business and cause our revenues to decrease and our stock price to fall.

36

RISKS. We are not currently aware of any significant Year 2000 compliance

problems relating to our software for our product offerings or our information technology or non-information technology systems that would harm our business or results of operations, without taking into account our efforts to avoid or fix these problems. There can be no assurance that we will not discover Year 2000 compliance problems in our software for our product offerings that will require substantial revisions or replacements. In addition, there can be no assurance that third-party software, hardware or services incorporated into our material information technology and non-information technology systems will not need to be revised or replaced, which could be time-consuming and expensive. Our inability to fix our software for our product offerings or to fix or replace third-party software or hardware on a timely basis could result in lost revenues, increased operating costs and other business interruptions, any of which could harm our business, cause our revenues to decrease and our stock price to fall.

CONTINGENCY PLAN. As discussed above, we are engaged in an ongoing Year 2000 assessment and have not developed any contingency plans.

REASONABLY LIKELY WORST CAST SCENARIO. At this stage in our analysis, it is difficult to specifically identify the cause, and the magnitude, of the most reasonably likely worst case Year 2000 scenario. Such reasonably likely worst case scenario would include the failure of our products to operate properly, causing customers' systems and/or operations to fail or be disrupted. Our inability to correct a significant Year 2000 problem, if one develops, could result in an interruption in, or a failure of, certain of our normal business activities or operations. In addition, a significant Year 2000 problem concerning NetObjects Fusion and NetObjects Authoring Server could cause our customers to seek alternate providers of web site building software or services. Any material Year 2000 problem could require us to incur significant unanticipated expenses to remedy and could divert our management's time and attention, either of which could harm our business, cause our revenues to decrease and our stock price to fall.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income. This statement establishes standards for the reporting and display of comprehensive income and its components. SFAS No. 130 is effective beginning in 1998. Adoption of SFAS No. 130 is for presentation only and did not affect our financial condition or results of operations.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. We do not expect SFAS No. 133 to have a material effect on our financial condition or results of operations.

In February 1998, the AcSEC issued SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP 98-1 establishes the accounting for costs of software products developed or purchased for internal use, including when these costs should be capitalized. We do not expect SOP 98-1, which is effective for us beginning January 1, 1999, to have a material effect on our financial condition or results of operations.

RECENT DEVELOPMENTS

In March 1999, we entered into an agreement with Sun Microsystems, Inc. to develop a version of NetObjects Authoring Server Suite that runs on Sun hardware and software server products. Under the agreement Sun will advance up to \$350,000 of development funds and up to \$300,000 worth of engineering resources. We are obligated to repay the funds advanced and the value of the engineering support with royalties due quarterly on our sales of the product that we develop under the agreement. We expect to incur similar amounts of expense related to this project ourselves during the next 12 months.

OUR COMPANY

We are a leading provider of e-business software and solutions that enable small businesses and large enterprises to build, deploy and maintain web sites on the Internet and corporate intranets. Our e-business solutions address the growing challenges faced by businesses in capturing the explosive growth of the

Internet as an online business medium. Our products are used to build web sites that can publish content, conduct e-commerce and run web applications. In 1996, we pioneered the web site building product category with the introduction of our award-winning flagship product, NetObjects Fusion. NetObjects Fusion is an easy-to-use desktop software application for building business web sites with an intuitive, visual interface that helps automate and integrates many site building functions. NetObjects Fusion supports a wide range of web browsers, database software and web servers. Since 1996, we have released enhanced versions of NetObjects Fusion. We have introduced other products, including NetObjects Authoring Server, a client-server application for large enterprises and corporate departments. We have also built popular online resources, including NetObjects.com, eFuse.com, launched in December 1998, eScriptZone.com and eSiteStore.com, that target communities of business users and provide sources of information, products and services for building web sites. In addition, in October 1998, we began offering professional services to our business customers to better serve their web site planning, building and maintenance needs.

As part of our strategy to provide complete e-business solutions, we have formed technology relationships with other Internet companies. Many of these companies have written software to extend their products to integrate with NetObjects Fusion and NetObjects Authoring Server, such as Allaire ColdFusion, iCat Commerce Online, Lotus Domino, Beatnik audio software and IBM HotMedia. In addition, we have built extensions for the Microsoft ASP Site Server. These extensions provide us with broader platform connectivity and interoperability. We offer online solutions with key online service providers such as web site hosters and banner exchange providers. We also have product bundling agreements with leading software companies, such as IBM, Lotus and Novell, that help create greater brand recognition and awareness. In addition, our strategic relationship with IBM has furnished us with sales and marketing benefits, including access to IBM and Lotus sales and distribution channels, co-marketing and co-promotion benefits, and credibility in the marketplace.

We have established a premier Internet brand and estimate that over 300,000 copies of NetObjects Fusion have been delivered to date, and more than 1,000,000 web pages or sites have been built using NetObjects Fusion. Traffic to our web sites has grown from approximately 800,000 visitors in 1996 to approximately 2.5 million visitors in 1998. New visitors provided approximately half of the traffic to our web sites in 1998. We think the increasing number of visitors to our web sites reflects the broad distribution of our products and the growing strength of our brand.

INDUSTRY OVERVIEW

GROWTH OF THE WEB

In fewer than five years, the web has emerged as a universal, rapidly growing online business medium enabling millions of users worldwide to share information, conduct e-commerce and access business applications. According to International Data Corp., the number of web users worldwide will grow from an estimated 142 million at the end of 1998 to an estimated 399 million by the end of 2002. IDC estimates that worldwide Internet commerce will increase from an estimated \$50 billion at the end of 1998 to an estimated \$733 billion by the end of 2002. The explosive growth of the web as an online business medium has been fueled by a number of factors, including an increased awareness by businesses of the revenue, cost and performance benefits from using the web to conduct business, and the large and growing number of web users.

In addition, we believe the cycle of growth will accelerate as an increasing number of web users attracts more businesses to build or enhance their online web sites, which in turn attracts more

38

users. IDC reported that the number of web site addresses, or URL's, will grow from 300 million in 1997 to 3.2 billion in 2000.

As developing or enhancing a web presence becomes increasingly important to businesses, business web sites are becoming more complex. As the web's importance has grown, businesses have applied advances in Internet technology to convert business web sites from static "billboards" to sophisticated e-business web sites where businesses can interact and transact with customers, employees, suppliers and distributors. E-business sites may contain hundreds of pages, embed audio and video content and provide access to data, or "e-publishing", provide online commerce, or "e-commerce" capabilities, and run web applications, or "e-applications" such as interactive forms. E-business web sites are rapidly becoming a strategic necessity for many companies as they discover how conducting business online can enhance revenues, reduce costs and improve

performance.

GROWTH OF CORPORATE INTRANETS

The growth of the web as a global communications medium is also driving large-scale corporate enterprises to enhance communication, collaboration and productivity by building corporate intranets consisting of numerous internal web sites. These intranets bring together corporate information and applications that facilitate communication and information sharing within an organization. Intranets can also streamline business processes such as customer service, sales and marketing and human resources, thereby reducing costs or improving performance through automation or self-service. According to a recent report, Zona Research estimates that two-thirds of intranet sites are being developed through team-based web site building, and corporate intranets represent the greatest business opportunity for providers of Internet and intranet-related software technologies and products.

THE BUSINESS WEB SITE OPPORTUNITY

Although it has become relatively easy to access the web, it can be difficult and expensive to build an effective web presence. The challenges of building a successful Internet or intranet web site require solutions that address planning, design, building and deployment, as well as web site promotion and maintenance after the web site is placed online. Companies are often also faced with a difficult "make or buy" decision, either to build a web site by using in-house resources or third-party service providers, or to develop a web site with available "off-the-shelf" applications. Key factors influencing their choice of solutions include ease and flexibility of building, construction time and cost and the cost and flexibility of later maintaining and enhancing their web site. In addition, the web utilizes multiple standards and platforms, including different web browsers, databases and web servers, which increase the complexity of building a site that operates in multiple environments.

The first generation of web site building products was technically difficult to use and generally required the programming expertise of a limited number of highly skilled users such as hypertext markup language, or HTML, programmers or highly skilled designers. HTML is a programming language that allows Web pages to be viewed by a browser. The second generation of products, and online services that facilitated web site building, targeted consumers with personal "home page" building tools and casual desktop users with the ability to publish simple, static information. Although third-party service providers and in-house programmers can provide technical coding, these resources can be expensive and may not provide the flexibility required to develop and maintain dynamic, evolving web sites. In addition, third-party and in-house solutions often have excluded key business users from the web site building and maintenance process, rather than enabling a truly collaborative site building development process which includes content contributions from users.

39

We believe that the majority of small businesses have not strategically embraced the Internet. We believe those that have a web presence often need to enhance their web sites with new functionality such as e-commerce or e-applications, or otherwise improve their web site features and promotion. Businesses with more sophisticated web site requirements, but without access to programmers, require an easy-to-use, capability-rich and open solution. In-house programmers or third-party service providers can address technical design and programming requirements, but often at a higher cost than a packaged application and with less flexibility in building and maintaining their web sites. In addition, large enterprises have a variety of departments and need solutions that allow effective collaboration in developing, deploying and maintaining their intranet web sites.

THE NETOBJECTS SOLUTION

We provide e-business software and services that enable small businesses, as well as large enterprises, to build, deploy and maintain web sites on the Internet and corporate intranets. We believe our e-business solutions help businesses build web sites to publish content, conduct e-commerce and run e-applications on the web. Our solutions include products and online services for small businesses, and products and professional services for large enterprises and departments, that use collaborating teams to build web sites.

Small businesses require easy-to-use solutions that enable them to build or enhance their web sites quickly and efficiently, add key functions such as e-commerce or web applications and work with a variety of industry standards and platforms. Our award-winning application, NetObjects Fusion, is designed specifically to address these needs. NetObjects Fusion has an intuitive, visual interface that integrates and helps automate many site creation functions, including site layout and design, page building and content management.

In addition, we offer small businesses online solutions to help them

register, host through third parties, build, maintain and promote their web sites. eFuse.com is the first online resource to provide integrated content, products and solutions for small businesses. eScriptZone.com is an online resource that provides articles, tutorials, software and an online community of forums and newsgroups for webmasters and corporate web applications builders. eSiteStore.com is our online retail store that provides a one-stop shopping destination for businesses to purchase our software, third-party software and also offers online services to customers.

Large-scale corporate enterprises and departments require reliable and secure solutions that enable them to design, develop, deploy and manage their complex Internet and intranet web sites. They also need products that will operate across disparate corporate systems and platforms in order to leverage existing legacy systems, databases and content. In addition, teams that develop corporate intranet sites have requirements distinctly different from those of individuals who develop external Internet sites. They need a client-server product for web site building that supports creativity and collaboration, while allowing an administrator to assert control over the site building process. Our award-winning NetObjects Authoring Server addresses these large-scale corporate needs. In addition, software components that provide integration with products from other technology companies, including Allaire, IBM, Lotus, Microsoft and Netscape, provide additional web applications, database publishing and e-commerce capabilities for the NetObjects Authoring Server. In response to customer demand, in October 1998 we formed our Professional Services Group, which provides training, consulting and implementation services to large enterprises to help design, build, deploy and maintain their web sites, and integrate their web sites with existing corporate applications. We provide these services through our own professional services organization and through relationships with third-party service providers.

NETOBJECTS STRATEGY

Our strategy is to establish ourselves as a complete e-business solutions provider by leveraging our position as a leading provider and brand of web site building software. As more companies seek solutions for capturing the explosive growth of the web as an online business medium, we believe

40

our e-business software and resources serve as ideal starting points. NetObjects Fusion, NetObjects Authoring Server and our online resources position us to aggregate broader solutions, including web site hosting by third parties, software and components, site content, e-commerce using third-party transactional software and other web applications and services. Key elements of our strategy include:

BRAND RECOGNITION AND BROAD CUSTOMER BASE. As a pioneer of the web site building product category, and as the recipient of several industry awards, we believe that we have established a premier Internet brand in the market for web site building products and services. We estimate that over 300,000 copies of NetObjects Fusion have been delivered to date, and more than 1,000,000 web pages or sites have been built using NetObjects Fusion. Our customer base and the active online communities of builders who use our products help sustain and promote our brand by participating in our web site forums and bulletin boards and by providing feedback on pre-release versions of our software. Over 60,000 links exist from other web sites to NetObjects.com, including the web sites of complementary products and services providers. In addition, over 500 businesses worldwide have deployed NetObjects Authoring Server, or its predecessor NetObjects TeamFusion. Our strong brand recognition and growing customer base are significant assets for attracting new customers, as well as for enhancing our ability to develop relationships with other leading software and service solution providers.

STRATEGIC RELATIONSHIPS. We form strategic relationships to enhance our product and service offerings and help expand our market presence. These strategic relationships include:

- product bundling arrangements with companies such as Allaire, IBM, Lotus and Novell, to combine NetObjects Fusion with popular business software;

- technology relationships to integrate our products with web application servers from Allaire, Lotus, IBM, Microsoft and PeopleSoft, and e-commerce software from Breakthrough Software and iCat, by creating components in Java, a programming language, that provide our products with additional functions for building web applications and conducting e-commerce; and

- online solutions that combine our products with online service providers such as Compuserve, T-Online, Verio and Zip2, by offering our products as part of their online services, for hosting and promoting e-business sites, which enhance our products and solutions, as well as complement our sales, marketing and distribution reach.

These relationships also greatly enhance our brand recognition and may provide a short-term source of revenues. Our strategic relationship with IBM has provided us with other sales and marketing benefits, including access to IBM and Lotus sales and distribution channels, co-marketing and co-promotion benefits and credibility in the marketplace. See "Risk Factors--Our relationship with IBM will change substantially after the offering, which could harm our business and could cause our revenues in fiscal year 1999 to fall below those of fiscal year 1998." for a discussion of risks associated with our strategic relationship with IBM.

TECHNOLOGICAL LEADERSHIP AND OPEN ARCHITECTURE. NetObjects Fusion and NetObjects Authoring Server are based on proprietary technology that provides an intuitive, visual building environment that allows for significant productivity gains compared to web page coding products that require manual programming of each page. Our products generate HTML code without programming. In addition, NetObjects Authoring Server offers a collaborative web site building environment for teams of builders while providing centralized control over the site building effort. We have an open architecture that:

- supports all major Internet protocols;
- is publishable on major web browsers, such as Netscape Navigator and Microsoft Internet Explorer; and
- allows other web site solutions providers to integrate their products with our products using components implemented in the Java language.

By maintaining these advantages, we believe our products will continue to be recognized as open platforms for easy integration with their products and services.

PLATFORMS OF CHOICE FOR E-BUSINESS SOLUTIONS AGGREGATION. As businesses face the increasingly complex and numerous challenges of establishing a successful e-business presence, we believe they will seek aggregated solutions to address their needs, from building and hosting their web sites to maintaining and promoting them. We believe that other web site solutions providers have compelling incentives to use NetObjects Fusion, NetObjects Authoring Server and our online resources as platforms for aggregating their e-business solutions. Other solutions providers can benefit from our strong brand to reach a growing business customer base through our products, services and web sites. In turn, we can offer more complete solutions by leveraging our strategic relationships to include e-commerce services, database access, banner exchange, content, web applications and other online services from other web site solutions providers.

PRODUCTS AND SERVICES

We provide solutions for two broad categories of customers: NetObjects Fusion and online services for businesses, and NetObjects Authoring Server and professional services for large enterprises and departments.

NETOBJECTS FUSION AND ONLINE SERVICES

NetObjects Fusion is an easy-to-use desktop application designed specifically for small businesses and corporate intranet builders. NetObjects Fusion offers a range of publishing and e-commerce capabilities to simplify web site building and enhance the productivity of both novice and experienced web site builders. Earlier versions of NetObjects Fusion are available in major languages including German, French, Spanish, Chinese and Japanese, and our relationship with IBM has allowed us to release upgraded versions of NetObjects in a total of nine languages in addition to English.

<TABLE> <CAPTION> PRODUCT <S>	DESCRIPTION <C>
NETOBJECTS FUSION (suggested selling price \$295)	NetObjects Fusion provides five views that map to the process of site building: SITE VIEW lets the author visually plan and organize the pages on the web site. NetObjects Fusion automatically creates and maintains the navigation buttons and links based on how the author lays out the web site. PAGE VIEW lets the author create pages visually. A wide range of content can be
[LOGO]	

incorporated on the page, including text, graphics, video, audio, applets and other components.
STYLES VIEW lets the author create a consistent, attractive visual style for the site. Over 150 site styles are available, and authors can customize or create their own styles.
ASSETS VIEW serves as a content manager to make it easy to find and replace assets throughout the site.
PUBLISH VIEW lets the author publish all or portions of the site as standard HTML pages to the server of choice.

</TABLE>

eFuse.com is an online resource dedicated to business web site builders and features articles from the industry's experienced builders and authors on how to use NetObjects Fusion and other complementary products. eScriptZone.com is an online resource that provides articles, tutorials, software and an online community of forums and newsgroups for webmasters and corporate web application builders. In November 1998, Web21.com's 100 Hot sites rated it as the 33rd most visited site for technology developers. eSiteStore.com is our online retail store that provides a one-stop

42

shopping destination for businesses to purchase our software, third party software, components and merchandise, and also offers online services to customers.

NETOBJECTS AUTHORIZING SERVER AND PROFESSIONAL SERVICES

We introduced NetObjects Authoring Server Suite 3.0 in September 1998 to replace our original client-server application, NetObjects TeamFusion, which we had introduced in December 1997. The family of NetObjects Authoring Server products now consists of the NetObjects Authoring Server Suite, NetObjects Authoring Server Connectors and NetObjects Authoring Server for IBM WebSphere, which may be used with the IBM WebSphere web application server. NetObjects Authoring Server currently runs only on Windows NT and also supports a variety of web browsers, databases and web servers. NetObjects Authoring Server Suite consists of four modules:

AUTHORIZING SERVER. Authoring Server is the "server"-side control center of NetObjects Authoring Server and contains an internal database which stores the information about assets, site pages, site structure, link information and user profiles for multiple web sites. It also controls the number of concurrent users that can access the system. Authoring Server works in conjunction with any web server.

AUTHORIZING SERVER ADMINISTRATOR. Authoring Server Administrator is used to create sites and form teams, assign team members with editing and publishing privileges and monitor workflow. The product is designed to provide control of the web site building process, without imposing a specific workflow on team members.

TEAMFUSION CLIENT. TeamFusion Client provides the "client"-side software of the client-server application and includes all of NetObjects Fusion's features.

CONTENT CONTRIBUTOR CLIENT. Content Contributor Client enables any business user to submit content directly onto templates created on completed web sites or web sites under construction, regardless of their web authoring skills, and without compromising the web site's integrity. Users can add, modify and delete text easily and without considering web site design. NetObjects Authoring Server automatically formats the content contributed as a web page when the web site is published.

In addition, NetObjects Authoring Server Connectors include NetObjects Authoring Server Connector for Microsoft FrontPage, which enables Microsoft FrontPage users to collaborate with team members using NetObjects Authoring Server.

43

<TABLE>
<CAPTION>
PRODUCT
<S>

DESCRIPTION
<C>

NETOBJECTS AUTHORIZING SERVER SUITE	NetObjects Authoring Server Suite consists of four modules: AUTHORING SERVER is the "server"-side control center and runs on a Windows NT server.
(suggested selling price	

for 2 user system
 inclusive of server and
 clients is \$1,585; 20
 user system is \$19,850)

[LOGO]

AUTHORING SERVER ADMINISTRATOR is used to create sites and form teams, assign team members with editing and publishing privileges, and monitor workflow.
 TEAMFUSION CLIENT is based on the award-winning NetObjects Fusion, and connects to NetObjects Authoring Server. Its web site-oriented, graphical approach, along with its check-in/check-out controls, allows a web team to work collaboratively and efficiently.
 CONTENT CONTRIBUTOR CLIENT is a browser-based application written in the Java language that lets departmental web contributors submit content directly to sites under development.
 AUTHORING SERVER CONNECTOR FOR MICROSOFT FRONTPAGE enables Microsoft FrontPage users to collaborate using NetObjects Authoring Server.
 AUTHORING SERVER FOR IBM WEBSHERE is optimized for tight integration with the IBM WebSphere Application Server through powerful server components written in the Java language and special components.

NETOBJECTS AUTHORING
 SERVER CONNECTORS
 NETOBJECTS AUTHORING
 SERVER FOR IBM WEBSHERE

</TABLE>

We formed our Professional Services Group in October 1998 to provide training, consulting and implementation services to our customers deploying the NetObjects Authoring Server. We provide these services through our own professional services organization and, at present, primarily through relationships with third-party service providers. We believe that providing a high level of customer service and technical support is necessary to achieve rapid product implementation which, in turn, is essential to customer satisfaction and continued license sales and revenue growth. We also offer support and training services to our customers in addition to our Professional Services Group, including telephone and online support. Internationally, with our technical assistance, our distributors provide telephone support to their customers.

CUSTOMERS

We market and sell our products to a wide range of customers located in the U.S. and in over 30 other countries worldwide. We believe that approximately 70% of our customers have been small businesses and approximately 30% have been large enterprises, including Fortune 1,000 companies or departments within these enterprises. Approximately one-third of our small business customers are third-party service providers that build web sites for other companies.

SMALL BUSINESSES. Our products appeal to small businesses needing to build web sites that support rich content and e-commerce, with a minimum of resources and time, and with little design and HTML programming expertise. Some examples of small business customers that have built e-commerce web sites with our products include Cellular Market (cellularmarket.com) and Christmas.com. Some examples of customers that have built e-publishing web sites with our products include Pangea Systems (pangeasystems.com), Northstar Nursery (northstarnursery.com), Raychem (raychem.com) and Realty.com.

LARGE ENTERPRISES. Our products appeal to a wide range of larger customers across multiple industry segments. The following is a sample list of some of our large enterprise customers that

44

have purchased our products and services since January 1998. Together they have accounted for approximately 2% of our total revenues during the last fiscal year:

<TABLE>		
<CAPTION>		
COMMUNICATIONS	GOVERNMENT & EDUCATION	HEALTHCARE AND MEDICAL
<S>	<C>	<C>
Cellular One (Bay Area)	U.S. Senate	Blue Cross/Blue Shield
Bell Atlantic Data Solutions Group	State of Utah, Dept. of Community & Economic Development	Dept. of Health & Human Services
Nortel Networks	University of North Carolina	
	Kings County, California	
MANUFACTURING	FINANCIAL	TECHNOLOGY
The Boeing Company	NationsBank Corporation	VLSI Technology, Inc.
DaimlerChrysler AG	Credit Suisse First Boston	Lockheed Martin
Shell Lubricants	Travelers Life and Annuity	Siemens Microelectronics
		Mitsubishi Electronics America
</TABLE>		

CUSTOMER SITES BUILT USING NETOBJECTS FUSION

NetObjects Fusion is well-suited for a wide range of web site projects that require a rapid site building cycle, a combination of rich content and transaction processing capability, interactivity and personalization and deployment on a variety of web browsers from multiple server platforms. Some examples of sites that help demonstrate our product's robust site building capabilities include:

CHRISTMAS.COM, the most popular Christmas site on the web and selected as the top Christmas site by Excite, receives over 10 million page views per season and provides families and children all over the world with rich content sources about Christmas. First unveiled in 1995, the site was rebuilt with NetObjects Fusion in 1997 and is enhanced and updated annually using our product, including recent enhancements to support e-commerce transactions.

JUSTFORFEET.COM, the world's largest athletic shoe store, developed its web site and corporate intranet using NetObjects Authoring Server Suite. Recently, a complete web site redesign coincided with the launch of a national television campaign. The new site provides a variety of information from shoe longevity tips to store tours to help finding store locations. The state-of-the-art site also features e-commerce functionality, allowing customers to virtually browse the shelves, compare prices and purchase shoes online. The sites are maintained by a core web team of six people, each providing different areas of expertise. The corporate intranet site, with over 600 pages of information, continuously maintains up-to-the-minute information provided by over 20 content contributors throughout the company.

DAIMLERCHRYSLER AG sites built with our products range from departmental home pages, to newsletters, to sites that share information across the entire corporation. Many departments within DaimlerChrysler selected NetObjects Fusion because it provides an open and robust site building environment that integrates with existing desktop and server software to create web sites that are easy for users to navigate and search. DaimlerChrysler estimates that over 40 Internet and intranet sites have been built using NetObjects Fusion within the company by departments including DaimlerChrysler's Fleet Operations, General Auditor's Office and Information Systems.

SALES, MARKETING AND DISTRIBUTION

We sell our products and services to our customers using a combination of indirect distribution channels, our direct enterprise sales force, our online distribution channel and strategic relationships, and we market our products and services using a broad range of activities to generate demand and build brand awareness. As of December 31, 1998, we had 63 employees, or approximately 41% of our work force, engaged in sales and marketing activities.

45

INDIRECT DISTRIBUTION CHANNELS

Our indirect distribution channels include domestic and international distributors, retail vendors, value-added resellers and other technology companies with whom we have strategic relationships. We have 15 non-exclusive distributors worldwide including Ingram Micro, Tech Data and Douglas Stewart in North America; Softline, Internet 2000, Unipalm and Principal in Europe; and Mitsubishi, which is our master distributor in Japan. As of December 1998, we had over 1,500 corporate and catalog resellers, original equipment manufacturers and value-added resellers purchasing products through these distributors.

DIRECT ENTERPRISE SALES FORCE

Our direct enterprise sales force focuses on sales to larger corporate customers worldwide. The enterprise sales force is comprised of field representatives and inside sales representatives. The field representatives market and sell our products and services to corporate customers that the inside sales team has identified as sales prospects. The inside representatives develop and pursue leads generated from inquiries on our web sites, downloads of our trial products and other direct marketing efforts. Our sales force increased from 17 employees to 21 employees in fiscal year 1998, and during that period, revenues per salesperson increased while the number of transactions per salesperson decreased.

ONLINE DISTRIBUTION CHANNEL

Our web site eSiteStore.com allows users to download and purchase our products. In addition, several third-party e-commerce and distribution sites, including buydirect.com, beyond.com and download.com, make our products available for sale online. The online distribution channel provides us with a low-cost, globally accessible, 24-hour sales channel.

STRATEGIC RELATIONSHIPS

We have a number of significant ongoing strategic relationships with other technology companies pursuant to which our products are incorporated into, or bundled with, the third party's products. We believe that these strategic relationships significantly enhance our brand recognition and awareness of our products and services, and also provide a source of revenues. Our strategic relationships include:

IBM/LOTUS. Lotus markets, bundles and sells a version of NetObjects Fusion with Lotus Designer for Domino 4.0 under a contract with revenue commitments that expires in June 1999, and under a new contract without revenue commitments to market, bundle and sell NetObjects Fusion with Designer for Domino Application Studio that expires on December 31, 1999. IBM markets, bundles and sells NetObjects Fusion with its WebSphere Studio product. In addition, our products are offered for sale through a variety of IBM and Lotus channels including "Passport Advantage," the worldwide direct purchasing option for Lotus and IBM branded software and the Lotus Business Partner program, which allows 18,000 program members access to our products at discounted prices globally. Our relationship with IBM and Lotus provides us with access to customers and marketing leverage generally beyond the reach of companies our size, including participation in advertising, direct marketing, tradeshow and seminars.

NOVELL. Novell bundles a version of NetObjects Fusion with its NetWare for Small Business product offering on a worldwide basis. Novell also offers end-user training on NetObjects Fusion at over 100 Novell certified training centers worldwide. Novell is an investor in NetObjects. We discuss our relationship with Novell in "Certain Transactions."

46

MARKETING ACTIVITIES

Since our inception, we have invested a substantial percentage of our annual revenues in a broad range of marketing activities to generate demand, gain corporate brand identity, establish the site building product category and educate the market about our products and services. These activities have included advertising, including both print and online, direct marketing, including direct mail and e-mail, public relations, sponsoring seminars for potential customers, participating in trade shows and conferences and providing product information through our web sites. Our marketing programs are aimed at informing our customers of the capabilities and benefits of our products and services, increasing brand awareness, stimulating demand across all market segments and encouraging independent software developers to develop products and web applications that are compatible with our products and technology. We also entered into many co-marketing and distribution arrangements with well-known companies such as AT&T, Apple Computer, Inc., Compaq Computer, Inc., Microsoft, Netscape and PeopleSoft that have allowed us to identify our NetObjects Fusion brand with their brands.

COMPETITION

The market for software and services for the Internet and intranets is relatively new, constantly evolving and intensely competitive. We expect competition to intensify in the future. Many of our current and potential competitors have longer operating histories, greater name recognition and significantly greater financial, technical and marketing resources. Our principal competitors in the web site building software market segment include Microsoft, Adobe and Macromedia, Inc.

Microsoft's FrontPage, a web site building software product, has a dominant market share. Microsoft has announced but not shipped FrontPage 2000, which may become one of the products in at least one version of Microsoft's Office product suite, which dominates the market for desktop business application software. We believe that NetObjects Fusion and NetObjects Authoring Server contain features that significantly differentiate them from the announced description of FrontPage 2000, but widespread distribution of Office with FrontPage 2000, and the vast number of computer users familiar with Microsoft desktop application software products, give Microsoft a substantial competitive advantage over us. In connection with its recent acquisition of GoLive, Inc., Adobe acquired a web site building software product for Macintosh, which increases the competitiveness of the market for Macintosh web site building products. Our current Macintosh product, NetObjects Fusion 3.0, may become less competitive over time.

Alternatives to using web site building software also may provide significant competition. The alternatives include products from third-party web site builders, in-house resources and online web site building resources, such as GeoCities, some of which also provide web site hosting and other services. Competitive factors in our market include:

- the manner in which the software is distributed with other products;

- quality and reliability;
- features for creating, editing and developing web sites;
- pricing (for example, during the three months ended September 30, 1997, we reduced the price of NetObjects Fusion from \$495 to \$295, which resulted in a decline in total revenues from the third to the fourth quarters in fiscal 1997);
- ease of use and interactive user features;
- scalability and cost per user; and
- compatibility with the user's existing computer systems.

47

To expand our user base and further enhance the user experience, we must continue to innovate and improve the performance of our products. We anticipate that consolidation will continue in the web site building products industry and related industries such as computer software, media and communications. Consequently, our competitors may be acquired by, receive investments from or enter into other commercial relationships with larger, well-established and well-financed companies. There can be no assurance that we can establish or sustain a leadership position in this market segment.

We believe that additional competitors may enter the market with competing products as the size and visibility of the market opportunity increases. Increased competition could result in additional pricing pressures, reduced margins or the failure of our products to achieve or maintain market acceptance, any of which could harm our business and cause our revenues and stock price to fall. Many of our current and potential competitors such as Microsoft, Adobe and Macromedia have longer operating histories and substantially greater financial, technical, marketing and other resources than us and therefore may be able to respond more quickly to new or changing opportunities, technologies, standards or customer requirements. Many of these competitors also have broader and more established distribution channels that may be used to deliver competing products directly to customers through product bundling or other means. For example, Microsoft enjoys significant distribution advantages over us, including the vast number of computer users familiar with Microsoft desktop application software products. If our competitors bundle competing products with their products, the demand for our products might be substantially reduced and our ability to distribute our products successfully would be substantially diminished. Moreover, Microsoft's dominance in desktop business application software enables it to vary the pricing for its software sold as part of a suite. As a result of Microsoft's and other competitors' bundling arrangements, we may need to reduce our prices for our products to keep them competitive.

New technologies and the enhancement of existing technologies will likely increase the competitive pressures on us. Competing technologies or the emergence of new industry standards could adversely affect our competitive position or render our products or technologies noncompetitive or obsolete.

There is no assurance that we will compete effectively with current or future competitors or that competitive pressures will not harm our business and cause our revenues and stock price to fall.

TECHNOLOGY AND DEVELOPMENT

We devote substantial resources to the development of innovative products for the market for web site building software and services. During the fiscal years ended September 30, 1997 and 1998, respectively, we invested approximately 111% and 67%, respectively, of our total revenues on research and development activities. NetObjects Fusion and NetObjects Authoring Server are among the earliest and most recognized entrants in the emerging market for web site building software. We believe that we have been able to leverage our understanding of the market and technology opportunity as well as our staff and software development processes to build robust, open solutions for customers. We intend to continue to use these core strengths to introduce innovative products and product enhancements for building, deploying and maintaining business web sites. We intend to continue to devote substantial resources to research and development for at least the next several years.

48

Our technology provides the following product advantages:

OPEN ARCHITECTURE

Our products are built upon a flexible object-oriented architecture. This architecture, which we obtained from Rae Technology, Inc. upon our founding, has

been instrumental in the rapid development of our products. The architecture provides such significant benefits as:

- separating the visual display of information from its storage;
- supporting multiple databases;
- supporting major Internet protocols;
- allowing any HTML page editor to be used with our products; and

- extending our products using components built using the Java language.

We intend to continue to invest in further development of this architecture to build and integrate new products and technologies.

CONTROL AND COLLABORATION

Intranet web sites are evolving from simple publishing pages coordinated by a single webmaster to multi-contributor strategic business platforms that integrate business processes and deploy mission-critical applications. Enterprise groups that build these intranet web sites face the conflicting needs of maintaining control and encouraging collaboration. NetObjects Authoring Server provides the performance needed to support concurrent, collaborating users across an enterprise-wide deployment with several underlying technologies such as a Java-based content contributor, an integrated asset manager and remote systems administrator.

In addition to our products, product enhancements and core proprietary technology, we have a highly-skilled engineering workforce that includes several seasoned software industry veterans. As of December 31, 1998, we had 50 employees, or approximately one-third of our workforce, engaged in research and development activities. Our original key technologists are still NetObjects employees, and they continue to play an integral role in defining and leading our technology vision and strategy. We intend to hire additional software engineers to further our research and development efforts. If we are unable to hire and retain the required number of skilled engineers, our business will be harmed, our revenues could decline and our stock price may fall.

INTELLECTUAL PROPERTY

Our success depends in part on our ability to protect our proprietary software and other intellectual property. To protect our proprietary rights, we rely generally on patent, copyright, trademark and trade secret laws, confidentiality agreements with employees and third parties, license agreements with consultants, vendors and customers and "shrinkwrap" license agreements. Despite these protections, a third party could, without authorization, copy or otherwise obtain and use our products, or develop similar products. There can be no assurance that our agreements will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known or independently developed by competitors.

We currently have several pending patents relating to our product architecture and technology and have licensed two utility patents from Rae Technology. For a description of our Rae Technology relationships, see "Certain Transactions--Transactions with Rae Technology and Studio Archetype." There can be no assurance that any pending or future patent application will be granted, that any existing or future patent will not be challenged, invalidated or circumvented or that the rights

49

granted under any patent that has issued or may issue will provide competitive advantages to us. If a blocking patent has issued or issues in the future, we would need to obtain a license or design around the patent. Except for patents licensed from Rae Technology, which we have rights to acquire, there can be no assurance that we would be able to obtain a license on acceptable terms, if at all, or to design around the patent.

We pursue the registration of some of our trademarks and service marks in the United States and in other countries, although we have not secured registration of all of our marks. Many of our current and potential competitors dedicate substantially greater resources to protection and enforcement of intellectual property rights. We are also aware of other companies that use "Fusion" in their marks alone or in combination with other words, such as Allaire's ColdFusion, and we do not expect to be able to prevent third party uses of the word "Fusion" for competing goods and services. We have agreed with Allaire that neither party will use the word "Fusion" to describe products in the absence of appropriate brand identification, such as "NetObjects Fusion."

The laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States, and effective patent,

copyright, trademark and trade secret protection may not be available in these jurisdictions. We license some of our proprietary rights to third parties, and there can be no assurance that these licensees will abide by compliance and quality control guidelines with respect to our proprietary rights.

EMPLOYEES

As of March 31, 1999, we had 139 full-time employees and 16 part-time employees. None of our employees is subject to a collective bargaining agreement, and we believe that our relations with our employees are good. We believe that our future success will depend in part on our continued ability to attract, integrate, retain and motivate highly qualified sales, technical, professional services and managerial personnel, and upon the continued service of our current personnel. We also use independent contractors to supplement our work force. None of our personnel is bound by an employment agreement that prevents the person from terminating his or her relationship at any time for any reason. Competition for qualified personnel is intense. There can be no assurance that we will be successful in attracting, integrating, retaining and motivating a sufficient number of qualified personnel to conduct our business in the future.

FACILITIES

Our executive offices are located in Redwood City, California, in an office building in which, as of December 31, 1998, we lease an aggregate of approximately 25,000 square feet. The lease agreement terminates on September 11, 2002. We also lease three serviced office suites in a facility in Windsor, United Kingdom under a lease that expires in August 1999.

LEGAL PROCEEDINGS

From time to time, we expect to be subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of third-party trademarks and other intellectual property rights by us and our licensees. These claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe would harm our business or cause our revenues or stock price to fall.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers as of April 15, 1999 are as follows:

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Samir Arora(1)	33	Chairman of the Board, Chief Executive Officer and President
Russell F. Surmanek	41	Executive Vice President, Finance and Operations and Chief Financial Officer
David Kleinberg	40	Executive Vice President, Desktop Products and Online Services
Morris Taradalsky	52	Executive Vice President, Server Products and Professional Services
Mark Patton	41	Senior Vice President, Worldwide Sales and Corporate Marketing
Clement Mok	41	Chief Creative Architect
Gagan (Sal) Arora	25	Chief Technology Architect and Vice President, Engineering, Desktop Products and Online Services
Robert G. Anderegg(2)	50	Director
Lee A. Dayton(1)	56	Director
John Sculley(1) (2)	60	Director
Christopher M. Stone(2) (3)	41	Director
Michael D. Zisman	50	Director

</TABLE>

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Mr. Stone will become a director of NetObjects on the closing date of the

offering.

Set forth below is information regarding the business experience during the past five years for each of our officers and directors.

SAMIR ARORA has served as our Chairman of the Board, Chief Executive Officer and President since our inception in November 1995. In 1992, Mr. Arora founded Rae Technology, a provider of software applications, and from 1992 through November 1995 served as its CEO. From 1986 to 1992, Mr. Arora served in several management roles at Apple Computer, Inc. Mr. Arora holds a diploma in sales and marketing from the London Business School and attended INSEAD, France and BITS, India. Samir Arora is the brother of Sal Arora, who is our Chief Technology Architect and Vice President, Engineering Desktop Products and Online Services.

RUSSELL F. SURMANEK has served as our Executive Vice President, Finance and Operations and Chief Financial Officer since April 1999. From 1990 to March 1999, Mr. Surmanek served in several senior financial management positions at Oracle Corporation, most recently as Vice President, Finance and Administration, Worldwide Operations. From 1989 to 1990, Mr. Surmanek was Controller, North America Sales and Support for International Computers Ltd. From 1983 to 1989, Mr. Surmanek held various financial management positions at Racal-Milgo, Inc., a data communications equipment manufacturer. Mr. Surmanek holds a B.S. in Business Administration from the State University of New York at Buffalo and an M.B.A. from the University of Michigan.

DAVID KLEINBERG has served as our Executive Vice President, Desktop Products and Online Services since November 1995. In September 1992, Mr. Kleinberg co-founded Rae Technology with Samir Arora. Mr. Kleinberg served as Executive Vice President, Sales and Marketing of Rae Technology from September 1992 to November 1995. Prior to joining Rae Technology, Mr. Kleinberg held

51

executive positions in product marketing and sales at Macromedia. Prior to Macromedia, Mr. Kleinberg was employed at Apple Computer. Mr. Kleinberg holds a B.A. in English from Georgetown University and an M.B.A. from Stanford University.

MORRIS TARADALSKY has served as our Executive Vice President, Server Products and Professional Services since April 1997. From April 1994 to April 1997, Mr. Taradalsky served as Chief Executive Officer of MicroNet Technology, Inc., a privately-held storage systems supplier. From December 1988 to April 1994, Mr. Taradalsky was employed at Apple Computer, Inc. where he was General Manager of the Apple Business Systems Division. Prior to joining Apple Computer, Mr. Taradalsky was employed by IBM for 18 years in a number of positions, including Vice President and General Manager, Santa Teresa Laboratory. Mr. Taradalsky graduated MAGNA CUM LAUDE from Pennsylvania State University with a B.S. in Mathematics.

MARK PATTON has served as our Senior Vice President, Worldwide Sales and Corporate Marketing since December 1996. From February 1995 to November 1996, Mr. Patton was Vice President and General Manager of the Digital and Applied Imaging Division at Eastman Kodak, Inc. From February 1994 to February 1995, Mr. Patton was Vice President and General Manager, American Division at Logitech, Inc., a computer peripheral products manufacturer. From August 1985 to February 1994, Mr. Patton held various sales management positions at Apple Computer, Inc. Mr. Patton holds a B.A. in Speech Communication from the University of Washington.

CLEMENT MOK has served as our Chief Creative Architect since September 1998. Prior to that, Mr. Mok had been our Chief Creative Officer since our founding in November 1995. In 1988, Mr. Mok founded Studio Archetype, now a wholly-owned subsidiary of Sapient Corporation. From 1988 to 1998, Mr. Mok was Chairman and Chief Creative Officer of Studio Archetype. He is currently the Chief Creative Officer of Sapient Corporation. From 1993 to present, Mr. Mok also has been the Chief Executive Officer of CMCD, Inc., a media publishing company. Mr. Mok holds a B.F.A. from the Art Center College of Design.

SAL ARORA has served as our Chief Technology Architect and Vice President, Engineering, Desktop Products and Online Services since November 1995. From September 1994 to November 1995, Mr. Arora was the lead engineer at Rae Technology. From June 1992 to September 1994, Mr. Arora was a software engineer at ACIUS Inc. Mr. Arora holds a B.S. in Computer Science from the University of California, Berkeley. Sal Arora is the brother of Samir Arora, who is our Chairman of the Board, Chief Executive Officer and President.

ROBERT G. ANDEREGG has been a director of our company since April 11, 1997. Mr. Anderegg has served as Vice President and Assistant General Counsel at IBM since August 1998. He has been appointed to serve on our board of directors by IBM as one of its representatives. Mr. Anderegg has served as an Assistant General Counsel or Associate General Counsel at IBM since 1988. Mr. Anderegg

holds a B.S. degree from Georgia Institute of Technology and received his J.D. from Harvard Law School.

LEE A. DAYTON has been a director of our company since April 11, 1997. Mr. Dayton is Vice President, Corporate Development and Real Estate at IBM. He has been appointed to serve on our board of directors by IBM as one of its representatives. Mr. Dayton has held various management positions at IBM since he joined in 1965 as a systems engineer. Mr. Dayton holds a B.S. in Engineering from Northwestern University.

JOHN SCULLEY has been a director of our company since December 20, 1996. Since April 1994, Mr. Sculley has been a partner of Sculley Brothers, an investment capital firm. Mr. Sculley also is a director of General Wireless, Inc., a wireless communications services provider, Talk City, Inc., an online chat community, and NFO Worldwide, Inc., a market research firm. From 1983 to 1993, Mr. Sculley served as Chief Executive Officer of Apple Computer, Inc. Mr. Sculley holds a B.A. in

52

Architectural Design from Brown University, an M.B.A. from the Wharton School at the University of Pennsylvania and holds eight honorary doctorates from various schools.

CHRISTOPHER M. STONE will become a director of our company on the closing date of this offering. Since August 1997, Mr. Stone has been the Executive Vice President of Corporate Strategy and Development at Novell, Inc. From September 1989 to August 1997, Mr. Stone was Chairman and Chief Executive Officer of the Object Management Group, the creator of an industry standard known as CORBA. Mr. Stone holds a B.S. in Computer Science from the University of New Hampshire.

MICHAEL D. ZISMAN has been a director of our company since April 11, 1997. Mr. Zisman is an Executive Vice President of Lotus, a position that he has held since October 1996. He has been appointed to serve on our board of directors by IBM as one of its representatives. From July 1994 to October 1996, he held other executive positions at Lotus. Mr. Zisman is also the Vice President of Strategy for the IBM Software Group. Mr. Zisman was the Chief Executive Officer of Soft-Switch, Inc., a software development company, from 1979 to July 1994. Mr. Zisman is a director of Strategic Weather Services, Inc., a privately-held company. Mr. Zisman holds a B.S. from Lehigh University, an M.S. from the University of Pennsylvania Moore School and a Ph.D. from The Wharton School at the University of Pennsylvania.

NUMBER, TERM AND ELECTION OF DIRECTORS

Effective upon the closing of this offering, our bylaws will be amended automatically to fix the number of directors at six until changed by approval of the stockholders or a majority of the directors. Each director is elected to serve until the next annual meeting of stockholders and until the election and qualification of his or her successor or his or her earlier resignation or removal.

CONTRACTUAL ARRANGEMENTS

We are party to a voting agreement with IBM that provides, effective upon the closing of this offering, that IBM will vote its shares of voting stock in a way that limits the number of IBM representatives on a six-member board of directors to three, notwithstanding IBM's legal right to elect the entire board for as long as IBM owns a majority of our voting stock. The agreement defines an IBM representative as an officer, director or other agent or employee of IBM, IBM's subsidiaries or any other entity controlled by IBM, other than our company. The voting agreement also obligates us and IBM to maintain a board of directors consisting of six members unless the holders of a majority of outstanding voting stock, excluding IBM's shares, approve an amendment to our amended and restated bylaws or restated certificate of incorporation to change the size of the board. The voting agreement remains in effect until IBM holds less than 45% of our voting securities on a fully-diluted basis for a period of 180 consecutive days. Immediately after the offering, IBM will hold 48.6% of our voting securities on a fully-diluted basis. While this agreement remains effective it allows IBM's designees to our board of directors to control any determinations with respect to most material transactions outside the ordinary course of our business, including mergers or other business combinations, the acquisition or disposition of our assets, future issuances of our equity or debt securities and the payment of dividends.

DIRECTOR COMPENSATION

Our directors do not receive cash compensation for their services as directors or members of committees of the board of directors. After the offering we will automatically grant options to purchase 20,000 shares of common stock to outside directors upon joining the board. The option exercise price will be

equal to the fair market value of a share of common stock at the date of grant. The option term will be six years and the option will vest and become exercisable pro rata at the end of each month for 48 months while the option holder continues to serve as a director.

BOARD COMMITTEES

We have established an audit committee and a compensation committee.

The audit committee consists of Messrs. Sculley, Anderegg and, after the offering, Mr. Stone. The functions of the audit committee are to make recommendations to the board of directors regarding the selection of independent auditors, review the results and scope of the audit and other services provided by our independent auditors and evaluate our internal controls.

The compensation committee consists of Messrs. Arora, Dayton and Sculley. The functions of the compensation committee are to review and approve the compensation and benefits for our executive officers, administer our stock option and stock purchase plans and make recommendations to the board of directors regarding these matters.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

As of the end of our last fiscal year, we did not have a compensation committee, and all decisions regarding compensation of our executive officers were made by the board of directors. During fiscal year 1998, Mr. Samir Arora participated in deliberations of the board of directors concerning executive officer compensation. No executive officer currently serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or the compensation committee, which was established during fiscal year 1999.

EXECUTIVE COMPENSATION AND MANAGEMENT CHANGES

The following table sets forth information concerning the compensation received by our Chief Executive Officer and by the other four most highly compensated executive officers during the fiscal year ended September 30, 1998:

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION	
	SALARY (\$) (1)	BONUS (\$) (1)
<S>	<C>	<C>
Samir Arora Chairman of the Board, Chief Executive Officer, President.....	\$ 175,338	\$ 47,434
Morris Taradalsky Executive Vice President, Server Products and Professional Services.....	166,048	86,095 (1)
Mark Patton Senior Vice President, Worldwide Sales and Corporate Marketing.....	150,000	35,555
David Kleinberg Executive Vice President, Desktop Products and Online Services.....	145,600	24,856
Michael J. Shannahan (2) Vice President, Finance and Chief Financial Officer.....	151,436	15,542

</TABLE>

(1) Includes \$65,745 for relocation expenses.

(2) Mr. Shannahan resigned from NetObjects as of April 5, 1999 and Mr. Russell Surmanek became Executive Vice President, Finance and Operations and Chief Financial Officer as of that date.

We have entered into an employment agreement with our new Executive Vice President, Finance and Operations and Chief Financial Officer, Russell F. Surmanek, as of April 5, 1999. The employment agreement has a term of 24 months. Under the agreement, Mr. Surmanek will receive an annual salary of \$220,000 plus a 15% sales target bonus payable semi-monthly, up to 20% of his

annual salary as an annual fiscal year bonus to executives and stock options to purchase 235,000 shares, 35,000 of which will vest within three months of April

5, 1999, and the remainder of which vest on varying dates during the following 48 months. Mr. Surmanek also receives a starting bonus of \$100,000. If Mr. Surmanek's employment is terminated without cause before April 5, 2001, he is entitled to be paid the remaining salary which would have been payable during the term, including pro-rata bonus amounts. If Mr. Surmanek is terminated for any reason, other than for cause, the vesting of his stock options will accelerate so that 65% of the shares underlying the options will be vested as of the date of termination. If we are acquired by another company, the vesting of Mr. Surmanek's stock options will also accelerate by one calendar year or as necessary to provide for vesting of at least 65% of the shares underlying the options as of the date of the acquisition.

The following table sets forth information regarding option exercises, and the fiscal year-end values of stock options held, by our Chief Executive Officer and the other four most highly compensated executive officers during the fiscal year ended September 30, 1998:

AGGREGATED OPTION EXERCISES IN FISCAL 1998 AND FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT SEPTEMBER 30, 1998 (#)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT SEPTEMBER 30, 1998 (\$)
	EXERCISABLE/ UNEXERCISABLE	EXERCISABLE/ UNEXERCISABLE (1)
<S>	<C>	<C>
Samir Arora.....	84,375/140,625	\$ 374,625/\$624,375
Morris Taradalsky.....	47,222/86,111	209,666/382,334
Mark Patton.....	55,661/69,339	247,136/307,864
David Kleinberg.....	56,250/93,750	249,750/416,250
Michael J. Shannahan (2).....	29,340/78,993	130,270/350,730

</TABLE>

(1) The fair market value of the underlying securities at the close of business on September 30, 1998 was estimated to be approximately \$4.44 per share, as determined by the board of directors.

(2) Mr. Shannahan resigned from NetObjects as of April 5, 1999 and Mr. Russell Surmanek became Executive Vice President, Finance and Operations and Chief Financial Officer as of that date.

Mr. Surmanek has no prior experience with us and if Mr. Surmanek fails to quickly become an effective chief financial officer or if he ceases to remain in our employ, our business could be harmed and our stock price could fall.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

Our amended and restated certificate of incorporation, which takes effect only upon the closing of this offering, limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for any breach of their duty of loyalty to the corporation or its stockholders, acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, unlawful payments of dividends or unlawful stock repurchases or redemptions, or any transaction from which the director derived an improper personal benefit. This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated bylaws, which take effect only upon the closing of this offering, provide that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. The amended and restated bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity, regardless of whether the amended and restated bylaws would permit indemnification. We have obtained officer and director liability insurance with respect to liabilities arising out of specific matters, including matters arising under the Securities Act.

We have entered into agreements with our directors and executive officers that take effect only upon the closing of this offering and, among other things, will indemnify them for specific expenses, including attorneys' fees, judgments,

fines and settlement amounts incurred by them in any action or proceeding, including any action by us or on our behalf, arising out of the person's services as a director or officer of NetObjects or any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We are obligated to advance expenses incurred by the indemnified person prior to the conclusion of any such action or proceeding, in the absence of a determination, as provided in the agreement, that indemnification would not be permitted under applicable law. We believe that these provisions and agreements are necessary to attract and retain qualified directors and officers. These agreements also provide officers with the same limitation of liability for monetary damages that Delaware corporate law and our restated certificate of incorporation provide to directors.

BENEFIT PLANS

1997 STOCK OPTION PLAN

The NetObjects 1997 Stock Option Plan, or the 1997 Plan, provides for the issuance of incentive stock options under the Internal Revenue Code of 1986 and nonqualified stock options to purchase common stock to employees, non-employee directors or consultants at prices not less than the fair market value at the date of grant. A total of 2,158,943 shares of common stock has been authorized for issuance under the 1997 Plan. The fair market value of the common stock is determined by the board of directors. Options currently outstanding generally vest 25% at the end of the first year and then monthly on a pro rata basis over the next three years. In connection with IBM's acquisition of approximately 80% of our outstanding stock, the 1996 Stock Option Plan was cancelled and all options issued under that plan were reissued under the 1997 Plan. Under the 1996 Stock Option Plan, optionees had the right to exercise unvested options, subject to our Company's right to repurchase unvested shares held at the time of termination of employment. That right was carried over to the 1997 Plan for optionees who held options under the 1996 Stock Option Plan that were reissued under the 1997 Plan, but does not apply to new options granted under the 1997 Plan since April 11, 1997. At March 31, 1999, 41,252 shares of common stock were subject to our right of repurchase, and 266,615 shares of common stock were available for future option grants, under the 1997 Plan.

1997 SPECIAL STOCK OPTION PLAN

In March 1997, our board of directors adopted, and in April 1997, our stockholders approved, the 1997 Special Stock Option Plan. A total of 1,041,056 shares of common stock were authorized for issuance under the plan. On March 18, 1997, our board of directors authorized the grant of options for the purchase of all shares of common stock authorized for issuance under the plan to 35 key employees, including Messrs. Samir Arora and David Kleinberg, who received grants to purchase 225,000 shares and 150,000 shares, respectively. The options granted under the plan generally vest 25% at the end of the first year and then monthly on a pro rata basis over the next three years. Our board of directors does not intend to grant any more options under this stock option plan.

56

1999 EMPLOYEE STOCK PURCHASE PLAN

Our 1999 Employee Stock Purchase Plan, or ESPP, which has been adopted by our board of directors and our stockholders, will take effect upon the closing of this offering. We have reserved 300,000 shares of common stock for issuance under the ESPP. The ESPP is intended to qualify for favorable tax treatment under Section 423 of the Internal Revenue Code. Generally, the ESPP will be implemented through a series of offering periods of six months' duration, with new offering periods commencing on the first trading day on or after August 1 and February 1 of each year. However, the first offering period will commence on the first trading day after the closing of the offering and will expire on July 31, 2000. Generally, shares may be purchased at the end of each offering period but during the initial offering period shares may be purchased at the end of each of July 31, 1999, January 31, 2000 and July 31, 2000.

The ESPP will be administered by the compensation committee of our board of directors. Each employee of ours or of any majority-owned subsidiary of ours who has been employed by us or a majority-owned subsidiary for at least 5 days and for more than 20 hours per week and more than five months per year will be eligible to participate in the ESPP. The ESPP permits an eligible employee to purchase common stock through payroll deductions, which may not exceed 10% of his or her compensation, at a price equal to 85% of the lesser of the fair market value of the common stock at the beginning of the offering period and the fair market value of the common stock at the end of each purchase period. Employees may terminate their participation in the ESPP at any time during the offering period, but they may not change their level of participation in the ESPP at any time during the offering period. Participation in the ESPP terminates automatically on the participant's termination of employment with us.

We maintain a 401(k) plan, a defined contribution plan intended to qualify under Section 401 of the Internal Revenue Code, that covers all employees who satisfy specified eligibility requirements relating to minimum age, length of service and hours worked. Under the profit-sharing portion of the plan, we may make an annual contribution for the benefit of eligible employees in an amount determined by the board of directors. We have not made any contributions to date and currently have no plans to do so. Under the 401(k) portion of the plan, eligible employees may make pretax elective contributions of up to 15% of their compensation, subject to maximum limits on contributions prescribed by law.

CERTAIN TRANSACTIONS

SALES OF COMMON STOCK AND PREFERRED STOCK

Since our inception in November 1995, we have issued, in private placement transactions, shares of common stock and preferred stock to directors, executive officers, 5% stockholders, and other purchasers included in the descriptions below, as follows:

We issued 600,000, 400,000, 333,333 and 250,000 shares of common stock, respectively, to Samir Arora, David Kleinberg, Clement Mok and Sal Arora, the founders of NetObjects on December 21, 1995. The purchase price of the shares of common stock was \$0.09 per share. The founders issued three-year full recourse promissory notes as consideration for the issuance of the shares, in the total principal amount of \$142,500, which bear interest at 8% annually and are secured by the shares. As of December 31, 1998, the total principal balance of the notes was \$112,500, of which \$90,000 was repaid in March 1999. The remaining note for \$22,500 owed by Sal Arora has been extended for one year.

We issued 166,666 and 1,666,666 shares of Series A preferred stock, respectively, to Studio Archetype and Rae Technology, respectively, on December 21, 1995. The purchase price of the shares was \$0.90 per share. All but 651,945 of the shares were exchanged for IBM common stock and were cancelled in connection with IBM's acquisition of approximately 80% of our stock in April 1997, and remained outstanding at December 31, 1998. Our relationships with Rae Technology and Studio Archetype are described in "--Transactions with Rae Technology and Studio Archetype-- Rae Technology" and "--Studio Archetype."

We issued a total of 2,083,333 shares of Series B preferred stock to Norwest Equity Partners V, 2,233,333 shares collectively to Venrock Associates, Venrock Associates II, L.P., and one of their affiliates, and 150,000 shares of Series B preferred stock to John Sculley, on February 2, 1996. The purchase price of the shares was \$1.20 per share. All of the shares were exchanged for IBM common stock and cancelled in connection with IBM's acquisition of approximately 80% of our stock in April 1997.

In December 1996, we agreed to issue warrants for the purchase of a total of 6,863,426 shares of Series C preferred stock to a group of institutional investors led by Perseus U.S. Investors, L.L.C. that also included Norwest Equity Partners V, Venrock Associates and John Sculley who, together with other existing investors agreed to exercise the warrants as needed to enable us to obtain additional financing of approximately \$1 million under an existing secured loan agreement with a bank. We also received \$275,000 in loans from Norwest and Venrock. On exercise of the warrants, we issued a total of 3,476,090 shares, 304,492 shares, 295,355 and 21,920 shares of Series C preferred stock, respectively, to Perseus U.S. Investors, L.L.C., Norwest Equity Partners V, Venrock Associates, L.P. and Venrock Associates II, L.P., collectively, and John Sculley respectively, on various dates between December 1996 and March 1997 and 515,070 shares to other entities and individuals who are not directors, executive officers or 5% stockholders. The exercise price under the warrants was approximately \$1.82 per share. All of the shares were exchanged for IBM common stock and cancelled in connection with IBM's acquisition of approximately 80% of our stock in April 1997. On February 9, 1999, Norwest exercised its remaining warrant for 591,855 shares of Series C preferred stock by providing a cash payment to us. On March 23, 1999, warrants were exercised for the purchase of 60,369 shares of Series C Preferred Stock. As of March 31, 1999, warrants to purchase a total of 1,478,306 shares of Series C preferred stock were held by Perseus, Venrock and Mr. Sculley, and warrants to purchase 119,969 shares of Series C preferred stock were held by other entities and individuals who are not directors, executive officers and 5% stockholders, at an exercise price of approximately \$1.82 per share. These warrants will automatically be surrendered on a cashless exercise basis by surrendering shares of common stock as payment of the exercise price upon the closing of this offering, if not exercised earlier. One of our directors is a

member of Perseus U.S. Investors, L.L.C., and three of our directors are members of Perseus Capital, L.L.C., an affiliate of Perseus U.S. Investors, L.L.C.

In connection with IBM's acquisition of approximately 80% of our stock on April 11, 1997, we issued a warrant to IBM to purchase up to 3,482,838 shares of Series E preferred stock at an exercise price of approximately \$6.68 per share. IBM's warrant to purchase shares of Series E preferred stock expires on April 11, 2000.

In October and December 1998, we issued convertible notes in the amount of approximately \$10.1 million and \$825,000 to IBM and Perseus Capital, L.L.C., respectively. The notes may be converted into 1,512,257 and 123,526 shares of Series E-2 preferred stock at any time and convert automatically on the closing of an initial public offering of at least \$20.0 million of stock. We also issued warrants to purchase up to 151,335 shares and 12,379 shares of Series E-2 preferred stock, to IBM and Perseus Capital, L.L.C., respectively, at an exercise price of approximately \$6.68 per share, the same price at which the related notes convert. Each share of Series E-2 preferred stock will be automatically converts into common stock upon the effectiveness of the offering and due to an adjustment triggered by our failure to complete this or a similar offering or repay the convertible notes prior to specific dates, the earliest of which was April 8, 1999, the conversion ratio has increased from 1:1 to 1.25:1. The Series E-2 preferred stock warrants are exercisable for five years after their issuance dates. All of the warrants to purchase Series E-2 preferred stock permit a cashless exercise by surrendering shares of common stock as payment of the exercise price automatically at the closing of this offering. On February 4, 1999, IBM agreed to purchase up to approximately \$3.5 million of notes and additional warrants, at our option, up to the date of closing of the offering. The notes are similar to the earlier issued notes, but are not convertible into preferred stock. The warrants are identical to the earlier issued warrants and represent the right to purchase 51,771 shares of Series E-2 preferred stock. We issued a note in the amount of \$2.0 million and a warrant to purchase 30,012 shares of Series E-2 preferred stock to IBM on February 18, 1999 under the February 4, 1999 agreement. On March 23, 1999 we issued a note in the amount of approximately \$1.41 million and a warrant to purchase 21,323 shares of Series E-2 preferred stock to IBM. IBM has the right to require us to repay all indebtedness under the additional notes in full upon the closing of the offering.

On April 11, 1997, we issued 10,495,968 shares of Series E preferred stock to IBM at a purchase price of approximately \$6.68 per share. In addition, we granted the four founders the right to purchase Series E preferred stock in three equal installments before April 10, 1998 at the same price paid by IBM in April 1997. On various dates between June 30, 1997 and March 31, 1998, we issued a total of 299,457, 84,622, 17,891 and 4,596 shares of Series E preferred stock, respectively, at a purchase price of approximately \$6.68 per share, to Samir Arora, David Kleinberg, Clement Mok and Sal Arora.

On March 14, 1997, we issued warrants to purchase 274,604, 105,511, 73,190, 109,783, 188,636, 13,581 and 10,551 shares of Series F preferred stock, originally classified as Series D preferred stock, respectively, at a purchase price of \$10.80 per share, to Perseus U.S. Investors, L.L.C., Rae Technology, LLC, Venrock Associates, L.P., Venrock Associates II, L.P., Norwest Equity Partners V, John Sculley and Studio Archetype, respectively. On December 23, 1997, we issued a warrant to purchase 83,333 shares of Series F preferred stock, at a purchase price of \$10.80 per share, to IBM Credit Corp. These warrants are exercisable for three years from the date of issuance. The holders of the warrants may surrender them on a cashless exercise basis by surrendering shares of common stock as payment of the exercise price on or after the closing of this offering and before the expiration date.

Novell purchased 333,333 shares of our Series F-2 preferred stock for \$9.00 per share, under a stock purchase agreement dated October 16, 1998. Under the stock purchase agreement, Novell has

"observer rights" at meetings of our board of directors so long as Novell remains the beneficial owner of not less than 1% of our stock, assuming the exercise or conversion of all options and warrants. In addition, Christopher M. Stone, an Executive Vice President of Novell, is one of our directors. Novell also acquired a warrant for the purchase of up to 16,666 shares of Series F-2 preferred stock at an exercise price \$9.00 per share under the stock purchase agreement. The warrant may be exercised between January 1, 2001 and December 31, 2003, but only if we have not completed an initial public offering of our securities resulting in total cash proceeds of at least \$30 million by December 31, 2000.

MC Silicon Valley, Inc., a subsidiary of Mitsubishi, acquired 55,555 shares of our Series F-2 preferred stock at a price per share of \$9.00, under the terms of a stock purchase agreement dated October 28, 1998. Mitsubishi is also our master distributor in Japan.

TRANSACTIONS WITH RAE TECHNOLOGY AND STUDIO ARCHETYPE

RAE TECHNOLOGY. In connection with our formation, Rae Technology and we entered into a technology transfer agreement dated December 21, 1995 under which Rae Technology granted us, among other things, an exclusive, perpetual, transferable, worldwide and royalty-free license, with a right of sublicense, to use technologies referred to as "SOLO" for all commercial applications on commercial online networks, and all rights to the trademark "NetObjects." In exchange for our original license and other intangible property we issued 1,666,666 shares of Series A preferred stock to Rae Technology. We also purchased assets and equipment, and assumed lease obligations, of Rae Technology and subleased 90% of Rae Technology's office space. Samir Arora, one of our founders, our Chairman, Chief Executive Officer and President, is the President and Chief Executive Officer and a director of Rae Technology, and Mr. Arora, David Kleinberg, our Executive Vice President, Desktop Products and Online Services, Morris Taradalsky, our Executive Vice President, Server Products and Professional Services, and Sal Arora, Vice President, Engineering, Desktop Products and Online Services, collectively own approximately 90% of the outstanding equity interests of Rae Technology. Messrs. Arora, Kleinberg and Arora also acquired shares of common stock in connection with our formation.

In March 1997, in connection with IBM's April 1997 acquisition of approximately 80% of our stock, Rae Technology and we amended the technology transfer agreement to expand our rights to SOLO and the "NetObjects" trademark as they existed at the time and to limit Rae Technology's rights to SOLO and our modifications to it from February 2, 1996 to December 31, 1998. As a result, Rae Technology now has a non-transferable, perpetual, royalty-free non-exclusive license to create and sell single user software programs primarily intended to be used by individuals to manage personal data such as personal contacts, events, schedules, tasks, projects, notes, pictures, lists of files and other personal information.

On April 10, 1997, Rae Technology and we entered into a patent transfer and license agreement under which we assigned all of our rights to four U.S. patent applications and related rights and inventions and reserved for ourselves a non-exclusive, perpetual, royalty-free, worldwide, irrevocable license to all of the transferred rights and inventions, including any patents that issue on them. Two patents have issued to date. The patent agreement was entered into in connection with Rae Technology's amendment of the technology transfer agreement in March 1997. Under the patent agreement we are entitled to receive 85% of all license revenues earned by Rae Technology and its affiliates from the transferred rights. We are obligated to reimburse Rae Technology for all patent prosecution expenses and fees that are not offset by Rae Technology's share of the licensing revenues. To date, Rae Technology has not earned any licensing revenues, and we have reimbursed Rae Technology a total of approximately \$41,000. We have the right to reacquire all of the transferred rights, including issued patents, from Rae Technology under a number of circumstances, including on April 10, 2000 upon payment of a \$5,000 transfer fee to Rae Technology, unless we otherwise determine not to reacquire the rights at that

60

time. We also may reacquire the transferred rights and any patents upon the occurrence of events of default or Rae Technology's failure to meet licensing revenue thresholds once it begins earning license fees.

STUDIO ARCHETYPE. In connection with our formation, Studio Archetype and we entered into a technology license agreement dated December 21, 1995, under which Studio Archetype granted to us, among other things, a non-exclusive, perpetual, transferable, worldwide and royalty-free license, with a right of sublicense, to use intellectual property rights and know-how referred to as the iD System. In exchange for that license agreement, we issued 166,666 shares of Series A preferred stock to Studio Archetype, valued at that time at approximately \$150,000.

IBM RELATIONSHIP

Upon the effectiveness of the merger that resulted in IBM's acquisition of approximately 80% of our stock, Messrs. Dayton, Zisman and Anderegg became directors of our Company. After the offering, IBM will beneficially own approximately 54% of our outstanding stock immediately following the offering, assuming conversion of all outstanding warrants and convertible notes and no exercise of outstanding options and will continue to exercise significant

influence over the election of directors and other corporate matters and over other matters submitted to a vote of our stockholders. We and IBM have entered into numerous transactions and arrangements including the following:

MERGER AGREEMENT. IBM acquired its controlling interest in us on April 11, 1997 pursuant to an agreement and plan of merger dated March 18, 1997 under which IBM acquired 10,495,968 shares of Series E preferred stock for approximately \$6.68 per share, representing at the time approximately 80% of our voting securities. Pursuant to the merger agreement, each preferred stockholder agreed, severally and not jointly, to indemnify IBM and its affiliates against any losses arising from any inaccuracy in, or any breach of, representations and warranties made by us in the merger agreement and any related documents. The obligations of any preferred stockholder to indemnify IBM and its affiliates were to be satisfied only from the preferred stockholder's pro rata portion of the securities and other funds held in escrow in accordance with an escrow agreement. Rae Technology agreed to indemnify IBM and its affiliates, to the extent of Rae Technology's pro rata portion, with respect to any inaccuracy in, or breach of, representations and warranties pertaining to intellectual property transferred by Rae Technology to us at the time of our formation. The preferred stockholders deposited all outstanding shares of, and warrants to purchase shares of, Series A preferred stock, Series C preferred stock and Series F preferred stock held by them and outstanding immediately after the effective time of the merger, and 10% of the IBM common stock issued to them under the merger agreement into an escrow to secure the payment of the indemnification obligations described above. The shares of IBM common stock held in escrow were released without claims or offset in April 1998. The escrow agreement provides that the remaining escrowed securities will be released to the preferred stockholders on April 11, 1999, or promptly thereafter, subject to any claims for indemnification or set-off.

In connection with the merger agreement, IBM also paid \$250,000 for a warrant to acquire 3,482,838 more shares of Series E preferred stock at an exercise price of approximately \$6.68 per share. During the same time period, we and IBM also entered into a number of other agreements, including a stockholders' agreement, a patent license agreement and a software license agreement, each of which is discussed below, and a registration rights agreement.

STOCKHOLDERS' AGREEMENT. On March 18, 1997, NetObjects, IBM and some of our stockholders executed a stockholders agreement that, among other things, provided for "freedom of action" for IBM and its affiliates to compete with us without liability for breach of any fiduciary duty or for usurping any "corporate opportunity." These protections extended to IBM's representatives on the board of directors. The stockholders' agreement required approval by our board of directors before our taking a number of actions, and these restrictions were incorporated into Section 3.14 of our

61

amended and restated bylaws. The stockholders' agreement was terminated in connection with the offering, but the "freedom of action" provisions are contained in our restated certificate of incorporation.

PATENT LICENSE AGREEMENT. On April 10, 1997, we and IBM executed a patent license agreement that grants IBM a non-exclusive, royalty-free, perpetual license to our patents as they are issued.

SOFTWARE LICENSE AGREEMENT. On March 18, 1997, we and IBM executed a 10-year software license agreement which provides for payment of royalties by IBM to us in connection with sales of product bundles that include our products and for payment to us for services performed in connection with the IBM WebSphere project. Between March 18, 1997 and December 31, 1997, IBM made nonrefundable prepayments to us totaling \$10.5 million, which were recorded as deferred revenues. As a result, any payments under the agreement, which include services, royalty and internal license fee payment components, are credited against the prepaid amount. This license agreement has been amended a number of times. Under the software license agreement we are obligated to place all of our source code into an escrow. IBM may obtain access to the source code upon events of default related to our failure to provide required maintenance and support or our bankruptcy or similar event of financial reorganization. IBM may use the source code that it obtains to create derivative works, which it will own subject to our rights in the underlying software. Additional terms of the

software license agreement and its amendments are as follows:

- Amendment Number 1 and Amendment Number 4 license IBM to use our products in its internal operations for a one-time fee of \$402,000 through April 30, 1998. The license was initially, for 3,000 copies but now provides for an unlimited quantity. After April 30, 1998, IBM can pay for upgrade copies at an annual rate of 25% of \$402,000 or at a per copy royalty rate. Amendment No 4 also sets forth royalty rates for our products if they are bundled and sold by IBM with IBM products. These rates are based on the percentage which the value of the NetObjects product bears to the total value of all of the other products in the bundle. If the value of our product is equivalent to or less than the total value of all of the other products in the bundle, we receive 37% of IBM's average selling price for a stand-alone license of our product during a calendar quarter. If the value of our product is more than the value of the other products, we receive 69% of IBM's average selling price for a stand-alone license of our product during a calendar quarter. If IBM sells our products alone, we receive 75% of IBM's average selling price for a stand-alone license of our product during a calendar quarter.
- In Amendment Number 3 and Amendment Number 7, IBM agreed to translate our software into languages other than English for which we are required to pay 115% of the costs associated with the translation. The costs are recovered through the sales of our products outside of the United States by IBM and Lotus by reducing the royalty rate otherwise due to us by 50%.
- We became an IBM "Business Partner" under Amendment Number 5 which permits us to resell IBM products and pay IBM 50% of the royalty payment received by us.
- We agreed to perform services for IBM to make our products compatible with and to integrate our products with IBM's WebSphere products in Amendment Number 6 and Amendment Number 8. Under Amendment Number 6 we were to receive a minimum amount of license fees equal to the total amount of our expenditures on the project, plus a 20% profit margin. Amendment No. 8 modified our arrangement to provide for our receipt of services revenues equal to the total amount of our expenditures plus a 5% profit margin instead. These amendments further provide for us to receive license fees on bundles of our products

62

with IBM's WebSphere products calculated, generally, at 50% of the applicable software license agreement royalty rate, as described above.

- IBM has paid us \$350,000 for providing a software component for IBM's wireless group.
- We have entered into letter agreements subject to all other terms of the software license agreement to bundle NetObjects Fusion with Lotus' Designer for Domino. Initially, the letter agreement committed Lotus to pay us a minimum of \$4.0 million in license fees for 200,000 copies of NetObjects Fusion through September 30, 1998. In January 1999, we signed a new letter agreement that extended the term to June 30, 1999 and increased the minimum amount of license fees by \$500,000 and the minimum number of copies by 25,000. We recently entered into a new contract to bundle NetObjects Fusion with Lotus Designer Application Studio for Domino R5, which expires on December 31, 1999. There are no commitments for a minimum number of copies or minimum license fees under this new contract.

OTHER LICENSE AGREEMENTS. We also entered into a trademark license agreement with IBM that permits IBM to use our NetObjects TopPage trademark on products developed by IBM in Japan. IBM will pay us fifty cents for each use.

IBM granted us a license to reproduce and create derivative works from and to distribute a value-added version of IBM's Build-IT software until IBM

terminates the license. We must pay IBM 10% of the gross revenues received when we distribute the software. There is a minimum royalty of \$5 and a maximum royalty of \$20 per software bundle.

LOAN AND SECURITY AGREEMENT. On December 23, 1997, we and IBM Credit Corp. executed a revolving loan and security agreement, as amended, against which we have drawn approximately \$19 million in total principal amount and issued convertible revolving credit notes to IBM Credit Corp. for a corresponding amount. The revolving notes bear interest at LIBOR plus 1.5%. In the event of our default under the revolving notes, IBM Credit Corp. has the right to convert the unpaid balance into shares of common stock at the lower of approximately \$6.68 per share or a price determined by independent appraisal. To secure our obligations under the loan agreement, we granted a recorded first priority security interest in all of our assets, including intangible assets, to IBM Credit Corp. IBM has guaranteed our obligations under the revolving notes. We would not have been able to obtain a \$19.0 million loan from an independent third party without the guarantee from IBM. We were not in compliance with a financial covenant in the loan agreement concerning the amount of our operating losses as of December 31, 1998, but on February 3, 1999, IBM Credit Corp. waived our compliance through December 31, 1998 and has since agreed to take no action with respect to our noncompliance through May 31, 1999. We will use proceeds from this offering to repay the credit facility, and it will terminate upon repayment.

NOTE AND WARRANT PURCHASE AGREEMENT. We and IBM are parties to a note and warrant purchase agreement dated October 8, 1998, pursuant to which we have issued convertible notes in the aggregate principal amount of approximately \$10.1 million and \$825,000, respectively, to IBM and Perseus Capital, L.L.C., an affiliate of Perseus U.S. Investors, L.L.C. The principal and interest due under the convertible notes will be converted into shares of common stock upon closing of this offering. The convertible notes are secured by a security interest in all of our assets and properties that is second in priority to the security interest we granted to IBM Credit Corp. On February 4, 1999, we and IBM amended the note and warrant purchase agreement to permit us to sell up to \$3.45 million of notes and additional warrants to IBM. These notes will be payable in full upon the closing of this offering.

VOTING AGREEMENT. In January 1999, we entered into a voting agreement with IBM. For a description of the terms of this agreement, see "Management--Contractual Arrangements."

63

STRATEGIC RELATIONSHIPS. We have a number of relationships with IBM and its subsidiary, Lotus, under which some of our products are offered for sale through a variety of IBM and Lotus channels, all of which are governed by the terms of the software license agreement. The software license agreement has been amended several times, and letter agreements have been entered into under a specific provision of the license agreement to address these relationships. During fiscal year 1998, approximately 36% of our total revenues were derived from IBM. As long as we remain a subsidiary of IBM we may receive greater access to customers and marketing activities, including advertising, direct marketing, tradeshow and seminars, and advertising media rates that are significantly lower than those generally available to a company of our size in our industry.

DISTRIBUTION AGREEMENT WITH NOVELL

We also have a strategic relationship with Novell. On September 30, 1998, Novell agreed to bundle NetObjects Fusion with Novell's NetWare for Small Business product offering under a license agreement through which we receive royalties on a per unit basis as products are sold by Novell. This license agreement continues through September 30, 1999 and will automatically renew for additional one year periods unless terminated by either party. After the first renewal year, either party may terminate the agreement on 90 days' written notice. Christopher M. Stone, an Executive Vice President with Novell, will become a director of NetObjects as of the offering date.

OUTSIDE DIRECTOR OPTION GRANTS AND EXPENSES

Effective on the closing of the offering, we will grant stock options to Messrs. Sculley and Stone that will entitle each of them to purchase up to 20,000 shares of common stock at an exercise price equal to the public offering price, vesting over four years. We also have granted an option to Mr. Sculley to purchase up to 50,000 shares of common stock at an exercise price of \$7.50, vesting over four years, and will reimburse him for some expenses incurred in

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of the common stock as of March 31, 1999, assuming conversion of all shares of preferred stock into common stock, and as adjusted to reflect the sale of 6,000,000 shares of common stock in the offering for (a) each person known to us to own beneficially more than 5% of the common stock, (b) each of our directors, (c) each of the named executive officers and (d) all executive officers and directors as a group. Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission, or the Commission, and includes shares over which the beneficial owner exercises voting or investment power. Shares of common stock subject to options or warrants currently exercisable or exercisable within 60 days of March 31, 1999 are deemed outstanding for the purpose of computing the percentage ownership of the person holding the options or warrants, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Except as otherwise indicated, and subject to community property laws where applicable, we believe, based on information provided by these persons, that the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them:

<TABLE>
<CAPTION>

NAME	COMMON STOCK			
	NUMBER OF SHARES BENEFICIALLY OWNED	NUMBER OF SHARES ISSUABLE ON EXERCISE OF OUTSTANDING WARRANTS	NUMBER OF SHARES ISSUABLE ON EXERCISE OF OUTSTANDING OPTIONS WITHIN 60 DAYS OF MARCH 31, 1999	PERCENT OWNERSHIP BEFORE OFFERING
<S>	<C>	<C>	<C>	<C>
International Business Machines Corporation (1).. New Orchard Road Armonk, NY 10504	14,119,537	3,623,569		76.0%
Samir Arora (2)..... c/o NetObjects, Inc. 301 Galveston Drive Redwood City, CA 94063	1,669,479	10,551	121,875	11.1
Perseus, L.L.C.(3)..... The Army and Navy Club Building 16271 I Street, N.W., Suite 610 Washington, D.C. 20006	925,397	765,148		5.9
Kenneth Socha (4).....	925,397	765,148		5.9
Frank Pearl (4).....	925,397	765,148		5.9
David Kleinberg (5)..... c/o NetObjects, Inc. 301 Galveston Drive Redwood City, CA 94062	774,461	3,137	81,250	5.2
Morris Taradalsky (6).....	89,818	356	69,443	*
Mark Patton.....	76,493		76,493	*
John Sculley.....	37,504	37,504		*
Michael J. Shannahan.....	42,881		42,881	*
Robert G. Anderegg.....	0			*
Lee A. Dayton.....	0			*
Michael D. Zisman.....	0			*
All directors and executive officers as a group (8 persons) (7).....	2,490,215	48,055	391,942	16.3%

<CAPTION>

NAME	AFTER OFFERING
<S>	<C>
International Business Machines Corporation (1).. New Orchard Road Armonk, NY 10504	57.6%
Samir Arora (2)..... c/o NetObjects, Inc. 301 Galveston Drive Redwood City, CA 94063	7.9
Perseus, L.L.C.(3)..... The Army and Navy Club Building 16271 I Street, N.W., Suite 610 Washington, D.C. 20006	4.2
Kenneth Socha (4).....	4.2

Frank Pearl (4).....	4.2
David Kleinberg (5).....	3.7
c/o NetObjects, Inc. 301 Galveston Drive Redwood City, CA 94062	
Morris Taradalsky (6).....	*
Mark Patton.....	*
John Sculley.....	*
Michael J. Shannahan.....	*
Robert G. Anderegg.....	*
Lee A. Dayton.....	*
Michael D. Zisman.....	*
All directors and executive officers as a group (8 persons) (7).....	11.7%

</TABLE>

* Less than 1%.

- (1) Includes 2,118,789 shares of common stock issuable on conversion of outstanding convertible notes.
- (2) Includes 299,457 shares owned by Information Capital LLC, wholly owned by Mr. Arora. Also includes 592,677 shares of common stock and 10,551 shares of common stock issuable on exercise of outstanding warrants to purchase convertible preferred stock owned by Rae Technology because he is its President and owns a majority of its equity interests. Mr. Arora exercises sole voting and dispositive power over the shares held by Rae Technology, but disclaims

65

beneficial ownership of the Rae Technology shares except to the extent of his pecuniary interest therein. Sal Arora is the brother of Samir Arora.

- (3) Perseus U.S. Investors, L.L.C. holds 758,291 shares of common stock issuable on exercise of warrants, and Perseus Capital, L.L.C. holds 6,857 shares of common stock issuable on exercise of warrants. Includes 160,249 shares of common stock issuable on conversion of outstanding convertible notes held by Perseus Capital, L.L.C. Perseus, L.L.C. is the manager of Perseus U.S. Investors, L.L.C. and the indirect manager of Perseus Capital, L.L.C. Three of our directors, Messrs. Sculley, Zisman and Arora, are members of Perseus Capital, L.L.C. and one director, Mr. Sculley, is also a member of Perseus U.S. Investors, L.L.C. They have no voting or dispositive power over shares held by the Perseus entities and disclaim beneficial ownership of all common stock held by the Perseus entities except to the extent of their respective pecuniary interests therein.
- (4) The individuals or entities listed have sole or shared voting and dispositive power over the shares. Each party disclaims beneficial ownership of the shares except to the extent of any pecuniary interest in the shares.
- (5) Includes 176,909 shares of common stock and 3,370 shares of common stock issuable on exercise of outstanding warrants to purchase convertible preferred stock, which is Mr. Kleinberg's pro rata share of securities held by Rae Technology.
- (6) Includes 20,018 shares of common stock and 356 shares of common stock issuable on exercise of outstanding warrants to purchase convertible preferred stock, which is Mr. Taradalsky's pro rata share of securities held by Rae Technology.
- (7) Includes securities held by Rae Technology, of which three of our executive officers are members, owned or controlled by officers of NetObjects.

66

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock and provisions of our restated certificate of incorporation and restated bylaws is a summary only and is not a complete description. The descriptions of the common stock and preferred stock reflect changes to our capital structure, including the conversion of outstanding preferred stock into common stock and the deletion of references to Series A, Series B, Series C, Series E, Series E-2, Series F and Series F-2 preferred stock, that will occur on effectiveness of the offering under the terms of our restated certificate of incorporation.

Upon completion of the offering our authorized capital stock will consist of 60,000,000 shares of common stock, par value \$0.01 per share, and 6,000,000 shares of preferred stock, par value \$0.01 per share.

COMMON STOCK

As of March 31, 1999, 2,182,750 shares of common stock were outstanding and held of record by 110 stockholders, assuming no exercise after March 31, 1998 of outstanding options or warrants. Each holder of common stock is entitled to the following:

- one vote per share;
- dividends as may be declared by our board of directors out of funds legally available therefor subject to the rights of any preferred stock that may be outstanding; and
- his, her or its pro rata share in any distribution of our assets after payment or providing for the payment of liabilities and the liquidation preference of any outstanding preferred stock in the event of liquidation.

Holders of common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any shares of our common stock or other securities. All the outstanding shares of common stock are fully paid and nonassessable. As of March 31, 1999, 2,900,087 shares of common stock were issuable upon exercise of outstanding options at a weighted average exercise price of \$3.13 per share.

PREFERRED STOCK

Our board of directors has the authority, subject to any limitations prescribed by Delaware law, to issue shares of preferred stock in one or more series and to fix and determine the relative rights and preferences of the shares constituting any series to be established without any further vote or action by the stockholders. Any shares of preferred stock so issued may have priority over the common stock with respect to dividend, liquidation and other rights. On closing of the offering, no shares of preferred stock will be outstanding. We have no current intention to issue any shares of preferred stock.

WARRANTS TO PURCHASE PREFERRED STOCK

As of March 31, 1999, we had outstanding warrants to purchase:

- 1,598,275 shares of Series C preferred stock at an exercise price of approximately \$1.82 per share which will terminate automatically on the closing of the offering through cashless exercise by surrender of shares of common stock as payment of the exercise price;
- 3,482,838 shares of Series E preferred stock at an exercise price of approximately \$6.68 per share which will expire on April 11, 2000;
- 215,049 shares of Series E-2 preferred stock at an exercise price of approximately \$6.68 per share which will expire between October 2003 and February 2004;
- 16,666 shares of Series F-2 preferred stock at an exercise price of approximately \$9.00 per share which will terminate on the closing of the offering without becoming exercisable; and
- 916,666 shares of Series F preferred stock at an exercise price of

approximately \$10.80 per share which will expire between March 2000 and December 2000.

67

The warrants to purchase shares of Series E preferred stock, Series E-2 preferred stock and Series F preferred stock will be exercisable for an equivalent number of shares of common stock following the offering. For more detail about the warrants to purchase preferred stock, see "Certain Transactions--Sales of Common Stock and Preferred Stock."

VOTING AND OTHER MATTERS

The Board may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, under some circumstances, have the effect of delaying, deferring or preventing a change of control.

ANTITAKEOVER EFFECTS OF PROVISIONS OF NETOBJECTS' RESTATED CERTIFICATE OF INCORPORATION AND AMENDED AND RESTATED BYLAWS

The restated certificate of incorporation contains provisions relating to the rights and powers of IBM that could have the effect of delaying, deferring or preventing a change in control of NetObjects. For a description of the risks associated with IBM's control of us, see "Risk Factors-- Our relationship with IBM will substantially change after the offering which could harm our business after the offering and could cause our revenues in fiscal year 1999 to fall below those of fiscal year 1998."

Special meetings of the stockholders may be called only by the board of directors, the Chairman of the board of directors, the Chief Executive Officer or any holder of at least 25% of our outstanding common stock. The amended and restated bylaws provide that stockholders seeking to bring business before, or to nominate directors at, an annual meeting of stockholders must provide timely notice thereof in writing. To be timely, a stockholder's notice must be received by our Secretary not less than 120 calendar days nor more than 150 calendar days before the date of our proxy statement sent to stockholders for the prior year's annual meeting. The amended and restated bylaws also contain notice provisions in the event that no annual meeting was held in the previous year, or if the date of the applicable annual meeting has been changed by more than 30 days. The amended and restated bylaws also contain specific requirements for the form of a stockholder's notice. These provisions may preclude or deter some stockholders from bringing matters before the stockholders or from making nominations of directors, and may have the effect of delaying, deferring or preventing a change in control of our company.

CONTRACTUAL AGREEMENTS RELATING TO VOTING

Under the voting agreement, IBM has agreed, in some circumstances, that it shall not be permitted to elect more than three of the six directors, notwithstanding its position as our majority stockholder. For a description of the terms of this agreement, see "Management--Contractual Arrangements."

WAIVER OF DELAWARE ANTITAKEOVER STATUTE

Section 203 of the DGCL generally prohibits a publicly-held Delaware corporation from engaging in a merger, asset sale or other transaction resulting in a financial benefit with any person who, together with affiliation and association, owns, or within three years, did own, 15% or more of a corporation's voting stock. The prohibition continues for a period of three years after the date of the transaction in which the person became an owner of 15% or more of the corporation's voting stock unless the business combination is approved in a prescribed manner. The statute could prohibit or delay, defer or prevent a "change in control" with respect to NetObjects. However, we have waived the provisions of Section 203 by an amendment to our restated certificate of incorporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is EquiServe.

68

SHARES ELIGIBLE FOR FUTURE SALE

If our stockholders sell substantial amounts of our stock in the public market following the offering, then the market price of our stock could fall.

After the offering, 26,112,862 shares of our stock will be outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants. Of those shares, the 6,000,000 shares sold in the offering will be freely tradable except for any shares purchased by our "affiliates," as defined in Rule 144 under the Securities Act. The remaining 20,112,862 restricted shares are "restricted securities," as that term is defined in Rule 144, and may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 or Rule 701, which rules are summarized below. All of our officers and directors and almost all of our stockholders have signed lock-up agreements pursuant to which they have agreed not to sell any shares of common stock, or any securities convertible into or exercisable or exchangeable for common stock, for 180 days after the offering without the prior written consent of BT Alex. Brown. BT Alex. Brown may, in its sole discretion, release all or any portion of the shares subject to the lock up agreements.

The following table depicts securities eligible for future sale:

<TABLE> <S>	<C>
Total shares outstanding.....	26,112,862
Total restricted securities.....	20,112,862
Shares that are freely tradable after the date of this prospectus under Rule 144(k), subject to the 180-day lock-up agreement....	1,439,927
Shares that are freely tradable 90 days after the date of this prospectus under Rule 144 or Rule 701, subject to the 180-day lock-up agreement.....	1,945,753
Shares that are freely tradable 180 days after the date of this prospectus under Rule 144 (subject, in some cases, to volume limitations), under Rule 144(k) or pursuant to a registration statement to register for resale shares of common stock issued on exercise of stock options.....	18,318,973

</TABLE>

Following the offering, we intend to file a registration statement under the Securities Act covering 3,466,702 shares of common stock reserved for issuance under the 1997 Plan, the Special Plan and the ESPP. Upon expiration of the lock-up agreements, at least 1,301,232 shares of common stock will be subject to vested options, based on options outstanding as of March 31, 1999. The registration statement is expected to be filed and become effective prior to expiration of the lock-up agreements; accordingly, shares registered under the registration statement will, subject to Rule 144 volume limitations applicable to "affiliates," be available for sale in the open market immediately after the lock up agreements expire. In addition, 3,110,924 shares of common stock issuable upon exercise of warrants, assuming all outstanding warrants are exercised, all of which are subject to the lock-up agreements, will be eligible for sale following expiration of the lock-up agreements, subject to compliance with Rule 144.

Assuming the exercise of the Series E preferred stock warrant by IBM, the conversion of all Series E preferred stock into common stock and conversion of all Series C preferred stock into common stock, the exercise of warrants for Series F preferred stock and the conversion of all convertible notes and exercise or conversion of the warrants issued under the note and warrant purchase agreement and conversion of all Series E-2 preferred stock, the holders of 17,278,167 shares of common stock and warrants have demand and piggyback registration rights. The exercise of these rights could adversely affect the market price of our stock. For the details of the registration rights, see "--Registration Rights."

In general, Rule 144 provides that any person who has beneficially owned shares for at least one year, including an affiliate, is generally entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1% of the shares of common stock then outstanding, approximately 261,128 shares immediately after the offering, or the reported average weekly trading volume of the common stock during the four calendar weeks immediately preceding the date on which notice of the sale is sent to the Commission. Sales under Rule 144 are subject to manner of sale restrictions, notice requirements and availability of current public information concerning us. A person who is not an affiliate of ours, and who has not been an affiliate within three months prior to the sale, generally may sell shares without regard to the limitations of Rule 144 provided that the person has held the shares for at least two years. Under Rule 144(k), a person who is not deemed to have been an "affiliate" of ours at any time during the 90 days preceding a sale, and who has beneficially

owned the shares proposed to be sold for at least two years, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Any employee, director or officer of ours, or consultant to us, holding shares purchased pursuant to a written compensatory plan or contract, including options, entered into prior to the offering is entitled to rely on the resale provisions of Rule 701, which permit nonaffiliates to sell shares without having to comply with the public information, holding period, volume limitation or notice requirements of Rule 144 and permit affiliates to sell their Rule 701 shares without having to comply with the holding period restrictions of Rule 144, in each case beginning 90 days after the date of this prospectus.

REGISTRATION RIGHTS

Our second amended and restated registration rights agreement provides rights to register shares under the Securities Act to some holders of our capital stock or their permitted transferees. Under the terms of this agreement, if we propose to register any of our securities under the Securities Act in an underwritten primary registration, we must include the shares that we have been requested to register pursuant to "piggyback" rights, subject to any limitation set by the underwriters on the number of shares included in the registration. Also, IBM may require us to use our best efforts, not more than twice, to file a registration statement under the Securities Act, at our expense, with respect to IBM's shares of common stock. None of the shares of any stockholder have been registered for sale in this offering.

Following this offering, IBM also may require us to use our best efforts to file up to two registration statements on Form S-3, at the expense of IBM, provided that the aggregate offering price net of underwriting discounts and commissions for each registration is not less than \$500,000. In addition, any holder of Series E-2 preferred stock and any holder of at least 100,000 shares of Series F-2 preferred stock may require us to use our best efforts to file registration statements on Form S-3, at our expense, to register shares of common stock acquired in connection with the exercise of warrants. IBM may assign its registration rights to any person to whom it transfers at least 1,000,000 shares of common stock.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representatives BT Alex. Brown Incorporated, BancBoston Robertson Stephens and U.S. Bancorp Piper Jaffray Inc., the underwriters' representatives, have severally agreed to purchase from us the following numbers of shares of common stock at the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

UNDERWRITER	NUMBER OF SHARES

<S>	<C>
BT Alex. Brown Incorporated.....	
BancBoston Robertson Stephens.....	
U.S. Bancorp Piper Jaffray Inc.....	

Total.....	6,000,000

</TABLE>

The underwriting agreement provides that the obligations of the underwriters are subject to specified conditions and that the underwriters will purchase all shares of the common stock offered in the offering if any of the shares are purchased.

We have been advised by the underwriters' representatives that the underwriters propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of \$ per share. The underwriters may allow, and the dealers may re-allow, a concession not in excess of \$ per share to other dealers. After the initial public offering, the offering price and other selling terms may be changed by the underwriters' representatives.

We have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to 900,000 additional shares of common stock at the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus. To the extent that the underwriters exercise the option, each of the underwriters will have a firm commitment to purchase approximately the same percentage of the option shares that the number of shares of common stock to be purchased by it in the above table bears to the total number of shares to be sold in the offering. The underwriters may exercise the option only to cover over-allotments made in connection with the sale of the common stock offered in the offering. If purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

At our request, the underwriters have reserved up to 300,000 shares of common stock for sale, at the initial public offering price, to employees and friends of ours through a directed share program. The number of shares of common stock available for sale to the general public in the public offering will be reduced to the extent that employees and friends purchase the reserved shares.

AMOUNTS PAYABLE TO THE UNDERWRITERS

<TABLE>		
<CAPTION>		
	NO EXERCISE	FULL EXERCISE
	-----	-----
<S>	<C>	<C>
Per Share.....	\$	\$
Total.....	\$	
</TABLE>		

We have agreed to indemnify the underwriters against liabilities, including liabilities under the Securities Act of 1933.

Each of our officers, directors and a substantial majority of our stockholders have agreed not to offer, sell, contract to sell or otherwise dispose of, or enter into any transaction which is designed to, or could be expected to result in the disposition of any portion of, any common stock for a period of 180 days after the effective date of the registration statement of which this prospectus is a part, without the prior written consent of BT Alex. Brown Incorporated, except in the case of transfers to charitable organizations or from entities to their partners. Such consent may be given at any time without public notice. We have entered into a similar agreement, except that we may issue, and grant options or warrants to purchase, shares of common stock or any securities convertible into, exercisable for or exchangeable for shares of common stock, pursuant to the exercise of outstanding options and warrants and our issuance of options and stock granted under the existing stock option and stock purchase plans.

The underwriters' representatives have advised us that the underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for the common stock will be determined by negotiation among us and the underwriters' representatives. Among the factors considered in negotiations are prevailing market conditions, our results of operations in recent periods, the market capitalizations and stages of development of other companies that we and the underwriters' representatives believe to be comparable to us, estimates of our business potential, the present stage of our development and other factors deemed relevant.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the common stock. Specifically, the underwriters may over-allot shares of the common stock in connection with this offering, thereby creating a short position in the underwriters' syndicate account. Additionally, to cover over-allotments or to stabilize the market price of the common stock, the underwriters may bid for, and purchase, shares of the common stock in the open market. Any of these activities may maintain the market price of the common stock at a level above that which might otherwise prevail in the open market. The underwriters are not required to engage in these activities, and, if commenced, the activities may be discontinued at any time. The underwriters' representatives, on behalf of the underwriters, also may reclaim selling concessions allowed to an underwriter or dealer, if the syndicate repurchases shares distributed by that underwriter or dealer.

LEGAL MATTERS

The validity of the common stock being offered hereby will be passed upon for NetObjects by McCutchen, Doyle, Brown & Enersen LLP, Palo Alto, California. Alan Kalin, a partner in the firm of McCutchen, Doyle, Brown & Enersen LLP, serves as our Secretary and indirectly beneficially owns 12,060 shares of the common stock. Legal matters in connection with the offering will be passed upon for the underwriters by Cravath, Swaine & Moore, New York, New York.

EXPERTS

The consolidated financial statements and schedule of NetObjects, Inc. as of September 30, 1997 and 1998, and for the period from November 21, 1995 (inception) to September 30, 1996, and for each of the years in the two-year period ended September 30, 1998 included herein and in the registration statement are included in reliance upon the report of KPMG LLP, independent auditors, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

72

The report of KPMG LLP covering the September 30, 1998 consolidated financial statements contains an explanatory paragraph that states that our recurring losses from operations and net capital deficiency raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

CHANGE IN AUDITORS

Ernst & Young LLP was previously our principal accountant. On October 29, 1997, Ernst & Young LLP was dismissed as our principal accountant and KPMG LLP was engaged to audit our consolidated financial statements. The board of directors has approved the appointment of KPMG LLP as our principal accountants.

In connection with the audit for the period from November 21, 1995, our inception, through September 30, 1996, and the subsequent interim period through October 29, 1997, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion on the subject matter of the disagreement.

The audit report of Ernst & Young LLP on our consolidated financial statements as of and for the period from November 21, 1995, our inception, through September 30, 1996 contained a statement that our operating loss since inception raises substantial doubt about our ability to continue as a going concern.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1, including exhibits, schedules and amendments filed with this registration statement, under the Securities Act with respect to the common stock pursuant to be sold under this prospectus. Prior to the offering we were not required to file reports with the Commission. This prospectus does not contain all the information set forth in the registration statement. For further information about NetObjects and the shares of common stock to be sold in the offering, please refer to the registration statement. Statements made in this prospectus concerning the contents of any contract, agreement or other document filed as an exhibit to the registration statement are summaries of the terms of contracts, agreements or documents and are not necessarily complete. Complete exhibits have been filed with the registration statement.

The registration statement and exhibits may be inspected, without charge, and copies may be obtained at prescribed rates, at the Commission's Public Reference facility maintained by the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The registration statement and other information filed with the Commission is available at the web site maintained by the Commission on the world wide web at <http://www.sec.gov>.

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent accountants and quarterly reports for the first three quarters of each fiscal year containing unaudited financial statements.

73

<TABLE>	
<S>	<C>
Form of Independent Auditors' Report.....	F-2
Consolidated Balance Sheets as of September 30, 1997 and 1998 and December 31, 1998 (unaudited).....	F-3
Consolidated Statements of Operations for the period from November 21, 1995 (inception) to September 30, 1996, for the years ended September 30, 1997 and 1998 and for the three month periods ended December 31, 1997 and 1998 (unaudited).....	F-4
Consolidated Statements of Shareholders' Deficit for the period from November 21, 1995 (inception) to September 30, 1996, for the years ended September 30, 1997 and 1998 and for the three month period ended December 31, 1998 (unaudited).....	F-5
Consolidated Statements of Cash Flows for the period from November 21, 1995 (inception) to September 30, 1996, for the years ended September 30, 1997 and 1998 and for the three month periods ended December 31, 1997 and 1998 (unaudited).....	F-6
Notes to Consolidated Financial Statements.....	F-7
</TABLE>	

F-1

FORM OF INDEPENDENT AUDITORS' REPORT

The Board of Directors
NetObjects, Inc.:

When the recapitalization, which includes a change in par value, the number of shares authorized and a reverse stock split, referred to in Note 8 of the Notes to Consolidated Financial Statements has been consummated, we will be in a position to render the following report.

/s/ KPMG LLP

The Board of Directors
NetObjects, Inc.:

We have audited the accompanying consolidated balance sheets of NetObjects, Inc. and subsidiary (the Company), a majority owned subsidiary of IBM Corporation, as of September 30, 1997 and 1998, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the period from November 21, 1995 (inception) to September 30, 1996, and for each of the years in the two-year period ended September 30, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NetObjects, Inc. and subsidiary, a majority owned subsidiary of IBM Corporation, as of September 30, 1997 and 1998, and the results of their operations and their cash flows for the period from November 21, 1995 (inception) to September 30, 1996, and for each of the years in the two-year period ended September 30, 1998, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1(d) to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficit that raises

substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1(d). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Mountain View, California,
December 21, 1998, except as to Note 8,
which is as of , 1998

F-2

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM CORPORATION)
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

<TABLE>
<CAPTION>

	SEPTEMBER 30,		DECEMBER 31, 1998	
	1997	1998	ACTUAL	PRO FORMA (A)
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash.....	\$ 303	\$ 459	\$ 1,288	\$ 5,666
Accounts receivable, net of allowances of \$781, \$2,263, and \$1,789 as of September 30, 1997 and 1998, and December 31, 1998, respectively.....	2,018	2,292	3,074	3,074
Prepaid expenses and other current assets.....	448	754	1,037	1,037
Total current assets.....	2,769	3,505	5,399	9,777
Property and equipment, net.....	1,836	1,640	2,103	2,103
Total assets.....	\$ 4,605	\$ 5,145	\$ 7,502	\$ 11,880
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Short-term borrowings from IBM and IBM Credit Corp.....	\$ --	\$ 20,666	\$ 18,813	\$ 19,000
Short-term borrowings.....	2,050	--	--	--
Accounts payable.....	2,518	4,723	4,461	4,461
Accrued compensation.....	1,041	1,690	1,322	1,322
Other accrued liabilities.....	684	1,066	1,223	1,223
Deferred revenue from IBM.....	6,228	5,121	2,316	2,316
Other deferred revenues.....	61	169	297	297
Current portion of capital lease obligations.....	303	299	286	286
Total current liabilities.....	12,885	33,734	28,718	28,905
Capital lease obligations, less current portion.....	633	336	271	271
Convertible notes from IBM and related party.....	--	--	7,690	--
Total long-term obligations.....	633	336	7,961	271
Total liabilities.....	13,518	34,070	36,679	29,176
Commitments				
Stockholders' deficit:				
Preferred stock, \$0.01 par value; 22,816,333 shares authorized; 11,394,965, 11,576,937 and 11,965,826 shares issued and outstanding as of September 30, 1997 and 1998 and December 31, 1998, respectively, and none outstanding on a pro forma basis as of December 31, 1998 (aggregate liquidation preference of \$75,279,768 as of September 30, 1998).....	107	109	113	--
Common stock, \$0.01 par value; 28,333,333 shares authorized; 1,857,449, 2,001,186, and 2,088,561 shares issued and outstanding as of September 30, 1997 and 1998 and December 31, 1998, respectively, and 20,112,862 shares issued and outstanding on a pro forma basis at December 31, 1998.....	18	20	21	171
Additional paid-in capital.....	15,599	18,318	26,567	39,082
Deferred stock-based compensation.....	--	(541)	(441)	(441)
Notes receivable from stockholders.....	(143)	(113)	(113)	(113)
Accumulated other comprehensive losses.....	--	--	(6)	(6)
Accumulated deficit.....	(24,494)	(46,718)	(55,318)	(55,989)
Total stockholders' deficit.....	(8,913)	(28,925)	(29,177)	(17,296)
Total liabilities and stockholders' deficit.....	\$ 4,605	\$ 5,145	\$ 7,502	\$ 11,880

</TABLE>

(a) Assumes the conversion of all outstanding shares of preferred stock into common stock, the issuance of \$2.6 million in convertible debt, the exercise of warrants to purchase 652,223 shares of Series C preferred stock for cash consideration of \$1.2 million, the accretion of discount on short-term borrowings of \$187,000, the issuance of 2,118,789 shares of common stock, reflecting the conversion of \$10,910,000 of convertible debt and \$417,060 in related interest, the issuance of 3,110,924 shares of common stock upon the cashless exercise of 1,598,277, 3,482,838, 215,050 and 916,668 warrants to purchase Series C, Series E, Series E-2 and Series F convertible preferred stock, respectively at a weighted average exercise price of \$6.04 per share by surrendering shares of common stock as payment of the exercise price, assuming an initial public offering price of \$12.00 per share, the issuance of 82,350 shares of Series E preferred stock at \$6.68 per share, the exercise of options to purchase 92,821 shares of common stock for an average exercise price of \$0.63 per share, repurchases of 27,285 shares of common stock for an average price of \$0.14 per share, and the issuance of 28,653 shares of common stock for services valued at \$275,108.

See accompanying notes to consolidated financial statements.

F-3

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

<TABLE>
<CAPTION>

	PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
		1997	1998	1997	1998
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Software license fees.....	\$ --	\$ 7,392	\$ 9,703	\$ 2,086	\$ 2,622
Service revenues.....	--	--	--	--	190
Software license fees from IBM.....	--	175	2,700	199	1,318
Service revenues from IBM.....	--	--	2,867	--	1,487
Total revenues.....	--	7,567	15,270	2,285	5,617
Cost of revenues:					
Software license fees.....	--	772	2,531	278	495
Service revenues.....	--	--	--	--	184
Service revenues from IBM.....	--	--	2,562	--	1,404
Total cost of revenues.....	--	772	5,093	278	2,083
Gross profit.....	--	6,795	10,177	2,007	3,534
Operating expenses:					
Research and development.....	2,765	8,436	10,231	3,070	2,204
Sales and marketing.....	2,998	12,161	17,114	4,060	4,430
General and administrative.....	978	3,762	3,575	769	894
Stock-based compensation.....	--	--	227	--	100
Total operating expenses.....	6,741	24,359	31,147	7,899	7,628
Operating loss.....	(6,741)	(17,564)	(20,970)	(5,892)	(4,094)
Interest income (expense).....	46	(234)	(1,194)	(168)	(712)
Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	--	--	--	--	(3,792)
Loss before income taxes.....	(6,695)	(17,798)	(22,164)	(6,060)	(8,598)

Income taxes.....	--	1	60	7	2
Net loss.....	\$ (6,695)	\$ (17,799)	\$ (22,224)	\$ (6,067)	\$ (8,600)
Translation adjustment.....	--	--	--	--	(6)
Comprehensive loss.....	\$ (6,695)	\$ (17,799)	\$ (22,224)	\$ (6,067)	\$ (8,606)
Basic and diluted net loss per share.....	\$ (4.10)	\$ (10.45)	\$ (12.26)	\$ (3.47)	\$ (4.40)
Shares used to compute basic and diluted net loss per share.....	1,634,259	1,702,726	1,812,484	1,750,450	1,956,433

</TABLE>

See accompanying notes to consolidated financial statements.

F-4

NETOBJECTS INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) TO SEPTEMBER 30, 1996 AND FOR THE
YEARS ENDED SEPTEMBER 30, 1997 AND 1998
AND FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 1998 (UNAUDITED)
(IN THOUSANDS)

<TABLE>

<CAPTION>

	PREFERRED STOCK									
	SERIES A		SERIES B		SERIES C		SERIES E		SERIES F	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances as of November 21, 1995 (inception).....	--	\$--	--	\$--	--	\$--	--	\$--	--	\$--
Exercise of stock options.....	--	--	--	--	--	--	--	--	--	--
Issuance of common stock.....	--	--	--	--	--	--	--	--	--	--
Issuance of Series A preferred stock in exchange for technology.....	1,833	--	--	--	--	--	--	--	--	--
Issuance of Series B preferred stock, net of \$59 in issuance fees.....	--	--	4,467	45	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--	--	--	--
Balances, September 30, 1996.....	1,833	--	4,467	45	--	--	--	--	--	--
Exercise of stock options.....	--	--	--	--	--	--	--	--	--	--
Issuance of common stock.....	--	--	--	--	--	--	--	--	--	--
Repurchase of restricted stock.....	--	--	--	--	--	--	--	--	--	--
Warrants exercised.....	--	--	27	--	4,821	48	23	--	--	--
Issuance of Series E and F warrants.....	--	--	--	--	--	--	--	--	--	--
Conversion of Series A, B, and C preferred stock to Series E preferred stock.....	(1,181)	--	(4,494)	(45)	(4,821)	(48)	10,495	105	--	--
Issuance of Series E preferred stock.....	--	--	--	--	--	--	225	2	--	--
Net loss.....	--	--	--	--	--	--	--	--	--	--
Balances, September 30, 1997.....	652	--	--	--	--	--	10,743	107	--	--
Exercise of stock options.....	--	--	--	--	--	--	--	--	--	--
Issuance of common stock.....	--	--	--	--	--	--	--	--	--	--
Repurchase of restricted stock.....	--	--	--	--	--	--	--	--	--	--
Warrant to purchase Series F preferred stock.....	--	--	--	--	--	--	--	--	--	--
Issuance of Series E preferred stock.....	--	--	--	--	--	--	182	2	--	--
Repayment of stockholder notes receivable.....	--	--	--	--	--	--	--	--	--	--
Deferred compensation related to stock option grants.....	--	--	--	--	--	--	--	--	--	--
Amortization of stock-based compensation.....	--	--	--	--	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--	--	--	--
Balances, September 30, 1998.....	652	\$--	--	\$--	--	\$--	10,925	\$109	--	\$--

Exercise of stock options (unaudited).....	--	--	--	--	--	--	--	--	--	
Issuance of common stock (unaudited).....	--	--	--	--	--	--	--	--	--	
Repurchase of restricted stock (unaudited).....	--	--	--	--	--	--	--	--	--	
Issuance of in the money convertible debt and warrants to purchase Series E preferred stock (unaudited).....	--	--	--	--	--	--	--	--	--	
Issuance of Series F preferred stock net of \$30 issuance costs (unaudited).....	--	--	--	--	--	--	--	389	4	
Amortization of stock-based compensation (unaudited).....	--	--	--	--	--	--	--	--	--	
Translation adjustment (unaudited).....	--	--	--	--	--	--	--	--	--	
Net loss (unaudited).....	--	--	--	--	--	--	--	--	--	
Balances, December 31, 1998 (unaudited).....	652	\$--	--	\$--	--	\$--	10,925	\$109	389	\$ 4

<CAPTION>

	COMMON STOCK		ADDITIONAL	DEFERRED	NOTES	ACCUMULATED	ACCUMULATED
	SHARES	AMOUNT	PAID-IN CAPITAL	STOCK-BASED COMPENSATION	RECEIVABLE FROM STOCKHOLDERS	OTHER COMPREHENSIVE LOSSES	DEFICIT
<S>	<C>						
Balances as of November 21, 1995 (inception).....	--	\$--	--	--	--	--	--
Exercise of stock options.....	259	3	28	--	--	--	--
Issuance of common stock.....	1,633	16	133	--	(143)	--	--
Issuance of Series A preferred stock in exchange for technology.....	--	--	--	--	--	--	--
Issuance of Series B preferred stock, net of \$59 in issuance fees.....	--	--	5,256	--	--	--	--
Net loss.....	--	--	--	--	--	--	(6,695)
Balances, September 30, 1996.....	1,892	19	5,417	--	(143)	--	(6,695)
Exercise of stock options.....	127	1	15	--	--	--	--
Issuance of common stock.....	2	--	1	--	--	--	--
Repurchase of restricted stock.....	(164)	(2)	(18)	--	--	--	--
Warrants exercised.....	--	--	8,400	--	--	--	--
Issuance of Series E and F warrants.....	--	--	298	--	--	--	--
Conversion of Series A, B, and C preferred stock to Series E preferred stock.....	--	--	(12)	--	--	--	--
Issuance of Series E preferred stock.....	--	--	1,498	--	--	--	--
Net loss.....	--	--	--	--	--	--	(17,799)
Balances, September 30, 1997.....	1,857	18	15,599	--	(143)	--	(24,494)
Exercise of stock options.....	144	2	89	--	--	--	--
Issuance of common stock.....	18	--	116	--	--	--	--
Repurchase of restricted stock.....	(18)	--	(2)	--	--	--	--
Warrant to purchase Series F preferred stock.....	--	--	535	--	--	--	--
Issuance of Series E preferred stock.....	--	--	1,213	--	--	--	--
Repayment of stockholder notes receivable.....	--	--	--	--	30	--	--
Deferred compensation related to stock option grants.....	--	--	768	(768)	--	--	--
Amortization of stock-based compensation.....	--	--	--	227	--	--	--
Net loss.....	--	--	--	--	--	--	(22,224)
Balances, September 30, 1998.....	2,001	\$ 20	18,318	(541)	(113)	--	(46,718)
Exercise of stock options (unaudited).....	103	1	72	--	--	--	--
Issuance of common stock (unaudited).....	5	--	37	--	--	--	--
Repurchase of restricted stock							

(unaudited).....	(20)	--	(2)	--	--	--	--
Issuance of in the money convertible debt and warrants to purchase Series E preferred stock (unaudited).....	--	--	4,676	--	--	--	--
Issuance of Series F preferred stock net of \$30 issuance costs (unaudited).....	--	--	3,466	--	--	--	--
Amortization of stock-based compensation (unaudited).....	--	--	--	100	--	--	--
Translation adjustment (unaudited).....	--	--	--	--	--	(6)	--
Net loss (unaudited).....	--	--	--	--	--	--	(8,600)

Balances, December 31, 1998 (unaudited).....	2,089	\$ 21	26,567	(441)	(113)	(6)	(55,318)

<CAPTION>

	TOTAL STOCKHOLDERS' DEFICIT	

Balances as of November 21, 1995 (inception).....	--	
Exercise of stock options.....	31	
Issuance of common stock.....	6	
Issuance of Series A preferred stock in exchange for technology.....	--	
Issuance of Series B preferred stock, net of \$59 in issuance fees.....	5,301	
Net loss.....	(6,695)	

Balances, September 30, 1996.....	(1,357)	
Exercise of stock options.....	16	
Issuance of common stock.....	1	
Repurchase of restricted stock.....	(20)	
Warrants exercised.....	8,448	
Issuance of Series E and F warrants.....	298	
Conversion of Series A, B, and C preferred stock to Series E preferred stock.....	--	
Issuance of Series E preferred stock.....	1,500	
Net loss.....	(17,799)	

Balances, September 30, 1997.....	(8,913)	
Exercise of stock options.....	91	
Issuance of common stock.....	116	
Repurchase of restricted stock.....	(2)	
Warrant to purchase Series F preferred stock.....	535	
Issuance of Series E preferred stock.....	1,215	
Repayment of stockholder notes receivable.....	30	
Deferred compensation related to stock option grants.....	--	
Amortization of stock-based compensation.....	227	
Net loss.....	(22,224)	

Balances, September 30, 1998.....	(28,925)	
Exercise of stock options (unaudited).....	73	
Issuance of common stock (unaudited).....	37	
Repurchase of restricted stock (unaudited).....	(2)	
Issuance of in the money convertible debt and warrants to purchase Series E preferred stock (unaudited).....	4,676	

Issuance of Series F preferred stock net of \$30 issuance costs (unaudited).....	3,470
Amortization of stock-based compensation (unaudited).....	100
Translation adjustment (unaudited).....	(6)
Net loss (unaudited).....	(8,600)

Balances, December 31, 1998 (unaudited)..... (29,177)

</TABLE>

F-5

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

<TABLE>
<CAPTION>

	PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30, 1997	1998	THREE MONTHS ENDED DECEMBER 31, 1997		1998
				(UNAUDITED)		
	<C>	<C>	<C>	<C>	<C>	
Cash flows from operating activities:						
Net loss.....	\$ (6,695)	\$ (17,799)	\$ (22,224)	\$ (6,067)	\$ (8,600)	
Adjustments to reconcile net loss to net cash used in operating activities:						
Depreciation and amortization.....	88	697	1,104	216	240	
Accretion of discount on borrowings.....	--	--	201	--	191	
Nonrecurring interest charge on beneficial conversion feature of convertible debt.....	--	--	--	--	3,792	
Amortization of deferred stock-based compensation.....	--	--	227	--	100	
Changes in operating assets and liabilities:						
Accounts receivable.....	--	(2,018)	(275)	(93)	(782)	
Prepaid expenses and other current assets.....	(474)	27	(306)	(300)	(283)	
Accounts payable.....	1,759	721	2,205	662	(225)	
Accrued compensation.....	342	699	649	--	(368)	
Other accrued liabilities.....	37	685	382	281	157	
Deferred revenue.....	102	6,186	(999)	4,693	(2,677)	
Interest payable.....	--	--	--	--	208	
Net cash used in operating activities.....	(4,841)	(10,802)	(19,036)	(608)	(8,247)	
Cash flows used in investing activities--purchases of property and equipment.....	(551)	(1,028)	(792)	(214)	(703)	
Cash flows from financing activities:						
Proceeds from short-term borrowings.....	1,000	1,050	21,000	3,083	--	
Repayments of short-term borrowings.....	--	--	(2,050)	(2,050)	(2,000)	
Proceeds from convertible debt.....	--	--	--	--	8,325	
Payment on capital lease obligations.....	(35)	(252)	(300)	(71)	(78)	
Proceeds from sale and leaseback of equipment.....	179	--	--	--	--	
Proceeds from issuance of preferred stock.....	5,301	10,246	1,215	--	3,467	
Proceeds from issuance of common stock.....	39	17	91	2	73	
Repurchases of common stock.....	--	(20)	(2)	--	(2)	
Repayment of shareholder notes receivable.....	--	--	30	--	--	
Net cash provided by financing activities.....	6,484	11,041	19,984	964	9,785	
Effect of exchange rate changes on cash.....	--	--	--	--	(6)	
Net increase (decrease) in cash.....	1,092	(789)	156	142	829	
Cash at beginning of period.....	--	1,092	303	303	459	
Cash at end of period.....	\$ 1,092	303	459	445	1,288	

Supplemental disclosures of cash flow information:

Interest paid.....	\$ 28	\$ 293	\$ 753	\$ --	\$ 350
Noncash investing and financing activities:					
Equipment recorded under capital leases.....	\$ 423	\$ 941	\$ --	\$ --	\$ --
Common stock issued in exchange for notes receivable.....	\$ 143	\$ --	\$ --	\$ --	\$ --
Deferred stock-based compensation.....	\$ --	\$ --	\$ 768	\$ --	\$ --
Discount on borrowings.....	\$ --	\$ 298	\$ 535	\$ 535	\$ 4,676
Stock issued in exchange for services.....	\$ --	\$ --	\$ --	\$ --	\$ 37
Stock issued for property and equipment.....	\$ --	\$ --	\$ 116	\$ --	\$ --

</TABLE>

See accompanying notes to consolidated financial statements.

F-6

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) DESCRIPTION OF BUSINESS

NetObjects, Inc. (the Company) was incorporated in Delaware on November 21, 1995. On March 18, 1997, the Company, and certain stockholders of the Company, entered into an agreement with International Business Machines Corporation (IBM) whereby IBM would acquire all the Company's outstanding shares of Series B and C Preferred Stock and the majority of the outstanding Series A Preferred Stock in exchange for newly issued shares of common stock of IBM (the IBM Transaction). The Series A, B and C Preferred Stock were then converted into Series E Preferred Stock of the Company. The transaction closed on April 11, 1997, and as a result, the Company became a majority-owned subsidiary of IBM. The transaction did not result in a new accounting basis for financial reporting purposes of the Company.

NetObjects develops and markets software applications that enable businesses to build and manage Internet and intranet web sites and applications. In fiscal 1998, the Company changed its fiscal year end from September 30 to the Saturday nearest September 30. For presentation purposes, the consolidated financial statements and notes refer to the calendar month end.

(B) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, NetObjects Limited. All intercompany accounts and transactions have been eliminated in consolidation.

(C) FOREIGN CURRENCY TRANSLATION

The functional currency of the Company's foreign subsidiary is their local currency. Gains and losses arising from the translation of the subsidiary financial statements are reflected as a separate component of stockholders' deficit. Foreign currency transaction losses are shown net on the consolidated statement of operations.

(D) BASIS OF PRESENTATION

The Company has incurred significant operating losses since inception and has significant debt and a capital deficit as of September 30, 1998 that raises substantial doubt about its ability to continue as a going concern. The Company plans to finance its operations by raising additional capital through an initial public offering of its common stock (IPO) and by generating revenues. The

Company's ability to continue as a going concern is dependent upon its successfully completing the IPO. The accompanying financial statements have been prepared assuming the Company will continue as a going concern, the basis of which contemplates the realization of assets through continuing operations. No adjustments have been made to reflect potentially lower realizable values of assets should the Company be unable to continue its operations.

F-7

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

(E) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. Leasehold improvements and assets recorded under capital leases are amortized on a straight-line basis over the lesser of the related asset's estimated useful life or the remaining lease term.

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured as the difference between the carrying amount of the property and equipment and its fair value. To date, the Company has made no adjustments to the carrying values of its long-lived assets.

(F) SOFTWARE DEVELOPMENT COSTS

Software development costs associated with new products and enhancements to existing software products are expensed as incurred until technological feasibility is established upon completion of a working model. To date, the Company's software development has been completed concurrent with the establishment of technological feasibility, and, accordingly, no costs have been capitalized.

(G) INCOME TAXES

Income taxes are recorded using the asset and liability method. The Company's tax provision for all years has been calculated on a stand-alone basis. Deferred tax liabilities and assets are recognized for the expected future tax consequences attributable to differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(H) CONCENTRATION OF CREDIT RISK

Accounts receivable potentially subject the Company to concentrations of credit risk. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral for accounts receivable. When required, the Company maintains allowances for credit losses, and to date such losses have been within management's expectations.

For the years ended September 30, 1997 and 1998, software license fees to one customer were 31% and 29%, of total revenues, respectively. Accounts receivable from the customer represented 51% of accounts receivable as of September 30, 1998. See Note 3 for a discussion of software license fees and service revenues from IBM.

F-8

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Company's principal markets are North America, Europe and Japan. Export sales represented approximately 15% and 16% of revenues for the fiscal years ended September 30, 1997 and 1998, respectively. There were no revenues in fiscal 1996.

(I) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Company's cash, accounts receivable, accounts payable and short-term borrowings approximates their carrying values due to their short maturity or variable-rate structure.

(J) USE OF ESTIMATES

The preparation of 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 reported results of operations during the reporting period. Actual results could differ from those estimates.

(K) REVENUE RECOGNITION

Through September 30, 1998, the Company recognized revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 91-1, SOFTWARE REVENUE RECOGNITION. Software license fees were generally recognized upon delivery to distributors, net of an allowance for estimated returns, price protection and rebates, provided no significant obligations of the Company remained and collection for the resulting receivable was probable. The Company receives inventory on hand and sales information from its significant distributors on a periodic basis. The allowance for returns and price protection is determined based on a comparison of inventory on hand in the distribution channel to historical sales made by the distributors to their respective customers. This analysis is performed on a product line basis to estimate potential excess inventory in the distribution channel. The allowance for rebates is based upon contractual rebate rates certain distributors earn upon selling products to their respective customers. Software license fees earned from products bundled with original equipment manufacturer's (OEM) products are recognized upon the OEM shipping bundled products to its customer. Service revenues from maintenance agreements for support and upgrades of existing products are deferred and recognized ratably over the term of the contract, which typically is 12 months. IBM and Lotus are considered OEMs for purposes of this accounting policy. See Note 3(b) for a discussion of software license fees from IBM. Service revenues for training and consulting services are recognized as the services are performed. See Note 3(b) for a discussion of service revenues from IBM.

In October 1997, the AICPA issued SOP 97-2, SOFTWARE REVENUE RECOGNITION, which supersedes SOP 91-1. SOP 97-2 is effective for transactions entered into during fiscal years beginning after December 15, 1997. Under SOP 97-2, software license revenue is recognized upon delivery of the software and when persuasive evidence of an agreement exists, provided the fee is fixed, determinable and collectible and the arrangement does not involve significant customization of the software.

F-9

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Maintenance and service revenue are recognized in a similar manner as SOP 91-1. In addition, SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements. The fair value of an element must be based on evidence that is specific to the vendor. If a vendor does not have evidence of the fair value for all elements in a multiple-element arrangement, all revenue from the arrangement is deferred until such evidence exists or until all elements are delivered.

In February 1998, the Accounting Standards Executive Committee (AcSEC) of the AICPA issued SOP 98-4, "DEFERRAL OF THE EFFECTIVE DATE OF SOP 97-2". The SOP

defers the effective date for applying the provisions regarding vendor-specific objective evidence ("VSOE") of fair value until the AcSEC can reconsider what constitutes such VSOE.

In December 1998, AcSEC issued SOP 98-9 "SOFTWARE REVENUE RECOGNITION, WITH RESPECT TO CERTAIN ARRANGEMENTS", which requires recognition of revenue using the "residual method" in a multiple element arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method", the total fair value of the undelivered elements is deferred and subsequently recognized in accordance with SOP 97-2.

On October 1, 1998, the Company adopted the provisions of SOP 97-2, SOP 98-4 and SOP 98-9. The Company modified certain aspects of its business model such that any impact from adopting SOP 97-2, SOP 98-4 and SOP 98-9 was not material.

(L) STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans using the intrinsic value method. Deferred stock-based compensation expense is recorded if, on the date of grant, the current market value of the underlying stock exceeds the exercise price. The Company amortizes deferred stock-based compensation in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 28.

(M) NET LOSS PER SHARE

Basic net loss per share is computed using the weighted-average number of outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of shares of common stock outstanding and, when dilutive, potential common shares from options and warrants to purchase common stock using the treasury stock method and from convertible securities using the if-converted basis. All potential common shares have been excluded from the computation of diluted net loss per share for all periods presented because the effect would have been antidilutive. See Notes 7 and 8 for a discussion of potential common shares. Pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued for nominal consideration, prior to the anticipated effective date of the IPO, are included in the calculation of basic and diluted net loss per share as if they were outstanding for all

F-10

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

periods presented. To date, the Company has not had any issuances or grants for nominal consideration.

Diluted net loss per share for the year ended September 30, 1998, does not include the effect of approximately 11,576,937 (on as if converted basis) shares of convertible preferred stock outstanding, 2,472,343 stock options with a weighted-average exercise price of \$1.32 per share, 6,650,006 preferred stock warrants with a weighted-average exercise price of \$5.60 per share, or 88,177 shares of common stock issued and subject to repurchase by the Company at a weighted-average price of \$0.12 per share, because their effects are antidilutive.

Diluted net loss per share for the three months ended December 31, 1998, does not include the effect of approximately 11,965,826 (on as if converted basis) shares of convertible preferred stock outstanding, approximately 1,664,682 shares from the assumed conversion of convertible debt and interest, 2,629,575 stock options with a weighted-average exercise price of \$2.38 per share, 6,830,387 preferred stock warrants with a weighted-average exercise price of \$6.04 per share, or 74,297 shares of common stock issued and subject to repurchase by the Company at a weighted-average price of \$0.12 per share, because their effects are antidilutive.

(N) ACCUMULATED OTHER COMPREHENSIVE LOSSES

Accumulated other comprehensive losses consist entirely of cumulative translation adjustments resulting from the Company's application of its foreign currency translation policy. The tax effects of translation adjustments were not significant.

(O) UNAUDITED INTERIM FINANCIAL INFORMATION

The consolidated financial information as of December 31, 1998 and for the three-months ended December 31, 1997 and 1998 is unaudited, but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the financial position at such dates and the operations and cash flows for the periods then ended. Operating results for the three-months ended December 31, 1998 are not necessarily indicative of results that may be expected for the entire year.

(P) RECENT ACCOUNTING PRONOUNCEMENTS

The FASB recently issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. The Company must adopt SFAS No. 133 by

F-11

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

July 1, 1999. Management does not believe the adoption of SFAS No. 133 will have a material effect on the financial position of the Company.

(Q) ADVERTISING EXPENSE

The cost of advertising is expensed as incurred. Such costs are included in selling and marketing expense and totaled approximately \$376,000, \$4.9 million and \$5.8 million, during the period from November 21, 1995 (inception) through September 30, 1996, and for the years ended September 30, 1997 and 1998, respectively.

(R) EMPLOYEE BENEFIT PLAN

The Company has an Employee Savings and Retirement Plan under Section 401(k) of the Internal Revenue Code for its eligible employees (the Benefit Plan). The Benefit Plan is available to all domestic employees who meet minimum age and service requirements, and provides employees with tax deferred salary deductions and alternative investment options. Employees may contribute up to 15% of their salary, subject to certain limitations. The Benefit Plan allows for contributions by the Company at the discretion of the Company's Board of Directors. The Company has not contributed to the Benefit Plan since its inception.

(2) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

<TABLE>
<CAPTION>

	SEPTEMBER 30,	
	1997	1998
<S>	<C>	<C>
Computer equipment and software.....	\$ 1,893	\$ 2,166
Furniture and equipment.....	475	559
Leasehold improvements.....	253	795
	-----	-----
	2,621	3,520

Less accumulated depreciation and amortization.....	785	1,880
	-----	-----
	\$ 1,836	\$ 1,640
	-----	-----

</TABLE>

Equipment recorded under capital leases is \$1.2 million and the related accumulated amortization is \$638,000 as of September 30, 1998.

F-12

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(3) RELATED PARTY TRANSACTIONS

(A) SHORT-TERM BORROWINGS

In December 1997, the Company entered into a line of credit with IBM Credit Corporation (IBM Credit Corp.), a subsidiary of IBM, for \$15 million, secured by all tangible and intangible assets of the Company. IBM has guaranteed the line of credit. Subsequently, the agreement was amended to increase the line of credit to \$19 million. The note is repayable on the earlier of the effective date of an IPO or December 23, 1999. Interest is charged at LIBOR plus 1.5% (6% as of September 30, 1998) per year. To maintain the line, the Company's net loss measured on a 12-month basis must not be worse than \$20 million. In the event of default, IBM Credit Corp. has the right to convert amounts outstanding into shares of Series E preferred stock using the lower of \$6.68 per share or a mutually agreed-upon conversion price.

In connection with the IBM Credit Corp. line of credit, the Company issued warrants to purchase up to 83,333 shares of Series F preferred stock at an exercise price of \$10.80 per share. These warrants are exercisable at any time and expire on the earlier of the closing of an IPO or December 23, 2002. IBM Credit Corp. has the right to exercise the warrants without the payment of cash by surrendering the warrants and receiving shares of preferred stock equal in value at the exercise date to the value of the warrants so surrendered. The Company determined the fair value of these warrants using the Black-Scholes pricing model with the following assumptions: A risk-free interest rate of 5.6%; an expected life of five years; volatility of 65%; and no dividend yield. The resulting discount is being amortized over the term of the line of credit. As of September 30, 1998, \$18.6 million was outstanding under the line of credit, net of a discount of \$334,000.

Additionally, as of September 30, 1998, IBM has advanced the Company \$2 million pursuant to certain note agreements. See Note 8.

As of September 30, 1998 the Company was not in compliance with certain financial covenants on the aforementioned credit facility. The Company has received a waiver of such non-compliance for the year ended September 30, 1998 from IBM Credit Corp.

(B) LICENSE AGREEMENT

On March 18, 1997, the Company entered into a Master License Agreement with IBM. A summary of the salient terms of this agreement, as amended as of September 30, 1998, is as follows (see Note 8):

- IBM may sublicense the Company's software products in exchange for per unit royalty payments.
- Beginning on April 1, 1997, IBM will make seven quarterly nonrefundable prepaid royalty payments of \$1.5 million.
- At the Company's option, the Company can request the prepaid royalty payments to be made in advance of the due date and pay 7.5% interest.

F-13

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

SEPTEMBER 30, 1996, 1997, AND 1998
 (INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
 ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(3) RELATED PARTY TRANSACTIONS (CONTINUED)

- The Company will perform services as requested by IBM in order to integrate certain of the Company's software products into IBM's WebSphere software products. In consideration for such services, IBM will pay the Company for the cost of providing the services plus a mark up, however amounts to be paid shall not exceed approximately \$6.0 million. Amounts owed to the Company under this arrangement can be deducted from the prepaid royalty payments.

In February 1998 the Company entered into an agreement with Lotus to allow Lotus to bundle up to 200,000 units of certain Company products for a promotional period from February 1, 1998 through September 30, 1998 (the Special Promotion), in exchange for per unit royalty payments substantially discounted from the royalty rates with IBM under the Master License Agreement. The royalties earned under this arrangement were also applied to the IBM deferred revenue.

During the years ended September 30, 1997 and 1998, IBM had made payments of \$6.4 million and \$4.5 million, respectively, in accordance with the license agreement which have been recorded as deferred revenue until royalty and services have been earned. For the year ended September 30, 1998 the Company recognized approximately \$166,000 in interest expense associated with such advance payments.

During the years ended September 30, 1997 and 1998 and the three-month period ended December 31, 1998, the Company recognized approximately \$175,000, \$2.7 million and \$1.3 million (unaudited), respectively, of the IBM prepaid royalty payments as software license fees from IBM, primarily upon IBM shipping to customers the Company's software products bundled with certain IBM products.

During the year ended September 30, 1998 and the three month period ended December 31, 1998, the Company recognized approximately \$2.9 million and \$1.5 million (unaudited), respectively of the IBM prepaid royalty payments as service revenues from IBM in connection with the integration of certain of the Company's software with IBM's WebSphere software products. During the year ended September 30, 1998 and the three-month period ended December 31, 1998, the Company incurred \$2.9 million and \$1.7 million in service costs, which includes \$305,000 and \$259,000 in overhead costs, respectively, in connection with the arrangement. The Company is recognizing revenue using the percentage-of-completion method and is deferring the recognition of profit on this arrangement due to uncertainties related to the amount of profit ultimately expected to be realized. The Company compares the maximum amount to be paid for the integration services to the estimated total cost to determine if a provision for loss is necessary. As of December 31, 1998 no provision for loss has been recorded.

(C) NOTES RECEIVABLE FROM STOCKHOLDERS

Upon inception, the Company received promissory notes from its founders in exchange for common stock for a total amount of \$143,000. As of September 30, 1998, \$30,000 was paid down by the stockholders. The notes bear interest at 8%, and interest is to be paid annually with any

F-14

NETOBJECTS, INC.
 AND SUBSIDIARY
 (A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
 (INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
 ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(3) RELATED PARTY TRANSACTIONS (CONTINUED)

accrued but unpaid interest and principal payable in full on or before December 21, 1998. The Company has full recourse against the founders for the amounts of the notes.

(D) RAE TECHNOLOGY AND STUDIO ARCHETYPE

In December 1995, the Company issued 1,833,333 shares of Series A preferred stock to the stockholders of Rae Technology, Inc. (Rae) and Studio Archetype, upon formation of the Company, in exchange for the transfer of certain technology and intellectual property rights. Rae's and Studio Archetype's founders and significant shareholders also were the founders of the Company. The exchange was recorded at predecessor book value.

In April 1997 the Company and Rae entered into a patent transfer and license agreement whereby the Company assigned all of its rights to four U.S. patent applications to Rae and the Company reserved a non-exclusive, perpetual, royalty free license to such patents.

(4) SHORT-TERM BORROWINGS

As of September 30, 1997, the Company had \$2.1 million outstanding under a line of credit granted by a financial institution. Borrowings under the line of credit bear interest at the bank's prime rate plus 1% (9.5% as of September 30, 1997). In connection with the line of credit, the financial institution was issued warrants to purchase 237,851 shares of Series C preferred stock at an exercise price of \$1.82 per share. See Note 7(c). The line of credit was repaid with proceeds from the IBM Credit Corp. line of credit and, accordingly, no amounts are outstanding as of September 30, 1998.

(5) COMMITMENTS

The Company leases its facilities under a noncancelable operating lease and has acquired computers and other equipment through operating and capital leases. In connection with one of the property leases, the Company sublets the space. Future minimum payments for both operating and capital leases as of September 30, 1998, are as follows (in thousands):

<TABLE>
<CAPTION>

YEAR ENDING SEPTEMBER 30,	OPERATING LEASES	SUBLEASE INCOME	NET OPERATING LEASES	CAPITAL LEASES
1999.....	\$ 659	\$ 338	\$ 321	\$ 338
2000.....	651	338	313	290
2001.....	181	--	181	61
2002.....	83	--	83	--
Thereafter,.....	34	--	34	--
	\$ 1,608	\$ 676	\$ 932	689
Less amount representing interest.....				54
Present value minimum lease payments.....				635
Less amounts due within one year.....				299
				\$ 336

</TABLE>

F-15

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(5) COMMITMENTS (CONTINUED)

Total rent expense under the operating leases was \$74,000, \$341,000 and \$683,000 for the period from November 21, 1995 (inception) through September 30, 1996, and for the years ended September 30, 1997 and 1998, respectively. Total rent expense paid to IBM under operating leases was \$0, \$12,000 and \$93,000 for the period from November 21, 1995 (inception) through September 30, 1996, and for the years ended September 30, 1997 and 1998, respectively

As of September 30, 1998, approximately \$200,000 of the Company's cash balance is pledged as security for a lease line for furniture and fixtures.

(6) INCOME TAXES

Significant components of the Company's deferred tax assets are as follows (in thousands):

<TABLE>
<CAPTION>

	SEPTEMBER 30,	
	1997	1998
<S>	<C>	<C>
Net operating loss carryforwards.....	\$ 9,306	\$ 17,506
Research and development credit carryforwards.....	571	1,649
Accruals and reserves not currently deductible.....	477	1,767
Property, plant and equipment.....	268	488
Gross deferred tax assets.....	10,622	21,410
Valuation allowance.....	(10,622)	(21,410)
Net deferred tax assets.....	\$ --	\$ --

</TABLE>

The Company's actual tax expense for the period from November 21, 1995 (inception) to September 30, 1996 and the years ended September 30, 1997 and 1998 differs from the benefit of the federal statutory tax rate of 34%, as follows (in thousands):

<TABLE>
<CAPTION>

	PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30,	
		1997	1998
<S>	<C>	<C>	<C>
Expense at:			
Statutory federal income tax rate.....	\$ (2,292)	\$ (6,051)	\$ (7,556)
Losses not benefited.....	2,292	6,051	7,556
State taxes.....	--	1	1
Foreign taxes.....	--	--	59
	\$ --	\$ 1	\$ 60

</TABLE>

F-16

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(6) INCOME TAXES (CONTINUED)

The components of income taxes for the period from November 21, 1995 (inception) to September 30, 1996 and for the years ended September 30, 1997 and 1998, are as follows (in thousands):

<TABLE>
<CAPTION>

	PERIOD FROM NOVEMBER 21, 1995 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30,	
		1997	1998
<S>	<C>	<C>	<C>
Current:			
Foreign.....	\$ --	\$ --	\$ 59
State.....	--	1	1
	\$ --	\$ 1	\$ 60

</TABLE>

The Company has recorded a valuation allowance on its deferred tax assets due to uncertainty of future realization of such amounts.

As of September 30, 1998, the Company had net operating loss carryforwards

of approximately \$40.9 million for both federal and state income tax purposes. The federal net operating loss carryforwards expire in the years 2012 through 2019. The state net operating loss carryforwards expire in the year 2005. As of September 30, 1998, the Company has research and development credit carryforwards for federal and state tax purposes of approximately \$964,000 and \$685,000, respectively. The federal research and development credit carryforwards expire in the years 2012 through 2014. The state research and development credits can be carried forward indefinitely.

The Tax Reform Act of 1986 and the California Tax Conformity Act of 1987 limit the use of net operating loss carryforwards in certain situations where changes occur in the stock ownership of a company. The Company had such an ownership change, as defined, in April 1997. Accordingly, \$11.5 million of the Company's federal and state net operating loss carryforwards are limited in their annual usage to \$3.9 million per year on a cumulative basis.

F-17

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(7) STOCKHOLDERS' DEFICIT

(A) PREFERRED STOCK

At December 31, 1998, the Company's restated certificate of incorporation authorizes 22,816,333 shares of preferred stock. As of September 30, 1997 and 1998, and December 31, 1998 the Company has designated and issued preferred stock as follows:

<TABLE>

<CAPTION>

	DESIGNATED SHARES	OUTSTANDING SHARES			LIQUIDATION PREFERENCE
		SEPTEMBER 30,		DECEMBER 31, 1998	
		1997	1998		
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Series A.....	750,000	651,945	651,945	651,945	\$ 0.90
Series B.....	33,000	--	--	--	1.20
Series C.....	2,833,333	--	--	--	1.82
Series E.....	15,033,333	10,743,020	10,924,992	10,924,992	6.68
Series E-2.....	2,000,000	--	--	--	6.68
Series F.....	916,666	--	--	--	10.80
Series F-2.....	416,666	--	--	388,889	9.00
	21,982,998	11,394,965	11,576,937	11,965,826	

</TABLE>

The rights, preferences, and restrictions of the Series A, B, C, E and F preferred stock are as follows:

- Each share of Series A, B, C, E and F preferred stock is convertible at the option of the holder at any time into one share of common stock, subject to certain antidilution provisions. Conversion of all Series A, B, C, E and F preferred stock is automatic upon the closing of a firm underwritten commitment public offering of shares of common stock of the Company, which results in aggregate cash proceeds of at least \$30 million.
- Holders of Series A, B, C, E and F preferred stock are entitled to receive dividends at 8% per annum in preference to any dividend on common stock when and if declared by the Board of Directors out of legally available funds. Dividends are noncumulative. No dividends have been declared through September 30, 1998.
- Series A, B, C, E and F preferred stock have a liquidation preference in the amounts listed above plus all declared but unpaid dividends on such shares plus an amount equal to an 8% annually compounded return calculated from the original issue date through the liquidation date.

- Series A, B, C, E and F preferred stock have the same voting rights as the number of shares of common stock issuable upon conversion of such shares. The consent of a majority of the outstanding Series E preferred stock is required for all major corporate actions. The holders

F-18

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(7) STOCKHOLDERS' DEFICIT (CONTINUED)

of the Series E preferred stock have a right to elect a majority of directors of the Company until the outstanding shares of Series E preferred stock and warrants to purchase such shares represent less than 45% of the fully diluted shares of voting securities of the Company or the consummation of an IPO.

(B) COMMON STOCK

The Company's restated certificate of incorporation authorizes 28,333,333 shares of common stock. As of September 30, 1998, the Company has reserved shares of common stock for future issuance as follows:

<TABLE>
<CAPTION>

	SHARES

<S>	<C>
Conversion of preferred stock:	
Series A.....	651,945
Series C.....	2,250,500
Series E.....	3,482,838
Series F.....	1,833,333

</TABLE>

(C) PREFERRED STOCK WARRANTS

In fiscal 1996, as consideration for a lease line facility from a leasing company, the Company issued warrants to purchase 33,000 shares of the Company's Series B preferred stock at an exercise price of \$1.20 per share. The warrants were exercised through a cashless exchange in fiscal 1997. There were no Series B warrants outstanding as of September 30, 1998.

In fiscal 1997, in consideration for a bank line of credit and an equipment lease line facility with a financial institution and leasing company, respectively (the lenders) and other service providers, the Company issued warrants to purchase 244,715 shares of Series C preferred stock at an exercise price of \$1.82 per share, and 22,459 shares of Series E preferred stock at an exercise price of \$6.68 per share. The Company determined the fair value of these warrants using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 5.6%; an expected life of three years; volatility of 65%; and no dividend yield. The fair value of these warrants does not have a material effect on the consolidated financial statements. During fiscal 1997, the lenders exercised all warrants by foregoing the receipt of that number of shares of preferred stock, that would otherwise have been issued upon exercise, equal in value to the exercise price of all warrants exercised. All other service providers exercised their warrants for cash.

During fiscal 1997, the Company issued to holders of Series B preferred stock, and third party investors, warrants to purchase up to 6,863,426 shares of Series C preferred stock at an exercise price of \$1.82 per share. This round of financing was in the form of warrants to purchase Series C preferred stock which would be exercised over time. The warrants contained certain provisions

F-19

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS

(7) STOCKHOLDERS' DEFICIT (CONTINUED)

whereby if the third party investors exercised their warrants, the other warrant holders were required to exercise warrants on a pro rata basis. The fair value of the warrants was based on the de minimis amount of consideration received from the investors. These warrants are exercisable at any time and expire on the earlier of the closing of an IPO or March 13, 2000. During fiscal 1997, warrants to purchase 4,612,926 shares of Series C preferred stock were exercised. Warrants to purchase 2,250,500 shares of Series C preferred stock have not been exercised as of September 30, 1998. Each warrant holder has the right to exercise the warrant by foregoing the receipt of that number of shares of preferred stock, that would otherwise have been issued upon exercise, equal in value to the exercise price of all warrants exercised.

In connection with the IBM Transaction, the Company issued warrants to purchase up to 833,333 shares of Series F preferred stock, previously Series D preferred stock, at an exercise price of \$10.80 per share to the holders of the Series A, B, and C preferred stock for \$48,000 in cash, net of expenses. In addition, warrants to purchase up to 3,482,838 shares of Series E preferred stock at an exercise price of \$6.68 were issued to IBM for \$250,000 in cash. These warrants are exercisable at any time and expire on the earlier of the closing of an IPO or April 11, 2000. These warrants to purchase Series E and F preferred stock have not been exercised as of September 30, 1998. Each warrant holder has the right to exercise the warrant by foregoing the receipt of that number of shares of preferred stock, that would otherwise have been issued upon exercise, equal in value to the exercise price of all warrants exercised.

In connection with the IBM Transaction, the Company granted to its founders, who are also employees, the right to purchase 673,778 shares of Series E preferred stock at an exercise price of \$6.68 per share in three equal installments prior to April 10, 1998. In June 1997, the four founders exercised the first installment. Had the Company valued these stock rights pursuant to SFAS No. 123 using the minimum value option pricing model, the Company's 1997 net loss would have been greater by approximately \$111,000. This determination was made using the following assumptions: a risk-free interest rate of 6.5%; an expected life of one year; and no dividends.

During fiscal 1998, the Company entered into a line of credit agreement with IBM Credit Corp. In connection with the line of credit, NetObjects issued warrants to purchase 83,333 shares of Series F preferred stock at an exercise price of \$10.80. See Note 3.

(D) STOCK OPTION PLANS

Under the Company's 1996 Stock Option Plan (1996 Plan), a total of 1,658,943 shares of common stock were authorized for issuance. In connection with the IBM Transaction, the 1996 Plan was terminated and the Company established the 1997 Stock Option Plan and the 1997 Special Stock Option Plan (the 1997 Plans). A total of 2,158,943 and 1,041,056 shares of the Company's common stock have been authorized for issuance under these plans, respectively. In April 1997, the Company canceled the outstanding options under the 1996 Plan and granted replacement options

F-20

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(7) STOCKHOLDERS' DEFICIT (CONTINUED)

under the 1997 Plans with the same terms. The cancellation and reissuance is not reflected in the stock option activity table below.

Options granted under the 1997 Plans may be designated as qualified or nonqualified at the discretion of the Company's Board of Directors with exercise prices not less than the fair value at the date of grant. Options granted under the 1996 Plan, and the replacement options granted under the 1997 Plans, are immediately exercisable upon grant, and the Company retains the right to repurchase the unvested shares held at the time of termination of employment at the original purchase price. Options generally vest 25% at the end of the first year and monthly over the next three years. Options expire ten years from the date of grant. As of September 30, 1998, 88,177 shares were subject to the Company's right of repurchase.

The Company uses the intrinsic value method to account for the 1997 Plans. Accordingly, compensation cost has been recognized for its stock options in the accompanying financial statements if, on the date of grant, the current market

value of the underlying common stock exceeded the exercise price of the stock options at the date of grant. During fiscal 1998, the Company granted options with a weighted-average exercise price of \$2.10 per share compared to the weighted-average fair value of approximately \$4.44 during the same period. For the period from November 21, 1995 (inception) to September 30, 1996 and for the year ended September 30, 1997, the weighted-average exercise price of options granted approximated the weighted-average fair value. In connection with options granted in fiscal year 1998, the Company has recorded deferred stock-based compensation of \$768,000 representing the difference between the exercise price and the fair value of the Company's common stock at the date of grant. The amount is being amortized over the vesting period for the individual options. Amortization of deferred stock-based compensation of \$227,000 was recognized during the fiscal year ended September 30, 1998.

Pursuant to SFAS No. 123, the Company is required to disclose the pro forma effects on the operating results of the Company as if the Company has elected to use the fair value approach to account for all its stock-based employee compensation plans. Had compensation costs for the Company's 1997 Plans been determined consistent with the fair value approach enumerated in SFAS No. 123, net losses for the period from November 21, 1995 (inception) to September 30, 1996 and for the years ended September 30, 1997 and 1998 would have been greater by approximately \$0, \$52,000 and \$193,000, respectively. The fair value of each option is estimated using the minimum value method with the following assumptions: a risk-free interest rate of 6.5%; an expected life of four years; and no dividend yield.

F-21

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(7) STOCKHOLDERS' DEFICIT (CONTINUED)

The following table summarizes stock option activity during the year:

	PERIOD FROM NOVEMBER 21,						THREE MONTHS ENDED DECEMBER 31, 1998
	1995 (INCEPTION) TO		YEAR ENDED SEPTEMBER 30,		YEAR ENDED SEPTEMBER 30,		
	SEPTEMBER 30, 1996		1997		1998		
	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Shares under options outstanding at beginning of period.....	--	\$ --	738,051	\$ 0.12	2,517,670	\$ 1.20	2,472,343
Granted.....	1,017,305	0.12	2,251,557	1.08	341,340	2.10	436,081
Exercised.....	(259,254)	0.12	(126,353)	0.12	(144,432)	0.60	(103,030)
Canceled.....	--	--	(365,585)	0.48	(242,235)	1.26	(175,819)
Shares under options outstanding at end of period.....	758,051	0.12	2,517,670	1.20	2,472,343	1.32	2,629,575
Shares vested at period-end.....	--		128,388		852,158		875,081

<CAPTION>

WEIGHTED-AVERAGE EXERCISE PRICE

<S>

<C>

Shares under options outstanding at beginning of

period.....	\$	1.32
Granted.....		7.44
Exercised.....		0.72
Canceled.....		1.38
Shares under options outstanding at end of period.....		2.38
Shares vested at period-end.....		

The following table summarizes information about stock options outstanding as of September 30, 1998:

<TABLE>
<CAPTION>

OUTSTANDING

EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	SHARES VESTED
<S>	<C>	<C>	<C>
\$ 0.12	305,942	7.50 years	15,416
0.30	81,948	8.25	37,740
0.60	83,333	8.25	40,036
1.50	1,456,540	8.50	512,265
1.65	225,000	8.50	84,375
2.10	319,577	9.75	12,249
	2,472,340		702,081

</TABLE>
(8) SUBSEQUENT EVENTS

On October 8, 1998, the Company entered into Convertible Note and Warrant Purchase Agreements with IBM and a Series C preferred warrant holder, whereby the Company may borrow up to \$10.9 million, of which \$8.3 million was received by the Company as of December 31, 1998 and the

F-22

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(8) SUBSEQUENT EVENTS (CONTINUED)
remaining amount was received in January, 1999. A portion of the proceeds received has been used to repay \$2 million in notes payable due to IBM. The new notes are due October 8, 2000, have a stated interest rate of 10% per annum, and are convertible (principal and accrued interest) into Series E-2 preferred stock at \$6.68 per share at any time or automatically upon the completion of an IPO. The Company has recorded a \$3.8 million nonrecurring interest charge during the three month period ended December 31, 1998 to account for the "in-the-money" conversion right of the convertible notes.

In connection with the notes, the Company issued warrants to acquire 163,715 shares of Series E-2 preferred stock at an exercise price of \$6.68 per share. The warrants are exercisable at any time before October 8, 2003. The Company determined the fair value of these warrants using the Black-Scholes pricing model with the following assumptions: A risk-free interest rate of 6%; an expected life of five years; volatility of 65%; and no dividend yield. The resulting discount is being amortized over the term of the convertible note. As of December 31, 1998, \$7.6 million was outstanding under the convertible note, net of a discount of \$700,000.

On October 16, 1998, NetObjects entered into a Stock Purchase Agreement with a company authorizing the sale and issuance of 333,333 shares of Series F-2 preferred stock at a purchase price of \$9.00 per share for an aggregate price of \$3 million. The transaction closed on October 26, 1998. Warrants to acquire 16,666 shares of Series F-2 preferred stock were also issued at an exercise price of \$10.80 and are exercisable between January 1, 2001 and December 31,

2003 only in the event the Company has not completed an IPO prior to December 31, 2000.

On October 28, 1998, NetObjects entered into a Stock Purchase Agreement with a company authorizing the sale and issuance of 55,555 shares of Series F-2 preferred stock at a purchase price of \$9.00 per share, for an aggregate price of \$500,000. The transaction closed on November 10, 1998.

STOCK SPLIT

On February 4, 1999, the Board of Directors authorized a recapitalization of the Company's equity structure, including changes in par value, and the number of shares authorized and a 1-for-6 reverse split of all the outstanding shares of the Company's preferred and common stock which will be effective only upon the closing of the IPO. Share information has been restated in the accompanying consolidated financial statements to reflect the reverse stock split for all periods presented.

INITIAL PUBLIC OFFERING (UNAUDITED)

On February 4, 1999, the Board of Directors authorized the filing of a registration statement with the SEC permitting the Company to sell shares of the Company's common stock in connection with a proposed IPO. If the offering is consummated under the terms presently anticipated, all currently outstanding shares of preferred stock will automatically convert into approximately

F-23

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(8) SUBSEQUENT EVENTS (CONTINUED)

11,965,826 shares of common stock upon the closing of the proposed IPO. The conversion of the preferred stock has been reflected in the pro forma balance sheet as of December 31, 1998.

EMPLOYEE STOCK PURCHASE PLAN (UNAUDITED)

The Company's Board of Directors adopted the 1999 Employee Stock Purchase Plan (the "1999 Purchase Plan") on February 4, 1999. A total of 300,000 shares of common stock are proposed to be reserved for issuance under the 1999 Purchase Plan.

IBM LICENSE AGREEMENT (UNAUDITED)

In January 1999 the Company and IBM amended the NetObjects License Agreement as follows:

- The Special Promotion period was extended to June 30, 1999 and the maximum number of units to be shipped under the program was increased from 200,000 to 225,000.
- The maximum amount to be paid to the Company in connection with the services provided to IBM was reduced to approximately \$5.3 million, and the related mark-up on the services to be provided was reduced.

In March 1999 the Company and IBM amended the NetObjects license agreement to establish a new special promotion program whereby Lotus will bundle certain NetObjects products with certain Lotus products, and Lotus will pay the Company royalties based on a percentage of Lotus' net revenue. The promotion period begins on January 1, 1999 and ends on December 31, 1999.

NOTES AND WARRANT PURCHASE AGREEMENTS (UNAUDITED)

On February 18, 1999 and March 23, 1999, respectively, the Company issued notes and warrants to IBM pursuant to the note and warrant purchase agreement dated February 4, 1999, under which the Company borrowed \$2 million and \$1.4 million, respectively. The new notes are due on the earlier of (i) the closing of an IPO in which the gross proceeds are in excess of \$60 million, (ii) April 30, 1999, or (iii) when declared due and payable by IBM, and have a stated interest rate of 10% per annum.

In connection with the notes, the Company issued warrants to acquire 51,335 shares of Series E-2 preferred stock at an exercise price of \$6.68 per share. The warrants are exercisable at any time before February 18, 2004. The Company determined the fair value of these warrants using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 6%; an expected life of five years; volatility of 65%; and no dividend yield. The resulting discount of \$444,000 will be accounted for as additional paid-in capital and amortized over the term of the notes.

F-24

NETOBJECTS, INC.
AND SUBSIDIARY
(A MAJORITY OWNED SUBSIDIARY OF IBM)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1996, 1997, AND 1998
(INFORMATION AS OF DECEMBER 31, 1998 AND FOR THE THREE-MONTHS
ENDED DECEMBER 31, 1997 AND 1998 IS UNAUDITED)

(8) SUBSEQUENT EVENTS (CONTINUED)

OPTION ACTIVITY

Subsequent to December 31, 1998, the Company has authorized the granting of approximately 413,000 options to purchase common stock at an exercise price of \$7.50 per share to employees. In connection with the grant of these options the Company anticipates recording deferred stock-based compensation of approximately \$1.7 million.

On March 24, 1999 the Board of Directors reserved 333,333 shares of common stock for future issuance under its 1997 Stock Option Plan.

F-25

INSIDE BACK COVER OF PROSPECTUS:

TITLE: BROADENING OUR REACH

INTRO PARAGRAPH:

As business use of the Internet and intranets matures, products alone are not enough to fulfill customers' needs. We have built popular online resources, including eFuse.com, that target communities of business users and provide sources of information, products and services for building business web sites. We also formed our Professional Services Group in October 1998 to provide training, consulting and implementation services to our customers deploying NetObjects Authoring Server.

GRAPHICS: four overlapping screen shots of web sites

CAPTIONS (ONE FOR EACH SCREEN SHOT; CLOCKWISE FROM TOP):

- (1) eScriptZone.com: articles, tutorials, software and an online community for webmasters and web application builders
- (2) eFuse.com: integrated content, products, and solutions for small and medium-sized businesses
- (3) netobjects.com: information, products, partner solutions and support
- (4) eSiteStore.com: software, components, books, merchandise and online services

YOU MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR THE SALE OF COMMON STOCK MEANS THAT INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AFTER THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY THESE SHARES OF COMMON STOCK IN ANY CIRCUMSTANCES UNDER WHICH THE OFFER OR SOLICITATION IS UNLAWFUL.

TABLE OF CONTENTS

<TABLE>	
<CAPTION>	
	PAGE

<S>	<C>
Prospectus Summary.....	3
Risk Factors.....	7
Forward-looking Statements.....	18
Use of Proceeds.....	18
Dividend Policy.....	18
Capitalization.....	19
Dilution.....	21
Selected Consolidated Financial Data.....	22
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	24
Business.....	38
Management.....	51
Certain Transactions.....	58
Principal Stockholders.....	65
Description of Capital Stock.....	67
Shares Eligible for Future Sale.....	69
Underwriting.....	71
Legal Matters.....	72
Experts.....	72
Change in Auditors.....	73
Where You Can Find More Information.....	73
Index to Consolidated Financial Statements.....	F-1
</TABLE>	

DEALER PROSPECTUS DELIVERY OBLIGATION:

Until _____, 1999 (25 days after the date of this Prospectus), all dealers that buy, sell or trade these shares of common stock, whether or not participating in this offering, may be required to deliver a Prospectus. This is in addition to the dealers' obligation to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

6,000,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

BT ALEX. BROWN

BANCOSTON ROBERTSON STEPHENS

U.S. BANCORP PIPER JAFFRAY

, 1999

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

<TABLE>	
<S>	<C>
Securities and Exchange Commission Registration Fee.....	\$ 24,937
NASD Filing Fee.....	8,090

Nasdaq National Market Listing Fee.....	95,000
Legal Fees and Expenses.....	400,000
Accountants' Fees and Expenses.....	450,000
Printing and Engraving Expenses.....	150,000
Directors' and Officers' Liability Insurance.....	250,000
Transfer Agent and Registrar Fees.....	10,000
Miscellaneous Expenses.....	100,000

Total.....	\$1,488,027

</TABLE>

All expenses other than the Securities and Exchange Commission Registration Fee, the NASD Filing Fee and the Nasdaq National Market Listing Fee are estimates.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law (the "DGCL") authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act").

As permitted by the DGCL, our Amended and Restated Bylaws provide that the Registrant shall indemnify its directors and officers, and may indemnify its employees and other agents, to the fullest extent permitted by law. The Amended and Restated Bylaws also permit the Registrant to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the Amended and Restated Bylaws would permit indemnification. The Registrant has obtained officer and director liability insurance with respect to liabilities arising out of certain matters, including matters arising under the Securities Act.

The Registrant also has entered into agreements with its directors and executive officers that, among other things, indemnify them for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by them in any action or proceeding, including any action by or in the right of the Registrant, arising out of such person's services as a director or officer of the Registrant, any subsidiary of the Registrant or any other company or enterprise to which the person provides services at the request of the Registrant.

Reference is also made to Section 8 of the form of Underwriting Agreement to be filed as Exhibit 1.1 to this Registration Statement for certain provisions regarding the indemnification of officers and directors of the Registrant by the underwriters.

II-1

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Since November 21, 1995, the Registrant has issued and sold unregistered securities as follows:

(1) In connection with our formation, we issued an aggregate of 1,583,333 shares of common stock in a private placement on December 21, 1995 to Samir Arora, David Kleinberg, Sal Arora and Clement Mok, our four founders. The aggregate consideration received was promissory notes in the aggregate principal amount of \$142,500. The exemption from registration relied upon for this transaction was Section 4(2).

(2) In connection with our formation and the transfer of technology to us, an aggregate of 1,833,332 shares of Series A preferred stock were issued in a private placement on December 21, 1995 to Studio Archetype and Rae Technology. The aggregate consideration received was certain technology and intellectual property rights. The exemption from registration relied upon for this transaction was Section 4(2).

(3) An aggregate of 4,466,666 shares of Series B preferred stock were issued in a private placement on February 2, 1996 to five accredited investors. The aggregate consideration received was \$5.36 million. The exemption from registration relied upon for this transaction was Section 4(2).

(4) Warrants for the purchase of up to 6,863,426 shares of Series C preferred stock were issued in a private placement in December 1996 to seven institutional investors. No consideration was received in connection with the issuance of such warrants. On various dates between December 1996 and March 1999, 5,265,150 of the Series C preferred stock warrants were exercised. The aggregate consideration received was approximately \$9.6 million. The exemption from registration relied upon for this transaction was Section 4(2).

(5) A warrant to purchase up to 3,482,838 shares of Series E preferred stock was issued in a private placement on April 11, 1997 to IBM. The aggregate consideration received in connection with the issuance of such warrant was approximately \$250,000. The exemption from registration relied upon for this transaction was Section 4(2).

(6) An aggregate of 10,495,968 shares of Series E preferred stock were issued in a private placement on April 11, 1997 to IBM in exchange for 1,181,388 shares of Series A preferred stock and all outstanding shares of Series B and C preferred stock. The exemption from registration relied upon for this transaction was Section 4(2).

(7) An aggregate of 406,566 shares of Series E preferred stock were issued in private placements on various dates between June, 1997 and March, 1998 to our four founders. The aggregate consideration received was approximately \$2.7 million. The exemption from registration relied upon for this transaction was Section 4(2).

(8) Warrants to purchase of up to 833,333 shares of Series F preferred stock, originally classified as Series D preferred stock, pursuant to an option agreement made in connection with IBM's acquisition of approximately 80% of our stock were issued in a private placement on March 14, 1997 to 10 accredited investors. The aggregate consideration received in connection with the issuance of such warrants was \$50,000. The exemption from registration relied upon for this transaction was Section 4(2).

(9) A warrant to purchase up to 83,333 shares of Series F preferred stock was issued to IBM Credit Corp. in a private placement effective as of December 23, 1997 in connection with a \$15 million loan pursuant to a Revolving Loan and Security Agreement. The loan was subsequently increased to \$19 million. The exemption from registration relied upon for this transaction was Section 4(2).

II-2

(10) Units for the purchase of 10% Senior Subordinated Secured Convertible Promissory Notes representing the right to acquire upon conversion up to 1,695,984 shares of Series E-2 preferred stock assuming accrued interest at March 31, 1999 of \$417,060 were issued in a private placement on October 8, 1998 and December 31, 1998 to IBM and Perseus Capital LLC for an aggregate consideration of \$10.9 million, \$2.6 million of which was received from IBM on January 5, 1999. Warrants to purchase up to 163,715 shares of Series E-2 preferred stock were issued in connection with the convertible notes. The aggregate consideration received in connection with the issuance of such warrants was approximately \$92,000. In February 1999, we issued to IBM a \$2.0 million note and warrants to purchase 30,012 shares of Series E-2 preferred stock and in March 1999, we issued a \$1.42 million note and a warrant to purchase 21,323 shares of Series E-2 preferred stock to IBM under the terms of a February 4, 1999 agreement. The exemption from registration relied upon for this transaction was Section 4(2).

(11) 333,333 shares of Series F-2 preferred stock were issued and a warrant for the purchase of up to 16,666 shares of Series F-2 preferred stock was issued in a private placement of shares of preferred stock and warrants for the purchase of preferred stock on October 16, 1998 to Novell, Inc. The consideration received in connection with the issuance of the shares was \$3 million. No additional consideration was received in connection with the issuance of such warrants. The exemption from registration relied upon for this transaction was Section 4(2).

(12) 55,555 shares of Series F-2 preferred stock were issued on October 28, 1998 to MC Silicon Valley, Inc., a subsidiary of Mitsubishi. The consideration received was approximately \$500,000. The exemption from registration relied upon for this transaction was Section 4(2).

(13) As of March 31, 1999, an aggregate of 810,433 shares of common stock had been issued to our employees and consultants on exercise of options. The aggregate consideration received for such shares was \$772,000.00. The exemption from registration relied upon for this transaction was Section 3(b).

No underwriters were engaged in connection with these issuances and sales.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) EXHIBITS

<TABLE> <CAPTION> NUMBER	DESCRIPTION
<C>	<S>
1.1	Form of Underwriting Agreement
3.1+	Restated Certificate of Incorporation of the Registrant
3.1.1+	Form of Restated Certificate of Incorporation to be in effect at the closing of the offering made under this Registration Statement
3.2+	Bylaws of the Registrant as amended through the date of this Registration Statement
3.2.1+	Form of Amended and Restated Bylaws to be in effect upon the closing of the offering made under this Registration Statement
4.1+	Specimen stock certificate
4.2+	Form of Series C Preferred Stock Warrant
4.2.1+	Amendment to Series C Preferred Stock Warrant
4.3+	Form of Series E Preferred Stock Warrant
4.4+	Form of Series E-2 Preferred Stock Warrant
4.5+	Form of Series F Preferred Stock Warrant
5.1**	Opinion of McCutchen, Doyle, Brown & Enersen LLP

II-3

<TABLE> <CAPTION> NUMBER	DESCRIPTION
<C>	<S>
9.1+	Voting Agreement between NetObjects, Inc. and International Business Machines Corporation
10.1+	NetObjects, Inc. 1997 Stock Option Plan
10.1.1+	NetObjects, Inc. Amended and Restated 1997 Stock Option Plan to be in effect upon the closing of the offering made under this Registration Statement
10.1.2+	Form of Stock Option Agreement under the 1997 Stock Option Plan
10.1.3+	Form of Restricted Stock Purchase Agreement under the 1997 Stock Option Plan
10.1.4+	Form of Restricted Stock Transfer Agreement under the 1997 Stock Option Plan
10.2+	NetObjects, Inc. 1997 Special Stock Option Plan
10.3+	1999 Employee Stock Purchase Plan
10.4+*	IBM Software License Agreement (NetObjects License Agreement #L97063) by and between NetObjects and IBM dated as of March 18, 1997

10.4.1+*	Amendment Number 1 to NetObjects License Agreement L97063 dated as of April 30, 1997
10.4.2+	Second Amendment to NetObjects License Agreement L97063 dated as of October 7, 1997
10.4.3+*	Third Amendment to NetObjects License Agreement L97063 dated as of December 16, 1997
10.4.4+*	Fourth Amendment to NetObjects License Agreement L97063 dated as of April 27, 1998
10.4.5+*	Fifth Amendment to NetObjects License Agreement L97063 dated as of January 14, 1999
10.4.6+*	Amendment No. 6 to NetObjects License Agreement L97063 dated as of September 18, 1998
10.4.7+*	Seventh Amendment to NetObjects License Agreement L97063 effective January 15, 1999
10.4.8+*	Eighth Amendment to NetObjects License Agreement L97063 dated September 18, 1998
10.4.9+*	Amendment No. 9 to NetObjects License Agreement effective January 21, 1999
10.4.10+	Amendment No. 10 to NetObjects License Agreement dated as of February 4, 1999
10.4.11+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of February 6, 1998
10.4.12+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of June 30, 1998
10.4.13+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of January 14, 1999
10.4.14+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of March 25, 1999
10.5+	IBM Patent License Agreement by and between NetObjects and IBM dated as of April 10, 1997
10.6+	Lease Agreement by and between NetObjects and Metropolitan Life Insurance Company dated July 24, 1998
10.7	Lease Agreement by and between NetObjects Limited and HQ Executive Offices (UK) LTD dated February 15, 1999

</TABLE>

II-4

<TABLE> <CAPTION> NUMBER	DESCRIPTION
-----	-----
<C>	<S>
10.8+	Revolving Loan and Security Agreement by and between NetObjects, Inc. and IBM Credit Corp. dated as of December 23, 1997
10.8.1+	Amendment to Revolving Loan and Security Agreement dated July 1998
10.9+	Note and Warrant Purchase Agreement by and among NetObjects, IBM and Perseus Capital, LLC dated as of October 8, 1998
10.9.1+	Supplement to Note and Warrant Purchase Agreement dated as of February 4, 1999
10.10+	Technology Transfer Agreement between Rae Technology, Inc. and NetObjects, Inc. dated February 2, 1996
10.10.1	Amendment to Technology Transfer Agreement by and between Rae Technology and NetObjects dated as of March 18, 1997
10.11	Patent Transfer and License Agreement by and between Rae Technology LLC and NetObjects, Inc. dated as of April 10, 1997, as amended
10.12+	Technology License Agreement by and between NetObjects and Clement Mok Designs dated as of December 21, 1995
10.13+*	Distribution Agreement by and between Ingram Micro, Inc. and NetObjects, Inc. dated March 6, 1997
10.14+*	Commercial Application Partner Agreement by and between Sybase, Inc. and NetObjects, Inc. dated June 30, 1997
10.15+*	Master Distributor Agreement by and between Mitsubishi Corporation and NetObjects, Inc. dated September 30, 1997
10.16+*	Standard Inbound License Agreement by and between NetObjects and Novell effective September 30, 1998
10.16.1**	Amendment to Standard Inbound License Agreement by and between NetObjects and Novell effective April 2, 1999
10.17+*	Build-It License Agreement dated as of February 2, 1999

10.18+*	IBM Trademark License Agreement dated as of January 19, 1999
10.19+	Letter Agreement by and between NetObjects and John Sculley dated February 3, 1999
10.20	Sun Microsystems, Inc. Porting Agreement by and between Sun Microsystems, Inc. and NetObjects dated as of March 26, 1999
10.21**	Employment Agreement between Russell F. Surmanek and NetObjects dated as of April 5, 1999.
16.1+	Letter from Ernst & Young LLP dated February 5, 1999 regarding change in certifying accountant
21.1+	Subsidiaries of the Registrant
23.1	Consent of McCutchen, Doyle, Brown & Enersen LLP (included in its opinion to be filed as Exhibit 5.1 hereto)
23.2	Consent of KPMG LLP
24.1	Power of Attorney
27.1+	Financial Data Schedule

</TABLE>

+ Previously filed.

* Confidential treatment requested.

II-5

** To be filed by amendment.

(b) FINANCIAL STATEMENT SCHEDULE

<TABLE>

<S> <C>

Independent Auditors' Report on Schedule

Schedule II--Valuation and Qualifying Accounts

</TABLE>

ITEM 17. UNDERTAKINGS

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

The undersigned Registrant hereby undertakes to provide to the underwriters, at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-6

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Redwood City, State of California, on April 19, 1999.

<TABLE>

<S> <C> <C>
 NETOBJECTS, INC.
 By: /s/ SAMIR ARORA

 Samir Arora
 CHIEF EXECUTIVE OFFICER

</TABLE>

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to Registration Statement has been signed by the following persons in the capacities indicated below on the dates indicated.

<TABLE>

SIGNATURE	TITLE	DATE
<C> /s/ SAMIR ARORA ----- Samir Arora	<S> Chairman of the Board, Chief Executive Officer, President (Principal Executive Officer)	<C> April 19, 1999
/s/ RUSSELL F. SURMANEK ----- Russell F. Surmanek	Chief Financial Officer (Principal Financial and Accounting Officer)	April 19, 1999
/s/ JOHN SCULLEY+ ----- John Sculley	Director	April 19, 1999
/s/ LEE A. DAYTON+ ----- Lee A. Dayton	Director	April 19, 1999
/s/ MICHAEL D. ZISMAN+ ----- Michael D. Zisman	Director	April 19, 1999
/s/ ROBERT G. ANDEREGG+ ----- Robert G. Anderegg	Director	April 19, 1999
/s/ CHRISTOPHER M. STONE*+ ----- Christopher M. Stone	Director	April 19, 1999

</TABLE>

* Mr. Stone will become a director of our Company on the closing date of the offering.

<TABLE>

<S> <C> <C>
 +By: /s/ SAMIR ARORA

 Samir Arora
 ATTORNEY-IN-FACT

</TABLE>

II-7

FORM OF INDEPENDENT AUDITORS' REPORT ON SCHEDULE

The Board of Directors
 NetObjects, Inc.:

When the recapitalization, which includes a change in par value, and the number of shares authorized and a reverse stock split, referred to in Note 8 of the Notes to Consolidated Financial Statements have been consummated, we will be in a position to render the following report.

KPMG LLP

The Board of Directors
Net Objects, Inc:

Under date of December 21, 1998, we reported on the consolidated balance sheets of NetObjects, Inc. and subsidiary as of September 30, 1997 and 1998, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the period from November 21, 1995 (inception) to September 30, 1996, and for each of the years in the two-year period ended September 30, 1998, which are included in the prospectus. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules in the registration statement. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statement schedules have been prepared assuming that the Company will continue as a going concern. As discussed in note 1(d) to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 1(d). The consolidated financial statement schedules do not include any adjustments that might result from the outcome of this uncertainty.

Mountain View, California
December 21, 1998 except as to Note 8,
which is as of , 1998

S-1

NETOBJECTS, INC.
VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

	BALANCE AT BEGINNING OF FISCAL YEAR	ADDITIONS-- CHARGED TO COSTS AND EXPENSES	DEDUCTIONS-- WRITEOFFS	BALANCE AT END OF FISCAL YEAR
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Period from November 21, 1995 (inception) to September 30, 1996				
Allowance for doubtful accounts, returns and price protection.....	--	--	--	--
Year ended September 30, 1997				
Allowance for doubtful accounts, returns and price protection.....	--	\$ 1,905,810	\$ (1,150,228)	\$ 755,582
Year ended September 30, 1998				
Allowance for doubtful accounts, returns and price protection.....	\$ 755,582	\$ 4,691,000	\$ (3,183,475)	\$ 2,263,107

</TABLE>

S-2

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

NUMBER	DESCRIPTION
-----	-----
<C>	<S>
1.1	Form of Underwriting Agreement
3.1+	Restated Certificate of Incorporation of the Registrant

3.1.1+	Form of Restated Certificate of Incorporation to be in effect at the closing of the offering made under this Registration Statement
3.2+	Restated Bylaws of the Registrant as amended through the date of this Registration Statement
3.2.1+	Form of Amended and Restated Bylaws to be in effect upon the closing of the offering made under this Registration Statement
4.1+	Specimen stock certificate
4.2+	Form of Series C Preferred Stock Warrant
4.2.1+	Amendment to Series C Preferred Stock Warrant
4.3+	Form of Series E Preferred Stock Warrant
4.4+	Form of Series E-2 Preferred Stock Warrant
4.5+	Form of Series F Preferred Stock Warrant
5.1**	Opinion of McCutchen, Doyle, Brown & Enersen LLP
9.1+	Voting Agreement between NetObjects, Inc. and International Business Machines Corporation
10.1+	NetObjects, Inc. 1997 Stock Option Plan
10.1.1+	NetObjects, Inc. Amended and Restated 1997 Stock Option Plan to be in effect upon the closing of the offering made under this Registration Statement
10.1.2+	Form of Stock Option Agreement under the 1997 Stock Option Plan
10.1.3+	Form of Restricted Stock Purchase Agreement under the 1997 Stock Option Plan
10.1.4+	Form of Restricted Stock Transfer Agreement under the 1997 Stock Option Plan
10.2+	NetObjects, Inc. 1997 Special Stock Option Plan
10.3+	1999 Employee Stock Purchase Plan
10.4+*	IBM Software License Agreement (NetObjects License Agreement #L97063) by and between NetObjects and IBM dated as of March 18, 1997
10.4.1+*	Amendment Number 1 to NetObjects License Agreement L97063 dated as of April 30, 1997
10.4.2+*	Second Amendment to NetObjects License Agreement L97063 dated as of October 7, 1997
10.4.3+*	Third Amendment to NetObjects License Agreement L97063 dated as of December 16, 1997
10.4.4+*	Fourth Amendment to NetObjects License Agreement L97063 dated as of April 27, 1998
10.4.5+*	Fifth Amendment to NetObjects License Agreement L97063 dated as of January 14, 1999
10.4.6+*	Amendment No. 6 to NetObjects License Agreement L97063 dated as of September 18, 1998
10.4.7+*	Seventh Amendment to NetObjects License Agreement L97063 effective January 15, 1999
10.4.8+*	Eighth Amendment to NetObjects License Agreement L97063 dated September 18, 1998
10.4.9+*	Amendment No. 9 to NetObjects License Agreement effective January 21, 1999
10.4.10+	Amendment No. 10 to NetObjects License Agreement dated as of February 4, 1999
10.4.11+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of February 6, 1998
10.4.12+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of June 30, 1998

</TABLE>

<TABLE>

<CAPTION>

NUMBER

DESCRIPTION

<C>

<S>

10.4.13+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of January 14, 1999
10.4.14+*	Letter Agreement modifying NetObjects License Agreement L97063 dated as of March 25, 1999
10.5+	IBM Patent License Agreement by and between NetObjects and IBM dated as of April 10, 1997
10.6+	Lease Agreement by and between NetObjects and Metropolitan Life Insurance Company dated July 24, 1998
10.7	Lease Agreement by and between NetObjects Limited and HQ Executive Offices (UK) LTD dated February 15, 1999
10.8+	Revolving Loan and Security Agreement by and between NetObjects, Inc. and IBM Credit Corp. dated as of December 23, 1997
10.8.1+	Amendment to Revolving Loan and Security Agreement dated July 1998
10.9+	Note and Warrant Purchase Agreement by and among NetObjects, IBM and Perseus Capital LLC dated as of October 8, 1998
10.9.1+	Supplement to Note and Warrant Purchase Agreement dated as of February 4, 1999
10.10+	Technology Transfer Agreement between Rae Technology, Inc. and NetObjects, Inc. dated February 2, 1996
10.10.1	Amendment to Technology Transfer Agreement by and between Rae Technology and NetObjects dated as of March 18, 1997
10.11	Patent Transfer and License Agreement by and between Rae Technology LLC and NetObjects, Inc. dated as of April 10, 1997, as amended
10.12+	Technology License Agreement by and between NetObjects and Clement Mok Designs dated as of December 21, 1995
10.13+*	Distribution Agreement by and between Ingram Micro, Inc. and NetObjects, Inc. dated March 6, 1997
10.14+*	Commercial Application Partner Agreement by and between Sybase, Inc. and NetObjects, Inc. dated June 30, 1997
10.15+*	Master Distributor Agreement by and between Mitsubishi Corporation and NetObjects, Inc. dated September 30, 1997
10.16+*	Standard Inbound License Agreement by and between NetObjects and Novell effective September 30, 1998
10.16.1**	Amendment to Standard Inbound License Agreement by and between NetObjects and Novell effective April 2, 1999
10.17+*	Build-It License Agreement dated as of February 2, 1999
10.18+*	IBM Trademark License Agreement dated as of January 19, 1999
10.19+	Letter Agreement by and between NetObjects and John Sculley dated February 3, 1999
10.20	Sun Microsystems, Inc. Porting Agreement by and between Sun Microsystems, Inc. and NetObjects dated as of March 26, 1999
10.21**	Employment Agreement between Russell F. Surmanek and NetObjects dated as of April 5, 1999.
16.1+	Letter from Ernst & Young LLP dated February 5, 1999 regarding change in certifying accountant
21.1+	Subsidiaries of the Registrant
23.1	Consent of McCutchen, Doyle, Brown & Enersen LLP (included in its opinion to be filed as Exhibit 5.1 hereto)
23.2	Consent of KPMG LLP
24.1	Power of Attorney

+ Previously filed.

* Confidential treatment requested.

** To be filed by amendment.

6,000,000 Shares

NetObjects, Inc.

Common Stock

(\$.01 Par Value)

UNDERWRITING AGREEMENT

_____, 1999

BT Alex. Brown Incorporated
BancBoston Robertson Stephens
U.S. Bancorp Piper Jaffray Inc.

As Representatives of the
Several Underwriters
c/o BT Alex. Brown Incorporated
One South Street
Baltimore, Maryland 21202

Ladies and Gentlemen:

NetObjects, Inc., a Delaware corporation (the "Company"), proposes to sell to the several underwriters (the "Underwriters") named in Schedule I hereto for whom you are acting as Representatives (the "Representatives"), an aggregate of _____ shares of the Company's Common Stock, \$.01 par value (the "Firm Shares"). The respective amounts of the Firm Shares to be so purchased by the several Underwriters are set forth opposite their names in Schedule I hereto. The Company also proposes to sell at the Underwriters' option an aggregate of up to 900,000 additional shares of the Company's Common Stock (the "Option Shares") as set forth below. In addition, International Business Machines Corp., a New York corporation (the "Principal Stockholder"), is a party to this Agreement for purposes of Sections 1, 6 and 10 through 14, inclusive.

As the Representatives, you have advised the Company (a) that you are authorized to enter into this Agreement on behalf of the several Underwriters, and (b) that the several Underwriters are willing, acting severally and not jointly, to purchase the numbers of Firm Shares set forth opposite their respective names in Schedule I, plus their pro rata portion of the Option Shares if you elect to exercise the over-allotment option in whole

or in part for

the accounts of the several Underwriters. The Firm Shares and the Option Shares (to the extent the aforementioned option is exercised) are herein collectively called the "Shares."

In consideration of the mutual agreements contained herein and of the interests of the parties in the transactions contemplated hereby, the parties hereto agree as follows:

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE PRINCIPAL STOCKHOLDER.

(a) The Company represents and warrants to each of the Underwriters as follows:

(i) A registration statement on Form S-1 (File No. 333-_____) with respect to the Shares has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder and has been filed with the Commission. Copies of such registration statement, including any amendments thereto, the preliminary prospectuses (meeting the requirements of the Rules and Regulations) contained therein and the exhibits, financial statements and schedules, as finally amended and revised, have heretofore been delivered by the Company to you. Such registration statement (as described in the preceding sentence), together with any registration statement filed by the Company pursuant to Rule 462(b) of the Act, herein referred to as the "Registration Statement," which shall be deemed to include all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, has become effective under the Act and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. "Prospectus" means the form of prospectus first filed with the Commission pursuant to Rule 424(b)(1). Each preliminary prospectus included in the Registration Statement prior to the time it becomes effective is herein referred to as a "Preliminary Prospectus."

(ii) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own or lease its properties and conduct its business as presently conducted and as described in the Registration Statement. The sole subsidiary of the Company, NetObjects, Ltd. (the "Subsidiary"), has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority to own or lease its properties and conduct its business as presently conducted and as described in the Registration Statement. The Subsidiary is the only subsidiary, direct or indirect, of the Company. The Company and the Subsidiary are duly qualified to transact business in all jurisdictions in which the conduct of

their business requires such qualification except where the failure to so qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company and the Subsidiary taken as a whole. The outstanding shares of capital stock of the Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable and are owned by the Company free and clear of all liens, encumbrances and equities and claims; and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in the Subsidiary are outstanding.

2

(iii) The outstanding shares of Common Stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; the Shares to be issued and sold to the Underwriters by the Company have been duly authorized and when issued and paid for as contemplated herein will be validly issued, fully paid and non-assessable; and no preemptive rights of stockholders exist with respect to any of the Shares or the issue and sale thereof. Neither the filing of the Registration Statement nor the offering or sale of the Shares as contemplated by this Agreement gives rise to any rights, except as described in the Prospectus (and any amendment or supplement thereto) and other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock.

(iv) The information set forth under the caption "Capitalization" in the Prospectus is true and correct. All of the Shares conform to the description thereof contained in the Registration Statement. The form of certificates for the Shares conforms to the corporate law of the jurisdiction of the Company's incorporation.

(v) The Commission has not issued an order preventing or suspending the use of any Prospectus relating to the proposed offering of the Shares or instituted proceedings for that purpose. The Registration Statement contains, and the Prospectus and any amendments or supplements thereto will contain, all statements which are required to be stated therein by, and will conform to, the requirements of the Act and the Rules and Regulations. The Registration Statement and any amendment thereto do not contain, and will not contain, any untrue statement of a material fact and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Prospectus and any amendments and supplements thereto do not contain, and will not contain, any untrue statement of material fact; and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, however, that the Company makes no representations or warranties as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written

information furnished to the Company by or on behalf of any Underwriter through the Representatives [or by the Principal Stockholder], specifically for use in the preparation thereof.

(vi) The financial statements of the Company and the Subsidiary, together with related notes and schedules as set forth in the Registration Statement, present fairly the financial position and the results of operations and cash flows of the Company and the Subsidiary, at the indicated dates and for the indicated periods. Such financial statements and related schedules have been prepared in accordance with generally accepted accounting principles, consistently applied throughout the periods involved, except as disclosed therein, and all adjustments necessary for a fair presentation of results for such periods have been

3

made. The summary financial and statistical data included in the Registration Statement present fairly the information shown therein and such data have been compiled on a basis consistent with the financial statements presented therein and the books and records of the Company.

(vii) KPMG LLP, who have certified certain of the financial statements filed with the Commission as part of the Registration Statement, are independent public accountants as required by the Act.

(viii) There is no action, suit, claim or proceeding pending or, to the knowledge of the Company, threatened against the Company or the Subsidiary before any court or administrative agency or otherwise which if determined adversely to the Company or the Subsidiary might result in a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company and the Subsidiary taken as a whole or to prevent the consummation of the transactions contemplated hereby, except as set forth in the Registration Statement.

(ix) The Company and the Subsidiary have good and marketable title to all of the properties and assets reflected in the financial statements (or as described in the Registration Statement) hereinabove described, subject to no lien, mortgage, pledge, charge or encumbrance of any kind except those reflected in such financial statements (or as described in the Registration Statement) or which are not material in amount. The Company or the Subsidiary occupies their leased properties under valid and binding leases.

(x) The Company and the Subsidiary have filed all federal, state, local and foreign tax returns which have been required to be filed and have paid all taxes indicated by said returns and all assessments received by them or any of them to the extent that such taxes have become due or are being contested in good faith and for which an adequate reserve for accrual has been established in accordance with generally accepted accounting

principles. All tax liabilities have been adequately provided for in the financial statements of the Company, and the Company does not know of any actual or proposed additional material tax assessments.

(xi) Since the respective dates as of which information is given in the Registration Statement, as it may be amended or supplemented, there has not been any material adverse change or any development involving a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company and the Subsidiary taken as a whole whether or not occurring in the ordinary course of business, and there has not been any material transaction entered into or any material transaction that is probable of being entered into by the Company or the Subsidiary, other than transactions in the ordinary course of business and changes and transactions described in the Registration Statement, as it may be amended or supplemented. The

4

Company and the Subsidiary have no material contingent obligations which are not disclosed in the Company's financial statements that are included in the Registration Statement.

(xii) Neither the Company nor the Subsidiary is, or with the giving of notice or lapse of time or both will be, in violation of or in default under its Restated Certificate of Incorporation or Restated Bylaws or under any agreement, lease, contract, indenture or other instrument or obligation to which it is a party or by which it, or any of its properties, is bound and which default is of material significance in respect of the condition, financial or otherwise, of the Company and the Subsidiary taken as a whole or the business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Subsidiary taken as a whole. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated and the fulfillment of the terms hereof will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or the Subsidiary is a party, or of the Restated Certificate of Incorporation or Restated Bylaws of the Company or any order, rule or regulation applicable to the Company or the Subsidiary of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction.

(xiii) Each approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated (except such additional steps as may be required by the Commission, the National Association of Securities Dealers, Inc. (the "NASD") or such additional steps as may be necessary to qualify the Shares for public offering by the Underwriters under state securities or Blue

Sky laws) has been obtained or made and is in full force and effect.

(xiv) The Company and the Subsidiary hold all material licenses, certificates and permits from governmental authorities which are necessary to the conduct of their businesses as described in the Registration Statement; and neither the Company nor the Subsidiary has infringed any patents, patent rights, trade names, trademarks or copyrights, which infringement is material to the business, as described in the Registration Statement, of the Company and the Subsidiary taken as a whole. Except as otherwise disclosed in writing to the Underwriters, the Company knows of no material infringement by others of patents, patent rights, trade names, trademarks or copyrights owned by or licensed to the Company.

(xv) Neither the Company, nor to the Company's knowledge, any of its affiliates, has taken or may take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale

5

or resale of the Shares. The Company acknowledges that the Underwriters may engage in passive market making transactions in the Shares on The Nasdaq Stock Market in accordance with Regulation M under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(xvi) Neither the Company nor the Subsidiary is an "investment company" within the meaning of such term under the Investment Company Act of 1940, (as amended, the "1940 Act") and the rules and regulations of the Commission thereunder.

(xvii) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xviii) The Company and the Subsidiary carry, or are covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses as described in the Registration Statement and the value of their respective properties and as is customary for companies engaged in similar industries.

(xix) To the Company's knowledge, there are no affiliations or associations between any member of the NASD and any of the Company's

officers, directors or 5% or greater securityholders, except as set forth in the Registration Statement.

(xx) The Company and the Subsidiary have implemented procedures to analyze and address the risk that the computer hardware and software used by them may be unable to recognize and properly execute date-sensitive functions involving certain dates after December 31, 1999 (the "Year 2000 Problem"), and has determined, to the best of its knowledge, that such risk will be remedied on a timely basis without material expense and will not have a material adverse effect upon the financial condition and results of operations of the Company and the Subsidiary, taken as a whole; and the Company believes, after due inquiry, that each supplier, vendor, customer or financial service organization used or serviced by the Company and the Subsidiary has remedied or will remedy on a timely basis the Year 2000 Problem, except to the extent that a failure to remedy by any such supplier, vendor, customer or financial service organization would not have a material adverse effect on the Company and the Subsidiary, taken as a whole.

(b) The Principal Stockholder represents and warrants to each of the Underwriters as follows:

6

(i) Without having undertaken to determine independently the accuracy or completeness of either the representations and warranties of the Company contained herein or the information contained in the Registration Statement, except as provided for in Section 1(b)(ii) and 1(b)(iii) below, the Principal Stockholder has no reason to believe that the representations and warranties of the Company contained in this Section 1(a) are not true and correct.

(ii) Each Preliminary Prospectus did not, and the Registration Statement and the Prospectus and any amendments or supplements thereto, when they become effective or are filed with the Commission, as the case may be, did not and will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(iii) The information related to the Principal Stockholder, including information related to the Principal Stockholder set forth under the captions "Relationship with IBM", "Risk Factors--Dependence on IBM and Potential Conflicts", "Management's Discussion and Analysis of Financial Condition and Results of Operation", "Business", "Management", "Certain Transactions" and "Principal Stockholders" in the Prospectus is complete and accurate in all material respects, and the Prospectus fairly describes in all material respects the relationship between the Company and the Principal Stockholder, including the investment risks associated therewith as described under the caption "Risk Factors--Dependence on IBM Relationship and Potential Conflicts."

2. PURCHASE, SALE AND DELIVERY OF THE FIRM SHARES.

(a) On the basis of the representations, warranties and covenants herein contained, and subject to the conditions herein set forth, the Company agrees to sell to the Underwriters and each Underwriter agrees, severally and not jointly, to purchase, at a price of \$_____ per share, the number of Firm Shares set forth opposite the name of each Underwriter in Schedule I hereof, subject to adjustments in accordance with Section 9 hereof.

(b) Payment for the Firm Shares to be sold hereunder is to be made by wire transfer in Federal (same day) funds against delivery of certificates therefor to the Representatives for the several accounts of the Underwriters. Such payment and delivery are to be made through the facilities of the Depository Trust Company, New York, New York at 10:00 a.m., New York time, on the third business day after the date of this Agreement or at such other time and date not later than five business days thereafter as you and the Company shall agree upon, such time and date being herein referred to as the "Closing Date." If the Representatives so elect, delivery of the Firm Shares may be made by credits through full fast transfer to the accounts at the Depository Trust Company designated by the

7

Representatives. (As used herein, "business day" means a day on which the New York Stock Exchange is open for trading and on which banks in New York are open for business and are not permitted by law or executive order to be closed.)

(c) In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the several Underwriters to purchase the Option Shares at the price per share as set forth in the first paragraph of this Section 2. The option granted hereby may be exercised in whole or in part by giving written notice (i) at any time before the Closing Date and (ii) only once thereafter within 30 days after the date of this Agreement, by you, as Representatives of the several Underwriters, to the Company setting forth the number of Option Shares as to which the several Underwriters are exercising the option, the names and denominations in which the Option Shares are to be registered and the time and date at which such certificates are to be delivered. The time and date at which the Option Shares are to be delivered shall be determined by the Representatives but shall not be earlier than three nor later than 10 full business days after the exercise of such option, nor in any event prior to the Closing Date (such time and date being herein referred to as the "Option Closing Date"). If the date of exercise of the option is three or more days before the Closing Date, the notice of exercise shall set the Closing Date as the Option Closing Date. The number of Option Shares to be purchased by each Underwriter shall be in the same proportion to the total number of Option Shares being purchased as the number of Firm Shares being purchased by such Underwriter bears to the

total number of Firm Shares purchased by the Underwriters, adjusted by you in such manner as to avoid fractional shares. The option with respect to the Option Shares granted hereunder may be exercised only to cover over-allotments in the sale of the Firm Shares by the Underwriters. You, as Representatives of the several Underwriters, may cancel such option at any time prior to its expiration by giving written notice of such cancelation to the Company. To the extent, if any, that the option is exercised, payment for the Option Shares shall be made on the Option Closing Date, by wire transfer, in Federal (same day funds) through the facilities of the Depository Trust Company in New York, New York drawn to the order of the Company.

3. OFFERING BY THE UNDERWRITERS.

It is understood that the several Underwriters are to make a public offering of the Firm Shares as soon as the Representatives deem it advisable to do so. The Firm Shares are to be initially offered to the public at the initial public offering price set forth in the Prospectus. The Representatives may from time to time thereafter change the public offering price and other selling terms. To the extent, if at all, that any Option Shares are purchased pursuant to Section 2 hereof, the Underwriters will offer them to the public on the foregoing terms.

8

It is further understood that you will act as the Representatives for the Underwriters in the offering and sale of the Shares in accordance with a Master Agreement Among Underwriters entered into by you and the several other Underwriters.

4. COVENANTS OF THE COMPANY.

The Company covenants and agrees with the several Underwriters that:

(a) The Company will (A) use its best efforts to cause the Registration Statement to become effective or, if the procedure in Rule 430A of the Rules and Regulations is followed, to prepare and timely file with the Commission under Rule 424(b) of the Rules and Regulations a Prospectus in a form approved by the Representatives containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A of the Rules and Regulations and (B) not file any amendment to the Registration Statement or supplement to the Prospectus of which the Representatives shall not previously have been advised and furnished with a copy or to which the Representatives shall have reasonably objected in writing or which is not in compliance with the Rules and Regulations.

(b) The Company will advise the Representatives promptly (A) when the Registration Statement or any post-effective amendment thereto shall

have become effective, (B) of receipt of any comments from the Commission, (C) of any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and (D) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution of any proceedings for that purpose. The Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus and to obtain as soon as possible the lifting thereof, if issued.

(c) The Company will cooperate with the Representatives in endeavoring to qualify the Shares for sale under the securities laws of such jurisdictions as the Representatives may reasonably have designated in writing and will make such applications, file such documents, and furnish such information as may be reasonably required for that purpose, PROVIDED the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not now so qualified or required to file such a consent. The Company will, from time to time, prepare and file such statements, reports, and other documents, as are or may be required to continue such qualifications in effect for so long a period as the Representatives may reasonably request for distribution of the Shares.

(d) The Company will deliver to, or upon the order of, the Representatives, from time to time, as many copies of any Preliminary Prospectus as the Representatives may reasonably request. The Company will deliver to, or upon the order of, the Representatives

9

during the period when delivery of a Prospectus is required under the Act, as many copies of the Prospectus in final form, or as thereafter amended or supplemented, as the Representatives may reasonably request. The Company will deliver to the Representatives at or before the Closing Date, four signed copies of the Registration Statement and all amendments thereto including all exhibits filed therewith, and will deliver to the Representatives such number of copies of the Registration Statement (including such number of copies of the exhibits filed therewith that may reasonably be requested), and of all amendments thereto, as the Representatives may reasonably request.

(e) The Company will comply with the Act and the Rules and Regulations, and the Exchange Act and the rules and regulations of the Commission thereunder, so as to permit the completion of the distribution of the Shares as contemplated in this Agreement and the Prospectus. If during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event shall occur as a result of which, in the judgment of the Company or in the reasonable opinion of the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances existing at the time

the Prospectus is delivered to a purchaser, not misleading, or, if it is necessary at any time to amend or supplement the Prospectus to comply with any law, the Company promptly will prepare and file with the Commission an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in the light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with the law.

(f) The Company will make generally available to its security holders, as soon as it is practicable to do so, but in any event not later than 15 months after the effective date of the Registration Statement, an earnings statement (which need not be audited) in reasonable detail, covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement, which earning statement shall satisfy the requirements of Section 11(a) of the Act and Rule 158 of the Rules and Regulations and will advise you in writing when such statement has been so made available.

(g) Prior to the Closing Date, if available, the Company will furnish to the Underwriters, as soon as they have been prepared by or are available to the Company, a copy of any unaudited interim financial statements of the Company for any period subsequent to the period covered by the most recent financial statements appearing in the Registration Statement and the Prospectus.

(h) No offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other securities convertible into or exchangeable or exercisable for shares of Common Stock or derivative of Common Stock (or agreement for such) will be made for a period of 180 days after the date of this Agreement, directly or indirectly, by the

10

Company otherwise than hereunder or with the prior written consent of BT Alex. Brown Incorporated.

(i) The Company will use its best efforts to list, subject to notice of issuance, the Shares on the Nasdaq Stock Market.

(j) The Company has caused each officer and director and certain stockholders of the Company to furnish to you, on or prior to the date of this agreement, a letter or letters, in form and substance satisfactory to the Underwriters, pursuant to which each such person shall agree (the "Lockup Agreements") that, without the prior written consent of BT Alex. Brown, he or she shall not, directly or indirectly offer, sell, pledge, contract to sell (including any short sale), grant any option to purchase or otherwise dispose of any shares of Common Stock (including, without limitation, Shares which may be deemed to be beneficially owned on the date hereof in accordance with the rules and regulations of the Securities and Exchange Commission and shares of Common Stock which may be issued upon exercise of a stock option

or warrant) or enter into any Hedging Transaction (as defined below) relating to the Shares (each of the foregoing referred to as a "Disposition") for a period of 180 days after the effective date of the registration statement relating to the Public Offering (the "Lock-Up Period"). The foregoing restriction is expressly intended to preclude such person from engaging in any Hedging Transaction or other transaction which is designed to or reasonably expected to lead to or result in a Disposition during the Lock-Up Period even if the securities would be disposed of by someone other than such officer, director and stockholder. "Hedging Transaction" means any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Shares. Notwithstanding the foregoing, such officer, director or stockholder may transfer any or all of the Shares by gift (including a gift to a "charitable organization" as described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended), will or intestacy. Notwithstanding the foregoing, a stockholder which is a venture capital fund may distribute its Shares to any of its then-current or former partners. It shall be a condition to any such permitted transfer by gift, will, or intestacy or distribution by a venture capital fund that the transferee execute an agreement obliging such person to hold the transferred Shares subject to the provisions of the Lockup Agreement.

(k) The Company shall apply the net proceeds of its sale of the Shares as set forth in the Prospectus, including payments to the Principal Stockholder and its affiliates, and shall file such reports with the Commission with respect to the sale of the Shares and the application of the proceeds therefrom as may be required in accordance with Rule 463 under the Act.

11

(l) The Company shall not invest, or otherwise use, the proceeds received by the Company from its sale of the Shares in such a manner as would require the Company or the Subsidiary to register as an investment company under the 1940 Act.

(m) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Common Stock.

(n) The Company will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

(o) The Company shall deliver all other certificates and documents reasonably requested by the Underwriters or their counsel.

(p) The Company shall have the Underwriters named as additional

insureds on the directors and officers liability insurance policy and such insurance shall remain in effect for three years and two months [from the date of the Prospectus].

12

5. COSTS AND EXPENSES.

The Company will pay all costs, expenses and fees incident to the performance of the obligations of the Company under this Agreement, including, without limiting the generality of the foregoing, the following: accounting fees of the Company; the fees and disbursements of counsel for the Company; the cost of printing and delivering to, or as requested by, the Underwriters copies of the Registration Statement, Preliminary Prospectuses, the Prospectus, this Agreement, the Underwriters' Selling Memorandum, the Underwriters' Invitation Letter, the Listing Application, the Blue Sky Survey and any supplements or amendments thereto; the filing fees of the Commission; the filing fees and expenses (including legal fees and disbursements) incident to securing any required review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Shares; the Listing Fee of the Nasdaq Stock Market; and the expenses, including the fees and disbursements of counsel for the Underwriters, incurred in connection with the qualification of the Shares under state securities or Blue Sky laws. The Company agrees to pay all costs and expenses of the Underwriters incident to the offer and sale of directed shares of the Common Stock by the Underwriters to employees and persons having business relationships with the Company and the Subsidiary. The Company shall not, however, be required to pay for any of the Underwriters' expenses (other than those related to qualification under NASD regulation and State securities or Blue Sky laws) except that, if this Agreement shall not be consummated because the conditions in Section 6 hereof are not satisfied, or because this Agreement is terminated by the Representatives pursuant to Section 11 hereof, or by reason of any failure, refusal or inability on the part of the Company to perform any undertaking or satisfy any condition of this Agreement or to comply with any of the terms hereof on its part to be performed, unless such failure to satisfy said condition or to comply with said terms be due to the default or omission of any Underwriter, then the Company shall reimburse the several Underwriters for reasonable out-of-pocket expenses, including fees and disbursements of counsel, reasonably incurred in connection with investigating, marketing and proposing to market the Shares or in contemplation of performing their obligations hereunder; but the Company shall not in any event be liable to any of the several Underwriters for damages on account of loss of anticipated profits from the sale by them of the Shares.

6. CONDITIONS OF OBLIGATIONS OF THE UNDERWRITERS.

The several obligations of the Underwriters to purchase the Firm Shares on the Closing Date and the Option Shares, if any, on the Option Closing Date are subject to the accuracy, as of the Closing Date or the

Option Closing Date, as the case may be, of the representations and warranties of the Company and the Principal Stockholder contained herein, and to the performance by the Company of its covenants and obligations hereunder and to the following additional conditions:

13

(a) The Registration Statement and all post-effective amendments thereto shall have become effective and any and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made, and any request of the Commission for additional information (to be included in the Registration Statement or otherwise) shall have been disclosed to the Representatives and complied with to their reasonable satisfaction. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, are contemplated by the Commission and no injunction, restraining order, or order of any nature by a federal or state court of competent jurisdiction shall have been issued as of the Closing Date which would prevent the issuance of the Shares.

(b) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, the opinion of McCutchen, Doyle, Brown & Enerson, LLP, counsel for the Company, dated the Closing Date or the Option Closing Date, as the case may be, addressed to the Underwriters (and stating that it may be relied upon by counsel to the Underwriters) to the effect that:

(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own or lease its properties and conduct its business as presently conducted and as described in the Registration Statement; the Subsidiary has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority to own or lease its properties and conduct its business as presently conducted and as described in the Registration Statement; the Company and the Subsidiary are duly qualified to transact business in all jurisdictions in which the conduct of their business requires such qualification, or in which the failure to qualify would have a materially adverse effect upon the business of the Company and the Subsidiary taken as a whole; and the outstanding shares of capital stock of the Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable and are owned by the Company; and, to the best of such counsel's knowledge, the outstanding shares of capital stock of the Subsidiary are owned free and clear of all liens, encumbrances and equities and claims, and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into any shares of capital stock or of ownership interests in the Subsidiary are outstanding.

a summary of documents referred to therein or matters of law, fairly summarize in all material respects the information called for with respect to such documents and matters.

(vii) Such counsel does not know of any contracts or documents required to be filed as exhibits to the Registration Statement or described in the

15

Registration Statement or the Prospectus which are not so filed or described as required, and such contracts and documents as are summarized in the Registration Statement or the Prospectus are fairly summarized in all material respects.

(viii) Such counsel knows of no material legal or governmental proceedings pending or threatened against the Company or the Subsidiary except as set forth in the Prospectus.

(ix) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated do not and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the Restated Certificate of Incorporation or Restated Bylaws of the Company, or any agreement or instrument known to such counsel to which the Company or the Subsidiary is a party or by which the Company or the Subsidiary may be bound.

(x) This Agreement has been duly authorized, executed and delivered by the Company.

(xi) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body is necessary in connection with the execution and delivery of this Agreement and the consummation of the transactions herein contemplated (other than as may be required by the NASD or as required by state securities and Blue Sky laws as to which such counsel need express no opinion) except such as have been obtained or made, specifying the same.

(xii) The Company is not, and will not become, as a result of the consummation of the transactions contemplated by this Agreement and application of the net proceeds therefrom as described in the Prospectus, required to register as an investment company under the 1940 Act.

(xiii) To the knowledge of such counsel and except as described in the Prospectus (and any amendments or supplement thereto), the Company and the Subsidiary hold all material licenses, certificates and permits from governmental authorities which are necessary to the

conduct of their businesses as described in the Registration Statement. To the knowledge of such counsel and except as described in the Prospectus (and any amendments or supplement thereto), neither the Company nor the Subsidiary has infringed any patents, patent rights, trade names, trademarks or copyrights, which infringement is material to the business of the Company and the Subsidiary taken as a whole as described in the Registration Statement.

16

In rendering such opinion McCutchen, Doyle, Brown & Enerson, LLP may rely as to matters governed by the laws of states other than Delaware or California or Federal laws on local counsel in such jurisdictions, PROVIDED that in each case McCutchen, Doyle, Brown & Enerson, LLP shall state that they believe that they and the Underwriters are justified in relying on such other counsel. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that (i) the Registration Statement, at the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules and statistical information therein). With respect to such statement, McCutchen, Doyle, Brown & Enerson, LLP may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(c) The Representatives shall have received from Cravath, Swaine & Moore, counsel for the Underwriters, an opinion dated the Closing Date or the Option Closing Date, as the case may be, substantially to the effect specified in subparagraphs (ii), (iii), (iv) and (ix) of Paragraph (b) of this Section 6, and that the Company is a duly organized and validly existing corporation under the laws of the State of Delaware. In rendering such opinion Cravath, Swaine & Moore may rely as to all matters governed other than by the laws of the States of Delaware or New York or Federal laws on the opinion of counsel referred to in Paragraph (b) of this Section 6. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that (i) the Registration Statement, or any amendment thereto, as of the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) as of the Closing Date or the Option Closing Date,

as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules and statistical information therein).

17

With respect to such statement, Cravath, Swaine & Moore may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(d) You shall have received, on each of the dates hereof, the Closing Date and the Option Closing Date, as the case may be, a letter dated the date hereof, the Closing Date or the Option Closing Date, as the case may be, in form and substance satisfactory to you, of KPMG LLP confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating that in their opinion the financial statements and schedules examined by them and included in the Registration Statement comply in form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations; and containing such other statements and information as is ordinarily included in accountants' "comfort letters" to Underwriters with respect to the financial statements and certain financial and statistical information contained in the Registration Statement and Prospectus, including a report with respect to a review of unaudited interim financial information of the Company for the eight quarters ending [March 31], 1999 in accordance with Statement on Auditing Standards No. 71.

(e) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, a certificate or certificates of the Chief Executive Officer and the Chief Financial Officer of the Company to the effect that, as of the Closing Date or the Option Closing Date, as the case may be, each of them severally represents as follows:

(i) The Registration Statement has become effective under the Act and no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for such purpose have been taken or are, to his knowledge, contemplated by the Commission;

(ii) The representations and warranties of the Company contained in Section 1 hereof are true and correct as of the Closing Date or the Option Closing Date, as the case may be;

(iii) All filings required to have been made pursuant to Rules 424 or 430A under the Act have been made;

18

(iv) He or she has carefully examined the Registration Statement and the Prospectus (and any amendments or supplements thereto) and, in his or her opinion, as of the effective date of the Registration Statement, the statements contained in the Registration Statement were true and correct, and such Registration Statement and Prospectus did not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, and since the effective date of the Registration Statement, no event has occurred which should have been set forth in a supplement to or an amendment of the Prospectus which has not been so set forth in such supplement or amendment; and

(v) Since the respective dates as of which information is given in the Registration Statement and Prospectus (and any amendments or supplements thereto), there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company and the Subsidiary taken as a whole or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Subsidiary taken as a whole, whether or not arising in the ordinary course of business.

(f) The Company shall have furnished to the Representatives such further certificates and documents confirming the representations and warranties, covenants and conditions contained herein and related matters as the Representatives may reasonably have requested.

(g) The Firm Shares and Option Shares, if any, shall have been approved for designation upon notice of issuance on the Nasdaq Stock Market.

(h) The Lockup Agreements described in Section 4 (j) shall be in full force and effect.

If any of the conditions hereinabove provided for in this Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, the obligations of the Underwriters hereunder may be terminated by the Representatives by notifying the Company of such termination in writing or by telegram at or prior to the Closing Date or the Option Closing Date, as the case may be.

In such event, the Company and the Underwriters shall not be under any obligation to each other (except to the extent provided in Sections 5 and 8 hereof).

7. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY.

The obligations of the Company to sell and deliver the portion of the Shares required to be delivered as and when specified in this Agreement are subject to the conditions that at the Closing Date or the Option Closing Date, as the case may be, no stop order suspending the effectiveness of the Registration Statement shall have been issued and in effect or proceedings therefor initiated or threatened.

8. INDEMNIFICATION.

(a) The Company agrees:

(1) to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities to which such Underwriter or any such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any alleged act or failure to act by any Underwriter in connection with, or relating in any manner to, the Shares or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (PROVIDED, that the Company shall not be liable under this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such acts or failures to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct); PROVIDED, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof.

(2) to reimburse each Underwriter and each such controlling person upon demand for any legal or other out-of-pocket expenses reasonably incurred by such Underwriter or such controlling person in

connection with investigating or defending any such loss, claim, damage or liability, action or proceeding or in responding to a

20

subpoena or governmental inquiry related to the offering of the Shares, whether or not such Underwriter or controlling person is a party to any action or proceeding. In the event that it is finally judicially determined that the Underwriters were not entitled to receive payments for legal and other expenses pursuant to this subparagraph, the Underwriters will promptly return all sums that had been advanced pursuant hereto.

(b) Each Underwriter severally and not jointly will indemnify and hold harmless the Company, each of its directors and each of its officers who have signed the Registration Statement, and each person, if any, who controls the Company within the meaning of the Act, against any losses, claims, damages or liabilities to which the Company, or any such director, officer, or controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made; and will reimburse any legal or other expenses reasonably incurred by the Company, or any such director, officer, or controlling person upon demand in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; PROVIDED, however, that each Underwriter will be liable in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission has been made in the Registration Statement, any Preliminary Prospectus, the Prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to this Section 8, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing. No indemnification provided for in Section 8(a) or (b) shall be available to any party who shall fail to give notice as provided in this Section 8(c) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was materially prejudiced by the failure to give such notice, but the failure to give such notice shall not relieve the indemnifying party or parties from any liability which it or they may

have to the indemnified party for contribution or otherwise than on account of the provisions of Section 8(a) or (b). In case any such proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any

21

other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party and shall pay as incurred the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel at its own expense. Notwithstanding the foregoing, the indemnifying party shall pay as incurred (or within 30 days of presentation) the fees and expenses of the counsel retained by the indemnified party in the event (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them or (iii) the indemnifying party shall have failed to assume the defense and employ counsel reasonably satisfactory to the indemnified party within a reasonable period of time after notice of commencement of the action. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm for all such indemnified parties. Such firm shall be designated in writing by BT Alex. Brown Incorporated in the case of parties indemnified pursuant to Section 8(a), and by the Company in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, the indemnifying party will not, without the prior written consent of the indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding of which indemnification may be sought hereunder (whether or not any indemnified party is an actual or potential party to such claim, action or proceeding) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action or proceeding.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or (b) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or

payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, (or

22

actions or proceedings in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to above in this Section 8(d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), (i) no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions applicable to the Shares purchased by such Underwriter and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this Section 8(d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus or any supplement or amendment thereto, each party against whom contribution may be sought under this

Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

(f) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 8 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 8 and the representations and warranties of the Company set forth in this

23

Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any persons controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

9. DEFAULT BY UNDERWRITERS.

If on the Closing Date or the Option Closing Date, as the case may be, any Underwriter shall fail to purchase and pay for the portion of the Shares which such Underwriter has agreed to purchase and pay for on such date (otherwise than by reason of any default on the part of the Company), you, as Representatives of the Underwriters, shall use your reasonable efforts to procure within 36 hours thereafter one or more of the other Underwriters, or any others, to purchase from the Company such amounts as may be agreed upon and upon the terms set forth herein, the Firm Shares or Option Shares, as the case may be, which the defaulting Underwriter or Underwriters failed to purchase. If during such 36 hours you, as such Representatives, shall not have procured such other Underwriters, or any others, to purchase the Firm Shares or Option Shares, as the case may be, agreed to be purchased by the defaulting Underwriter or Underwriters, then (a) if the aggregate number of shares with respect to which such default shall occur does not exceed 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the other Underwriters shall be obligated, severally, in proportion to the respective numbers of Firm Shares or Option Shares, as the case may be, which they are obligated to purchase hereunder, to purchase the Firm Shares or Option Shares, as the case may be, which such defaulting Underwriter or Underwriters failed to purchase, or (b) if the aggregate number of shares of Firm Shares or Option Shares, as the case may be, with respect to which such

default shall occur exceeds 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the Company or you as the Representatives of the Underwriters will have the right, by written notice given within the next 36-hour period to the parties to this Agreement, to terminate this Agreement without liability on the part of the non-defaulting Underwriters or of the Company except to the extent provided in Section 8 hereof. In the event of a default by any Underwriter or Underwriters, as set forth in this Section 9, the Closing Date or Option Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as you, as Representatives, and the Company may determine in order that the required changes in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

24

10. NOTICES.

All communications hereunder shall be in writing and, except as otherwise provided herein, will be mailed, delivered, telecopied or telegraphed and confirmed as follows: if to the Underwriters, to BT Alex. Brown Incorporated, One South Street, Baltimore, Maryland 21202, Attention: Daniel E. McIntyre; with a copy to BT Alex. Brown Incorporated, One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, Attention: General Counsel; if to the Company, to NetObjects, Inc., 301 Galveston Drive, Redwood City, California 94063, Attention: General Counsel; if to the Principal Stockholder, to International Business Machines Corp., New Orchard Road, Armonk, New York 10504, Attention: Archie W. Colburn, Corp. Development Executive and Andrew Bonzani, Senior Counsel.

11. TERMINATION.

(a) This Agreement may be terminated by you by notice to the Company at any time prior to the Closing Date if any of the following has occurred: (i) since the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company and the Subsidiary taken as a whole or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Subsidiary taken as a whole, whether or not arising in the ordinary course of business, (ii) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of the United States would, in your reasonable judgment, make it impracticable or inadvisable to market the Shares or to enforce contracts for the sale of the

Shares, or (iii) suspension of trading in securities generally on the New York Stock Exchange or the American Stock Exchange or limitation on prices (other than limitations on hours or numbers of days of trading) for securities on either such Exchange, (iv) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which in your opinion materially and adversely affects or may materially and adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by United States or New York State authorities, (vi) the suspension of trading of the Company's common stock by the Nasdaq Stock Market, the Commission, or any other governmental authority or (vii) the taking of any action by any governmental body or agency in respect of its monetary or fiscal affairs which in your reasonable opinion has a material adverse effect on the securities markets in the United States; or (b) as provided in Sections 6 and 9 of this Agreement.

12. SUCCESSORS.

25

This Agreement has been and is made solely for the benefit of the Underwriters, the Company and the Principal Stockholder and their respective successors, executors, administrators, heirs and assigns, and the officers, directors and controlling persons referred to herein, and no other person will have any right or obligation hereunder. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign merely because of such purchase.

13. INFORMATION PROVIDED BY UNDERWRITERS.

The Company and the Underwriters acknowledge and agree that the only information furnished or to be furnished by any Underwriter to the Company for inclusion in any Prospectus or the Registration Statement consists of the information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), legends required by Item 502(d) of Regulation S-K under the Act and the information under the caption "Underwriting" in the Prospectus.

14. MISCELLANEOUS.

The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or its directors or officers and (c) delivery of and payment for the Shares under this Agreement.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall

constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Maryland.

26

If the foregoing letter is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Company, the Principal Stockholder as to Sections 1, 6 and 10 through 14, inclusive, and the several Underwriters in accordance with its terms.

Very truly yours,

NETOBJECTS, INC.

By:

Name:

Title:

INTERNATIONAL BUSINESS MACHINES CORP.

By:

Name:

Title:

27

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

BT ALEX. BROWN INCORPORATED
BANCOSTON ROBERTSON STEPHENS
U.S. BANCORP PIPER JAFFRAY INC.

As Representatives of the several Underwriters listed on Schedule I

By: BT ALEX. BROWN INCORPORATED

By: _____
Authorized Officer

SCHEDULE I

SCHEDULE OF UNDERWRITERS

<TABLE>
<CAPTION>

Underwriter -----	Number of Firm Shares to be Purchased -----
<S>	<C>
BT Alex. Brown Incorporated	
BancBoston Robertson Stephens	
U.S. Bancorp Piper Jaffray Inc.	

</TABLE>

Total

1. DEFINITIONS

In this Lease the following expressions shall mean

- 1.1 "The Inclusive Services" - the services specified in The First Schedule
- 1.2 "The Chargeable Services" - any services from time to time provided by the Landlord (other than the Inclusive Services)

2. DEMISE

The Landlord demises to the Tenant Offices 1.12 Deacon House and 1.18 Deacon House, ("the Premises") at St Mary's Court, The Broadway, Old Amersham, Bucks, HP7 0UT

3. RIGHTS AND RESERVATIONS

The premises are demised

- 3.1 Together with the right (in common with the Landlord and all others from time to time entitled) to use:-
- 3.1.1 the common parts of the Building for the purpose only of access to the Premises and
- 3.1.2 such toilet washroom and kitchen facilities as the Landlord shall from time to time designate for the Tenant's use and
- 3.2 Subject to the right of the Landlord (and all others authorised from time to time by the Landlord) to use any service conducting media within the Premises

4. TERM

The term granted by this Lease shall commence on 15th February 1999 and shall expire on 14th August 1999

5. RENT

The rent payable shall be L5,120 per month (plus VAT at the prevailing rate) payable monthly in advance on the first day of

each month being inclusive of the Inclusive Services as set out in the First Schedule

6. TENANT'S COVENANTS

The Tenant covenants with the Landlord:-

- 6.1 to pay the rent and chargeable services reserved by this Lease without any deduction by means of a Direct Debit authority
- 6.2 to pay the Landlord all costs and expenses (including legal costs and surveyors' fees) which may be incurred by the Landlord in connection with the recovery of arrears of rent or other monies payable under this Lease or for the purposes of or incidental to the preparation and service of any notices or proceedings under section 146 of the Law of Property Act 1925 notwithstanding that forfeiture may be avoided otherwise than by relief granted by the Court
- 6.3 to keep the Premises and all Landlord's fixtures, fittings and equipment in the same state of repair and condition as they are now in as evidenced by the attached Schedule of Condition (fair wear and tear excepted)
- 6.4 not to damage any of the decorations of the Premises or any of the fixtures, fittings and equipment provided by the Landlord for use by the Tenant
- 6.5 to permit the Landlord and those authorised by the Landlord to enter the premises for any reasonable purpose, including in connection with the maintenance, repair and alteration of the Building or anything serving or running through the Building, subject to the Landlord making good all damage thereby occasioned to the Premises
- 6.6 not to make any alteration or addition to the Premises
- 6.7 to comply with all statutory requirements relating to the Premises, including all town and country planning legislation
- 6.8 not to assign sublet or part with or share possession of the whole or any part or parts of the Premises
- 6.9 not to display or affix any notice advertisement placard or name plate to any part of the Premises or Building
- 6.10 not to use the Premises other than as high-class offices in connection with the Tenant's business
 - 6.10.1 not to do on the Premises or the Building anything which may be a

nuisance or annoyance or cause danger, injury or damage to the Landlord or its tenants

- 6.10.2 not to invite the public generally to come to the Premises, and not to use the Premises for a purpose which attracts casual callers
- 6.11 not to do or omit anything whereby any policy of insurance on the Premises or the Building may become void or voidable or otherwise prejudiced, or whereby the premium may be increased
- 6.12 to pay VAT (or similar tax which shall replace VAT) on all taxable supplies received by the Tenant pursuant to this Lease and, if required by the Landlord, on the rent reserved
- 6.13 to comply with such regulations as the Landlord may from time to time impose in relation to the use of the Premises, the use of any toilets washrooms and kitchen facilities in the Building, the management of the Building, or the provision of the Chargeable Services
- 6.14 not to use the address of the Premises as the Tenant's registered office
- 6.15 the Landlord shall retain a service retainer of L10,240 (already held) on exchange of this Lease
- 6.16 if and whenever the Tenant fails to pay the rent or any other monies due under this Lease on the due date (whether formally demanded or not), the Tenant shall pay to the Landlord interest at 5% above National Westminster Bank base rate from time to time on such rent or other monies in arrears calculated from the due date to the date of payment subject to a minimum of L200
- 6.17 to keep the Landlord indemnified from and against all expenses, loss and claims arising from any breach of the Tenant's obligations contained in this Lease, or from the use of the Premises by the Tenant, or arising from any act, neglect or default of the Tenant
- 6.18 not, without the previous written consent of the Landlord, to install any fixtures, fittings or equipment in the Premises
- 6.19 not during the term of this Lease or for a period of 6 months after the expiration or sooner determination of the term of this Lease to employ (directly or indirectly) any person who has been in the employment of the Landlord at the Building during the term and if the Tenant breaches the provisions of this clause the Tenant shall pay to the Landlord on demand by way of liquidated

damages an amount equal to 40% of the gross remuneration of such employee

- 6.20 not to use any electrical appliance within the demised premises which has not been tested on a regular basis in accordance with The Electricity At Work Regulations (1989).
- 6.21 not bring any animal into the Premises or the Building
- 6.22 not to smoke in any part of the Building or Premises

7. LANDLORD'S COVENANTS

The Tenant paying the rent reserved by this Lease and performing and observing the obligations on the part of the Tenant contained in this Lease, the Landlord agrees with the Tenant:-

- 7.1 that the Tenant may peaceably hold and enjoy the Premises during the term without any interruption
- 7.2 to use reasonable endeavours to provide the Inclusive Services
- 7.3 to indemnify the Tenant against all business rates and water charges payable in respect of the Premises
- 7.4 to refund the service retainer on the determination of this Lease less any sums due to the Landlord pursuant to the provisions of this Lease
- 7.5 to grant 24 hour access 7 days a week to the Building and Premises

8. PROVISOS

- 8.1 If and whenever the rent hereby reserved or made payable by the Tenant or any part thereof shall be in arrears and unpaid for seven days after the same shall have become due (whether the same shall have been formally demanded or not) or if the Tenant shall become bankrupt or shall have an interim receiver appointed or shall enter into any arrangement or composition with his creditors or being a company shall enter into liquidation (other than a voluntary liquidation for the purpose of reconstruction or amalgamation) have an administrative receiver appointed or an administration order made against it or if the Tenant shall at any time fail or neglect to perform or observe any of the covenants conditions or agreements contained in this Lease and on the part of the Tenant to be performed or observed then and in

such case and thenceforth it shall be lawful for the Landlord or any person or persons duly authorised by the Landlord in that behalf to re-enter into and upon the Premises or any part thereof in the name of the whole and thereupon the term hereby created shall absolutely determine but without prejudice to any right or antecedent breach of any of the covenants by the Tenant contained in this Lease

8.2 The Landlord shall not be liable or responsible for any loss injuries or damage sustained by the Tenant or any invitee or licensee of the Tenant (either personally or to their property) and the Landlord shall not be liable to the Tenant for any damage which may be caused by stoppage or defect of any plant or machinery in or in service to the Premises or the failure of the Landlord for reasons beyond the Landlord's reasonable control to provide the Inclusive Services or for any loss or damage occasioned by any errors or omissions arising from the provision of the Inclusive Services and/or the Chargeable services

8.3 If the Premises or any part shall at any time be destroyed so as to be unfit for occupation or use, then, save to the extent that the insurance of the Premises shall have been vitiated or payment of the policy monies refused by or in consequence of any act, neglect, omission or default of the Tenant, the rent payable pursuant to this

Lease, or a fair proportion thereof according to the nature and extent of the damage sustained shall, from the date of such damage or destruction, be suspended and cease to be payable until the Premises shall have been rebuilt or reinstated and made fit for occupation, and any dispute concerning this provision shall be determined by an arbitrator in accordance with the Arbitration Acts 1950 to 1979

8.4 The Landlord shall be entitled to discontinue the provision of the Inclusive Services (including without limitation the Telephone Answering Services) in respect of any period or periods during which the Tenant shall be in breach of any of the provisions of this Lease

8.5 Section 196 of the Law of Property Act 1925 (as to service of notices) as amended by the Recorded Delivery Service Act 1962 shall apply to this Agreement

9. TENANT'S EFFECTS

9.1 The Tenant irrevocably appoints the Landlord to be the Tenant's

agent to store or dispose of any effects left by the Tenant on the Premises for more than seven days after the expiry or sooner determination of the term subject to any conditions which the Landlord thinks fit and without the Landlord being liable to the Tenant save to account for the net proceeds of sale less the cost of storage (if any) and any other expenses reasonably incurred by the Landlord

9.2 Any goods or other effects left at the Premises on or after the expiry or sooner determination of the term shall be subject to a lien in favour of the Landlord in respect of any liability of the Tenant to the Landlord pursuant to or arising out of this Lease and the Landlord shall have power to sell or otherwise dispose of all such goods and effects on whatever terms the Landlord shall think fit and to apply the net proceeds of such sale or disposal towards satisfaction of such liability

Signed for and on behalf of
HQ EXECUTIVE OFFICES (UK) LIMITED

Signed for and on behalf of
NETOBJECTS LIMITED

FIRST SCHEDULE

(Inclusive Services)

- Business rates
- Water rates
- Reception Services
- Telephone Answering Services
- Air-conditioning
- Lighting
- Electricity
- Cleaning
- Repair and Maintenance of the Building
- Insurance of the Building & Landlord's contents
- Subject to availability, courtesy Network access of two hours per month, at other UK centres and eight hours per

month at all other world-wide centres in the HQ Business Centre network (hours may not be carried forward if unused).

SECOND SCHEDULE

(Chargeable Services)

- Secretarial Services
- Photocopying
- Use of Boardrooms
- Post Handling
- Telephone charges
- Facsimile
- Catering Services

AMENDMENT TO TECHNOLOGY TRANSFER AGREEMENT

This Amendment to Technology Transfer Agreement (the "Amendment Agreement") is made and entered into as of this 18th day of March 1997 by and between Rae Technology, LLC, a California corporation ("Rae") and NetObjects Inc., a Delaware corporation ("NetObjects").

R E C I T A L S

WHEREAS, Rae and NetObjects are parties to a Technology Transfer Agreement dated as of February 2, 1996, a copy of which is attached hereto as Exhibit A (the "Technology Transfer Agreement");

WHEREAS, NetObjects desires to enter into an Agreement and Plan of Merger (the "Merger Agreement") with, INTER ALIA, International Business Machines Corporation on substantially the terms set forth in that draft Merger Agreement of March 16, 1997;

WHEREAS, a condition to the Merger Agreement is the effectiveness of certain amendments to the Technology Transfer Agreement;

WHEREAS, Rae and NetObjects each believe that amendment of the Technology Transfer Agreement is in their respective best interests and desire to amend the Technology Transfer Agreement in the manner set forth herein.

NOW, THEREFORE, for good and valuable consideration, including the share issuance contemplated by the Merger Agreement, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

2

A G R E E M E N T

1. EFFECTIVENESS EFFECT.

Effective immediately prior to the Effective Time (as defined in the Merger Agreement), the Technology Transfer Agreement shall be amended as set forth in Section 2 of this Amendment Agreement. Upon the closing of the Merger, this Amendment Agreement shall be effective as of March 18, 1997 for all purposes. Except as specifically set forth herein, the terms of the Technology Transfer Agreement shall remain unmodified and in full force and effect.

2. AMENDMENT.

(a) The second recital to the Agreement shall be amended in full to read as follows:

"WHEREAS, to achieve the business objectives of the parties and to permit full implementation of the "Solo Technology" by Transferee, the parties now desire to amend and restate the Former Agreement, among other things, to provide for an assignment and transfer of all of Transferor's rights, title and interests in and to the "Solo Technology" to Transferee, with Transferee granting back to Transferor a worldwide, perpetual, royalty-free, non-assignable, non-exclusive license, with right of sublicense, in the Field of Use (as hereinafter defined) with respect to all of the transferred technology and a limited, nonexclusive, nontransferable license in the Field of Use with respect to Transferee's modification of the "Solo Technology" for the sole purpose of developing and marketing software applications for the stand-alone Personal Information Management (PIM) market; and"

(b) Section 2(c) of the Agreement shall be amended in full to read as follows:

3

(c) "Intellectual Property Rights" shall mean all Confidential Information and, whether or not the following constitute Confidential Information, all of Transferor's United States and foreign copyrights, know-how, patents, licenses, patent applications, inventions, trade secrets, formulas, algorithms, processes, methodologies, designs, schematics, diagrams and the like pertaining to the Technology, or the Resulting Technology as the case may be; PROVIDED, HOWEVER, that the Intellectual Property Rights shall not include any trademark rights relating to the trademark "Solo" or any other trademarks of Transferor.

(c) Section 2(d) of the Agreement shall be amended in full to read as follows:

(d) "Field of Use" shall mean all commercial applications of the Technology and the related Technical Information and Intellectual Property Rights solely to derive or create Transferor's existing personal information manager programs and successor versions and releases thereof, which are single user software programs primarily intended to be used by individuals to manage personal data such as personal contacts, events, schedules, tasks, projects, notes, pictures and lists of documents, files and other personal information.

(d) Section 2(e) of the Agreement shall be amended in full to read as follows:

(e) "Resulting Solo-N Technology" shall mean all the results of the research, development and engineering work performed by Transferee after the effective date of the Amended Agreement, February 2, 1996, up to December 31, 1998 with respect to the Technology as it existed on the effective date of the Former Agreement, including, without limitation, all derivative works, modifications, improvements, advanced software programs, patentable inventions or copyrightable material or any combination thereof that will allow commercial exploitation of the Technology in the Field of Use.

(e) Section 3(d) of the Agreement shall be amended in full to read as follows:

4

(e) Transferee hereby grants to Transferor exclusively in the Field of Use a non-transferable, worldwide, royalty-free, perpetual, non-exclusive, non-assignable, right and license, with right of license to Transferor's end user customers (both directly and through resellers), to use and reproduce the Technology and the Intellectual Property Rights, Confidential Information, Technical Information and Business Records related thereto, and to prepare derivative works from (including, but not limited to, the Resulting Solo-R Technology) make, use, and, except with respect to source code, to disclose, perform, display, sell, offer to sell, identify and distribute (both directly and through resellers) computer products incorporating the same to be used solely by end users.

(f) Section 3(f) of the Agreement shall be amended in full to read as follows:

(f) Transferee hereby grants to Transferor exclusively in the Field of Use a nontransferable, worldwide, royalty-free, perpetual, non-exclusive, non-assignable, right and license, with right of sublicense to Transferor's resellers and end user customers, to use the trademarks "Solo" or "S.O.L.O." and the goodwill associated therewith solely to identify the Technology, the Resulting Solo-N Technology and the Resulting Solo-R Technology in the products of Transferor incorporating the same; PROVIDED, HOWEVER, that Transferor shall only use such marks to identify products that are of comparable quality to the products of Transferee incorporating the Technology.

(g) Section 5(b) of the Agreement shall be amended in full to read as follows:

(b) Subject to Section 5(a), title and ownership to the Resulting Solo-R Technology in the Field of Use and the Intellectual Property Rights related thereto shall reside in Transferor.

(h) Section 7(a) of the Agreement shall be amended in full to read as follows:

5

(a) All derivative works, modifications and improvements to the Technology and all inventions of whatsoever kind or nature incorporating or otherwise utilizing any of the Intellectual Property Rights related to the Technology developed by Transferee subsequent to the date of this Amended Agreement, including, but not limited to, the Resulting Solo-N Technology, shall be owned by Transferee; provided that all such derivative works, modifications and improvements to the Technology developed by Transferee subsequent to the date of this Amended Agreement, February 2, 1996, through December 31, 1998 shall be licensed to Transferor pursuant to the provisions of Section 3(e) hereof.

(i) Section 12 of the Agreement shall be amended in full to read as follows:

6

"This Amended Agreement and all of the terms hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns."

3. CORRECTION.

With effect from and after the execution of this Amendment Agreement, the second sentence of Section 3(a) of the Agreement shall be revised by substituting "Transferee" for the second reference to "Transferor".

4. GENERAL.

The Technology Transfer Agreement, as amended by this Amendment Agreement, constitutes the entire agreement between the parties relating to its subject matter and supersedes all prior or contemporaneous oral or written agreements and understandings between the parties. No modification of the Agreement or this Amendment Agreement shall be binding on either party unless in a writing signed by both parties. International Business Machines Corporation is an express beneficiary of this Amendment Agreement. This Amendment Agreement shall be governed by and construed in accordance with the laws of the State of California, excluding those laws that direct the application of the laws of another jurisdiction.

IN WITNESS WHEREOF, this Amendment Agreement is executed as of the date and year first above written.

RAE TECHNOLOGY, LLC,
as successor-in-interest to
Rae Technology, Inc.

NETOBJECTS, INC.

By: _____

By: _____

Its: _____

Its: _____

PATENT TRANSFER AND LICENSE AGREEMENT

This PATENT TRANSFER AND LICENSE AGREEMENT (the "Agreement") is dated as of April 10, 1997, by and between NetObjects, Inc., a Delaware corporation ("Transferor"), and Rae Technology LLC, a California limited liability company ("Transferee").

RECITALS

WHEREAS, Transferor and Rae Technology, Inc., a California corporation ("Rae Inc."), have entered into that certain Technology License Agreement, dated as of December 21, 1995 and amended as of February 2, 1996, pursuant to which Transferor granted to Rae Inc. an exclusive license of certain proprietary computer software commonly referred to by Transferor as the "Solo Technology" for a limited field of use, in exchange for the issuance of 10,000,000 shares of Series A Preferred Stock of Transferor to Rae Inc.;

WHEREAS, Transferor and Rae Inc. have further amended their respective rights and obligations with respect to the Solo Technology pursuant to an Amendment to Technology Transfer Agreement, dated as of March 18, 1997, to be effective upon the closing of a merger (the "Merger") with Transferor and a wholly owned subsidiary of International Business Machines Corporation ("IBM") pursuant to the terms of an Agreement and Plan of Merger dated as of March 18, 1997 (the "Merger Agreement"); and

WHEREAS, in connection with the Amendment to Technology Transfer Agreement, Transferor and Transferee wish to establish Transferee as the holder and exclusive licensing representative for certain pending utility patents of Transferor.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENT

1. TRANSFER OF PATENTS

(a) Subject to the terms and conditions herein and subject to any licenses existing as of the date hereof granted by Transferor, Transferor hereby assigns, conveys, and otherwise transfers to Transferee all of Transferor's rights, title and interests in and to the inventions embodied in the U.S. patent applications identified in the Assignment of Inventions attached hereto as Exhibit A (the "NetObjects Patents").

(b) Transferor further affirms the right of Transferee to prevent any unauthorized use and disclosure of the NetObjects Patents and any confidential

information of Transferor pertaining thereto (as identified by Transferor, in its sole discretion) ("Confidential Information"); PROVIDED, HOWEVER, that Transferee shall have no right to sell, assign or transfer any Confidential Information and may use Confidential Information for the sole purpose of continuing to prosecute the NetObjects Patents.

(c) From and after the effective date of this Agreement (as described in Section 11 hereof (the "Effective Date")), Transferee shall obtain the written consent of Transferor before assigning, or granting or agreeing to grant any exclusive license with respect to, any NetObjects Patent, any patent issuing thereon, or any continuation or amendment thereof (the "Transferred Rights"). In addition, Transferee shall obtain the prior written consent of Transferor before granting or agreeing to grant any nonexclusive license under any of the Transferred Rights for a royalty rate or other form of compensation which is less than the higher of (i) five percent (5%) of the licensee's per copy revenue from the licensed software product or (ii) \$20 for each transferred copy of the licensed software product. Transferor may withhold any such consent in its sole and absolute discretion.

(d) From and after the Effective Date, any Change of Control Transaction involving Transferee shall require the prior written consent of Transferor. For this purpose, a "Change of Control Transaction" shall mean (A) any transaction or series of transactions pursuant to which shares representing more than 50% of Transferee's outstanding voting securities are purchased by a person not controlled by, in control of or under common control with any holder of Transferee's outstanding voting securities, (B) the merger or consolidation of Transferee with another entity (other than a merger or consolidation in which the holders of voting securities of Transferee immediately before the merger or consolidation own, immediately after the merger or consolidation, voting securities of the surviving or acquiring corporation or of a parent party of such surviving or acquiring corporation, possessing more than 50% of the voting power of the surviving or acquiring corporation or parent party) resulting in the exchange of outstanding shares of capital stock of Transferee for cash, securities or other property or (C) any merger, sale, lease, license, exchange or other disposition (whether in one transaction or a series of related transactions) or more than 50% of the assets of Transferee.

(e) The Transferee shall not pledge any of the Transferred Rights to secure any loan or other obligation.

(f) Except as otherwise expressly provided herein, neither Transferee nor any Transferee Affiliate (as defined in Section 3(a)) shall make, have made, use, offer for sale, sell, import or otherwise transfer any product, the use or sale of which would infringe any of the Transferred Rights, or practice any method thereunder.

(a) Transferor understands that all Confidential Information received by Transferee from Transferor is and will remain confidential to Transferor, and Transferee and Transferor shall be obligated to protect and maintain the confidentiality of the same. Transferee shall take all necessary and proper action to preserve the secrecy and prevent disclosure of the Confidential Information. Transferee shall establish a reasonable security procedure to prevent unauthorized access to the Confidential Information.

(b) The obligation imposed by this Section 2 to protect and not to disclose Confidential Information shall be perpetual, except with respect to Confidential Information that becomes lawfully within the public domain.

3. PAYMENTS

(a) Transferee shall pay to Transferor eighty-five percent (85%) of all revenues derived by Transferee and any Transferee Affiliate (as defined herein) from any license or other transaction effected by Transferee or any Transferee Affiliate with respect to any of the Transferred Rights; PROVIDED THAT Transferor and Transferee acknowledge and agree that no such transaction shall occur or be permitted to occur other than with respect to an actual patent issued on any NetObjects Patent. For this purpose a "Transferee Affiliate" is any person, directly or indirectly, controlled by, in control of, or under common control with Transferee.

(b) Payments hereunder shall be made by Transferee within thirty (30) days after the end of each calendar quarter. Payment shall be accomplished by a report of the revenues derived from the Transferred Rights and the computation thereof during the preceding calendar quarter. Transferee shall be entitled to offset all amounts paid or incurred to prosecute patents, defend infringement suits, indemnify Transferor, or pursue infringement actions under applicable provisions of this Agreement from the amounts payable to Transferor pursuant to this Section 3.

(c) All payments due hereunder on revenues derived in countries other than the United States shall accrue in the currency of the country in which the sales are made. Transferee shall apply its best efforts to secure U.S. dollar transfers in respect of such payments. In the event U.S. dollars are for any reason legally not available for transfer, Transferee may discharge the payment obligations hereunder by depositing said payments to the credit of Transferor, or its nominee, in any recognized banking institution to be designated by Transferor in the country in which the sales are made and in the currency of that country. In the event that currency regulations of a country in which such revenues are earned prohibit payment or deposits of payments owed to Transferor or its nominee, no payments hereunder shall accrue or be due and payable for the period during which such currency restrictions prevail.

(d) Transferee shall keep accurate records of all revenues for a period not to exceed five (5) years, unless in dispute, in which event they shall be kept until said dispute is settled, and such records shall be open during reasonable business hours at the place where such records are customarily kept, for examination by an independent accountant selected by Transferor and acceptable to Transferee, for the purpose of verifying the accuracy of such revenues reported to Transferor and payments due thereon. Said accountant shall not disclose any information that he may thereby obtain other than that necessary for the purpose of enabling Transferor to determine the accuracy of such reports and payments made in connection therewith.

4. RESERVED NON-EXCLUSIVE LICENSE FOR TRANSFEROR

(a) DEFINITIONS.

(i) "Licensed Products" shall mean all software products that are made, used, imported, offered for sale, sold, licensed or otherwise transferred now or hereafter by Transferor.

(ii) "Licensed Subsidiaries" shall mean those entities which are Subsidiaries of Transferor.

(iii) "Subsidiary" shall mean a corporation, company or other entity:

(A) more than fifty percent (50%) of whose outstanding shares or securities representing the right to vote for the election of directors or other managing authority are, now or hereafter, owned or controlled, directly or indirectly, by a party hereto or,

(B) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, but more than fifty percent (50%) of whose ownership interest representing the right to make the decisions for such corporation, company or other entity is, now or hereafter, owned or controlled, directly or indirectly, by a party hereto, but such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists.

(b) Transferor hereby reserves for itself and its Licensed Subsidiaries a royalty-free, paid-up, perpetual, irrevocable, worldwide, nonexclusive license (without right to sublicense) under the Transferred Rights to make, have made, use, import, offer for sale, sell and otherwise transfer Licensed Products. In the event that Transferor acquires Subsidiaries after the Effective Date, Transferee agrees that such Subsidiaries shall be Licensed Subsidiaries.

(c) Transferor shall be responsible for the compliance by Licensed

Subsidiaries with the provisions of this Agreement. A license granted to a Licensed Subsidiary shall terminate automatically on the earlier of: (i) the date such Licensed Subsidiary ceases to be a Subsidiary of Transferor; and (ii) the date this Agreement or the license granted hereunder expires or is terminated.

(d) No license, immunity or other right is granted under this Agreement, either directly or by implication, estoppel, or otherwise other than under the Transferred Rights or with respect to any item other than a Licensed Product.

5. WARRANTIES AND DISCLAIMERS OF TRANSFEROR

(a) Transferor sells, assigns and transfers the NetObjects Patents to Transferee "AS IS" and "WHERE IS," without any warranty of any kind whatsoever.

(b) TRANSFEROR DOES NOT MAKE ANY WARRANTY, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE WITH RESPECT TO THE NETOBJECTS PATENTS, INCLUDING ANY WARRANTY OF MANUFACTURABILITY, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. TRANSFEROR DOES NOT ASSUME OR AUTHORIZE ANY OTHER PERSON TO ASSUME FOR IT ANY LIABILITY IN CONNECTION WITH THE USE OF THE NETOBJECTS PATENTS, OR THE SALE, USE OR OPERATION OF ANY PRODUCT UTILIZING THE NETOBJECTS PATENTS.

(c) TRANSFEROR SHALL NOT BE LIABLE FOR ANY INJURY OR DAMAGE TO TRANSFEREE, OR TO ANY OTHER PERSON CAUSED DIRECTLY OR INDIRECTLY BY THE USE OF ANY WORKS USING THE NETOBJECTS PATENTS. IN NO EVENT SHALL TRANSFEROR BE LIABLE TO ANY THIRD PARTY FOR ANY LOSS OR INJURY TO EARNINGS, PROFITS, OR GOODWILL, OR FOR ANY DIRECT, SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES ARISING OUT OF TRANSFEREE'S USE OF THE NETOBJECTS PATENTS.

6. LIMITATION OF LIABILITY AND INDEMNIFICATION

(a) Transferee agrees that Transferor will not be liable for defense or indemnity with respect to any claim against Transferee by any third party arising from Transferee's possession, use or license of the NetObjects Patents, or of products incorporating the same.

(b) Transferee agrees to indemnify and hold harmless Transferor from and against any and all liability, loss, suit, damages, claims and proceedings, including reasonable attorneys' fees, expenses and costs, arising out of or connected with the sale, sublicense, commercialization or use of any of the NetObjects Patents by Transferee, its customers, its licensees or other third parties.

7. CERTAIN DUTIES AND RESPONSIBILITIES OF TRANSFEREE AND TRANSFEROR

(a) Transferee agrees that it will comply with all laws and regulations, the violation of which would materially affect Transferee, relating to the

(b) Following the Effective Date, Transferee shall be responsible for continuing to prosecute the NetObjects Patents in the U.S. and in such other countries as Transferor may designate. The continuing prosecution of the NetObjects Patents shall be at Transferee's expense; PROVIDED THAT to the extent revenues from the licensing of Transferred Rights from time to time are inadequate to offset all attorneys' fees, filing fees, and other costs and expenses associated with the prosecution of the NetObjects Patents, Transferor agrees to fully reimburse Transferee for them, upon receipt of invoices and reasonable supporting documentation therefor.

(c) Transferee will promptly notify Transferor of any and all infringements or violations by third parties or attempted infringements or violations of any of the Transferred Rights. Transferor will provide reasonable assistance to Transferee in taking such action to enforce Transferee's rights against the parties infringing or violating such rights. Transferee shall be required to initiate and prosecute any and all lawful suits, actions and proceedings, whether by way of claim or cross-claim, to enforce any patents issued on the NetObjects Patents, including, but not limited to, suits for damages, injunctive relief, actions for interferences, petitions before the International Trade Commission, U.S. Customs actions, and available suits, proceedings and actions in foreign countries (an "Action" or "Actions"), and will pursue diligently and in good faith any such Action until its conclusion through settlement or final nonappealable judgment by a court of competent jurisdiction unless it becomes impractical or too costly for Transferee to continue the litigation. In this event, Transferee will so notify Transferor and, upon Transferor's exercise of an applicable right to pursuant to Section 12(a), will permit Transferor to join the action and assume control of, responsibility for, and all expenses related to such action. Transferee agrees further, at the request of Transferor, to initiate and prosecute any and all Actions and to pay all costs, expenses and attorneys' fees and otherwise hold Transferor harmless in any such Actions. The settlement of any Action shall be subject to the reasonable consent and good faith consideration of both parties. Transferee will be entitled to any damages or royalties resulting from the enforcement of any patents issued on any of the NetObjects Patents, so long as Transferee refunds to Transferor all legal expenses and other costs associated with the collection of said damages and/or royalties that were advanced by Transferor or withheld from payment otherwise owed to Transferor pursuant to Section 3. The foregoing provisions of this Section 7 shall apply with the same force and effect with respect to any common law patent claims within the NetObjects Patents.

8. SEVERABILITY

The provisions of this Agreement are severable, and if any one or more such provisions are judicially determined to be illegal or otherwise unenforceable,

in whole or in part, the remaining provisions or portions of this Agreement shall nevertheless be binding on and enforceable by and between the parties hereto.

9. ASSIGNMENT; SUCCESSORS AND ASSIGNS

This Agreement and all of the terms hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except as such assignment may be restricted under Section 1 and except that Transferee shall not have the right to assign or otherwise transfer any of the Transferred Rights to any third party without the prior written consent of Transferor (and any assignment or transfer that occurs without such consent of Transferor shall be null and void).

10. EXPORT CONTROL LAWS

Transferee agrees to comply with all laws, rules and regulations applicable to the export of the NetObjects Patents. Specifically, Transferee shall not export, re-export, transfer, or license the NetObjects Patents, or any Confidential Information, in violation of any United States laws and regulations as may from time to time be applicable.

11. EFFECTIVE DATE

Upon execution this Agreement shall be effective as of the date immediately preceding the effective time of the Merger for all purposes, and only as of such date.

12. REACQUISITION OF THE NETOBJECTS PATENTS

(a) Transferor shall have the right to reacquire the Transferred Rights, upon the following events and conditions:

(i) Automatically, on each anniversary of the Effective Date for the first three years after the Effective Date, unless within the thirty (30)-day period preceding such anniversary date, Transferor notifies Transferee that Transferor will not reacquire the Transferred Rights. This provision cannot be waived other than by written agreement of the parties.;

(ii) Upon thirty (30) days' written notice by Transferor to Transferee in the event of any default by Transferee in the performance of Transferee's obligations under this Agreement, unless such default is cured within the thirty (30)-day notice period;

(iii) At Transferor's option, and upon payment of \$25,000 to Transferee, within ninety (90) days after the end of the first calendar year following the first year in which Transferee receives any revenue from the license of any of the

(iv) Transferred Rights, if the total revenue derived by Transferee and all Transferee Affiliates with respect to such Transferred Rights during such first calendar year does not exceed \$750,000, or within ninety (90) days after the end of any calendar year thereafter in which such revenue threshold has not been met;

(v) Upon thirty (30) days' written notice by Transferor to Transferee, if Transferee has failed to diligently prosecute any of the NetObjects Patents in any country designated by Transferor (as long as such failure is not attributable to Transferor's failure to fund prosecution of the same, unless such failure is cured within the thirty (30)-day notice period);

(vi) Upon ten (10) days' written notice by Transferor to Transferee of any failure by Transferee to bring suit or initiate another available form of action, or continue such suit or other action, against any person that Transferor deems to be infringing or violating any of the Transferred Rights pursuant to Section 7(c) hereof, unless such failure is cured within the ten (10)-day notice period; or

(vii) Upon thirty (30) days' written notice by Transferor to Transferee of any failure by Transferee to indemnify Transferor pursuant to the provisions of Section 5 hereof, unless such failure is cured within such thirty (30)-day notice period.

(b) Upon any automatic reacquisition of, or exercise of any right of Transferor to reacquire the Transferred Rights, Transferee shall execute or cause to be executed all instruments of assignment and other documents, and shall take all other actions requested by Transferor to effect the transfer and assignment of the same to Transferor, including the payment of a transfer fee of \$5,000 immediately after Transferor has made such request.

13. GENERAL

(a) All notices and other communications required or permitted hereunder shall be in writing and shall be deemed effectively given upon personal delivery or on the day sent by facsimile transmission if a true and correct copy is sent the same day by first class mail, postage prepaid, or by dispatch by an internationally recognized express courier service, and in each case addressed to the address of the parties as set forth below, unless such party first notifies the other parties hereto in writing of any change in its address:

If addressed to Transferor: NetObjects, Inc.
2055 Woodside Road, Suite 250
Redwood City, CA 94061
Attention: President

If addressed to Transferee: Rae Technology LLC
2055 Woodside Road, Suite 250
Redwood City, CA 94061
Attention: President

(b) Neither party has the authority to assume or create any obligation for or on behalf of the other party, express or implied.

(c) The validity, performance and interpretation of this Agreement shall be governed by the laws of the State of California, without regard to any rules thereof pertaining to conflicts of laws.

IN WITNESS WHEREOF, this Agreement is hereby executed by the parties to be effective as of the date described in Section 11, hereof.

NETOBJECTS, INC.

RAE TECHNOLOGY LLC

By: /s/ Samir Arora

By: /s/ Samir Arora

Its: CEO

Its: CEO

ACKNOWLEDGEMENT AND ESTOPPEL CERTIFICATE:

Rae Technology, Inc., a California corporation, hereby certifies that it has reviewed the terms of the foregoing Patent Transfer and License Agreement, and agrees that it and all of its assets and properties shall be bound by the terms thereof.

RAE TECHNOLOGY, INC.

By: /s/ Samir Arora

Its: CEO

RE: PATENT TRANSFER AND LICENSE AGREEMENT

Ladies and Gentlemen:

This is to confirm that NetObjects, Inc. agrees that the Patent Transfer and License Agreement dated as of April 10, 1997, is amended and reformed as of said date to correct the following errors and reflect the parties' original intention as of that date:

1. Section 12(a)(iii) should read in its entirety as follows and subparagraphs (v), (vi), and (vii) should be renumbered as subparagraphs (iv), (v) and (vi):

(iii) At Transferor's option, and upon payment of \$25,000 to Transferee, within ninety (90) days after the end of the first calendar year following the first year in which Transferee receives any revenue from the license of any of the Transferred Rights, if the total revenue derived by Transferee and all Transferee Affiliates with respect to such Transferred Rights during such first calendar year does not exceed \$750,000, or within ninety (90) days after the end of any calendar year thereafter in which such revenue threshold has not been met;

2. In Section 12(b), the words "by Transferor to Transferee" shall be inserted after "\$5,000," so that the subsection is correctly restated to read in its entirety as follows:

(b) Upon any automatic reacquisition of, or exercise of any right of Transferor to reacquire the Transferred Rights, Transferee shall execute or cause to be executed all instruments of assignment and other documents, and shall take all other actions requested by Transferor to effect the transfer and assignment of the same to Transferor, including the payment of a transfer fee of \$5,000 by

Rae Technology, Inc.
Page 2

Transferor to Transferee immediately after Transferor has made such request.

This acknowledgment and agreement of NetObjects, Inc. is effective for all purposes as of April 10, 1997.

NetObjects, Inc.

By: /s/ Samir Arora

Samir Arora, CEO

ACKNOWLEDGMENT

Rae Technology, Inc. hereby agrees to the amendment and reformation of the Patent Transfer and License Agreement as set forth above on behalf of itself, Rae Technology LLC and Rae Technology LLC II.

Rae Technology, Inc.

By: /s/ Samir Arora

Samir Arora, CEO

CONSENT TO ASSIGNMENT
AND
SUBSTITUTION OF PARTIES

This AGREEMENT (the "Agreement") is dated as of July 16, 1997 by and among NetObjects, Inc. a Delaware corporation ("NetObjects"), Rae Technology LLC, a California limited liability company ("Rae LLC"), and Rae Technology, Inc., a California corporation ("RTI").

RECITALS

WHEREAS, effective as of April 10, 1997, NetObjects and Rae LLC entered into a Patent Transfer and License Agreement (the "Patent Agreement") pertaining to the transfer and assignment of certain pending U.S. patent applications (the "NetObjects Patents") from NetObjects to Rae LLC and the license of rights thereunder from Rae LLC to NetObjects;

WHEREAS, the members of Rae LLC have elected to wind up and dissolve Rae LLC, which intends to assign the NetObjects Patents to RTI; and

WHEREAS, Rae LLC and RTI would like NetObjects to consent to the assignment of the NetObjects Patents to RTI and the substitution of RTI for Rae LLC for all purposes under the Patent Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENT

Pursuant to Sections 1 and 9 of the Patent Agreement, NetObjects hereby consents to the assignment of all of the Transferred Rights, including, but not limited to the NetObjects Patents, from Rae LLC to RTI.

NetObjects, Rae LLC and RTI agree that the Patent Agreement shall be amended hereby to substitute RTI for Rae LLC as of the date hereof with respect to all executory obligations and continuing covenants and conditions applicable to NetObjects and Rae LLC thereunder.

All capitalized terms used in this Agreement shall have the meanings ascribed to them in the Patent Agreement unless otherwise stated expressly herein.

Each of the parties to this Agreement agrees to execute such other documents and instruments and to take such other actions as may be necessary or reasonable to implement the terms of this Agreement.

This Agreement shall be subject to all of the provisions of Section 13 of the Patent Agreement.

IN WITNESS WHEREOF, this Agreement is hereby executed by the parties to be effective as of the date first set forth above.

NETOBJECTS, INC.

By: /s/ Samir Arora

Its: CEO

RAE TECHNOLOGY LLC

By: /s/ Samir Arora

Its: CEO

RAE TECHNOLOGY, INC.

By: /s/ Samir Arora

Its: CEO

SUN MICROSYSTEMS, INC.
PORTING AGREEMENT

THIS PORTING AGREEMENT is entered into as of this 26th day of March, 1999 (the "Effective Date") by and between Sun Microsystems, Inc., a Delaware corporation, with a principal place of business at 901 San Antonio Road, Palo Alto, California 94303 ("Sun") and NetObjects, Inc., a Delaware corporation, with a principal place of business at 301 Galveston Drive, Redwood City, California 94063 ("Developer").

RECITALS

Sun is engaged in the development, manufacture, sale and distribution of certain computer hardware and related software.

Developer is the owner and developer of certain hardware and/or software programs and documentation related thereto.

Sun and Developer desire to provide for the porting of the Developer's products to the Sun Platform (as defined herein) on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties agree as follows:

1. DEFINITIONS

1.1 "Beta" means the beta version of the Ported Product and any Ported Documentation as defined in Exhibit B.

1.2 "Confidential Information" means information which the disclosing party desires to protect against unrestricted disclosure or competitive use by the receiving party and which (a) if disclosed in tangible form, is clearly labeled as "confidential" or "proprietary" or with words of similar import in writing by the disclosing party at the time of disclosure, or (b) if disclosed in non-tangible form, is identified as "confidential" or "proprietary" at the time of disclosure, and summarized in a writing, designated as "confidential" or "proprietary", and delivered to the receiving party within thirty (30) days after disclosure.

1.3 "Correction" means a modification to the Ported Product or Ported Documentation that eliminates the adverse effect of a Non-Conformance without limiting conformance to the Specifications.

1.4 "Derivative Work" means a work which is based on a preexisting work and in which the preexisting work is changed, condensed, or embellished in some way.

1.5 "Development Equipment" means the computer equipment and software specified in the Equipment Loan and Software License Agreement, which is

attached as Exhibit A (the "Loan Agreement").

1.6 "Development Plan" means the plan for developing the Ported Products, including the deliverables (the "Deliverables"), milestones, and delivery dates specified in Exhibit B.

1.7 "Documentation" means all currently existing technical documentation, including user manuals and operating guides that Developer distributes to customers or otherwise publishes, which is to be Ported to accurately reflect the Ported Product (all of which is set forth in Exhibit B).

1.8 "FCS" means the final version of the Ported Product in which all the functionality has been fully tested and accepted by Sun.

1.9 "Intellectual Property Rights" shall mean all patents, patent rights, patent applications, and copyrights; rights relating to the protection of trade secrets and confidential information; and all other proprietary rights including, without limitation, license rights relating to intangible property; and divisions, continuations, renewals, reissues and extensions of the foregoing now existing, or hereafter filed, issued or acquired.

1

1.10 "Non-Conformance" means a failure of the (i) Ported Product to conform materially to the Specifications and the Product Documentation; (ii) Ported Documentation to describe accurately the Ported Product; or (iii) Ported Product and any Ported Documentation to meet commercially reasonable standards of performance, usability, or appearance.

1.11 "Port" or "Porting" or "Ported" refers to the total development effort contemplated by this Agreement, and as specified in the Development Plan and Specifications.

1.12 "Ported Documentation" means the Documentation Ported to accurately reflect the Ported Product.

1.13 "Ported Product" means the Product Ported to the Sun Platform in accordance with the Development Plan and the Specifications.

1.14 "Product" means the Developer's product described in Exhibit B to be Ported to the Sun Platform pursuant to this Agreement.

1.15 "Specifications" means the specifications for the Ported Product and Ported Documentation, attached as Exhibit C.

1.16 "Sun Platform(s)" means the Sun hardware and software described in Exhibit B.

2. PORTING OBLIGATIONS

2.1 DEVELOPER OBLIGATIONS. Developer shall, in a timely manner, Port the Product and Documentation according to the Development Plan and Specifications, and deliver to Sun the Deliverables and achieve the milestones stated therein. Developer shall provide all engineering support, appropriate equipment, materials, facilities, and other resources necessary to fulfill its obligations under the Development Plan, including all Deliverables and milestones. Developer shall also provide such other resources as may be necessary for the Port.

For a period of twenty-four (24) months after Sun's acceptance of the FCS version of the Ported Product and Ported Documentation, Developer agrees to continue to develop and release further upgrades and/or new releases of the Ported Product such that the features and the release dates of the Ported Product and Ported Documentation remain at least as current as the features and releases dates (within forty-five (45) days thereafter) of the then-current version of the Product and Documentation and/or any versions for other computer platforms (e.g., Microsoft Windows), and to notify Sun of such upgrades and/or new releases. Notwithstanding the foregoing, Developer shall not be required to maintain such parity for the Ported Product and Ported Documentation with other versions in regard to particular features which are technically not feasible for such parity, after Developer has used commercially reasonable efforts to overcome such feasibility obstacle for that particular feature.

All of the resources described in this Section 2.1 shall be collectively referred to as the "Developer Resources". Developer shall not use or permit use of any Developer Resources as identified by the parties for the Port (with the exception of Developer personnel working on the Port), for any purpose other than the Port. To the extent applicable, Developer shall use Sun's development environment, including any development tools for the Port. Developer further agrees that its efforts to Port the Products and Documentation shall take such priority over other porting work of Developer as is necessary to deliver to Sun the Deliverables and achieve the milestones identified in the Development Plan. Further, Developer shall not use or permit the use of the Sun investment, as defined in Article 4 for any purpose other than the Port.

2.2 SUN RESOURCES.

(a) Sun shall not be obligated to provide any resources unless expressly specified in the Development Plan or in this Agreement. Sun shall provide to Developer the Development Equipment for Developer's use in connection with Developer's obligations under and during the term of this Agreement. Developer shall not use or permit use of the Development Equipment for any purpose other than the Port.

(b) SUN ENGINEERS. During the development of the Port through the end of acceptance of FCS by

Sun, Sun shall provide two qualified Sun engineers as technical support to Developer in regards to the Port who shall remain dedicated to the Port throughout its development (the "Dedicated Engineers"). Engineering support under this Section 2.2 shall be made available to Developer on a full-time basis (i.e., full time during Developer's regular business hours, Monday through Friday, excluding holidays), as needed by Developer.

(c) FULL-TIME COMMITMENT. Developer acknowledges and agrees that the two Dedicated Engineers may work on other projects for Sun, and may not always be available on a full-time basis. In the event that the Dedicated Engineers are not available to Developer, Sun will provide qualified stand-in engineers (the "Stand-in Engineers"). The Stand-in Engineers shall coordinate their support efforts with the Dedicated Engineers.

(d) LOCATION OF SUPPORT. The Dedicated Engineers (and Stand-in Engineers, as applicable) shall perform their support obligations primarily at Sun's premises, but shall provide such services at Developer's premises as reasonably required and requested by Developer.

(e) POST-ACCEPTANCE SUPPORT. After acceptance of the FCS version of the Ported Product by Sun, Sun agrees to provide two Sun-identified engineers as technical support in regards to such FCS version and future porting efforts by Developer pursuant to Section 2.1, and unless otherwise agreed in writing between the parties, the level and manner in which such engineers are to deliver such support shall be in Sun's discretion.

2.3 PURCHASE OPTION. Within three (3) months of the commencement of the shipment of the FCS version of the Ported Product, Developer shall either return the Development Equipment to Sun or purchase the Development Equipment at the net price listed on Exhibit D attached hereto. Any other equipment that is loaned by Sun to the Developer and that is not listed on Exhibit D (the "Additional Equipment") shall be, within six (6) months after date of shipment to Developer, either returned to Sun or purchased by the Developer at a fifty percent (50%) discount off of the applicable Sun Geo List Price at the time of shipment of the equipment to the Developer (the "Purchase Option Discount"), unless otherwise agreed by the parties. In the event Developer purchases the Development Equipment or the Additional Equipment, the purchase is conditioned upon the following: (a) the issuance by Developer to Sun of an acceptable purchase order, and (b) the satisfaction and adherence to Sun's then-current standard terms and conditions of sale (the "Sun Sales Terms"). The purchase option described in this Section 2.3 shall not apply to any Development Equipment or Additional Equipment or any Sun hardware or software products that are pre-release or prototype versions as defined by Sun of such Development Equipment or Additional Equipment or hardware or software products, nor to any of the foregoing that is either non-discountable or Category B product as described in the applicable Sun Geo Price List (collectively, the "Other Equipment"). The purchase option discount for such Other Equipment shall be ten percent (10%) off of the Sun Geo List Price.

2.4 TIMELY COMPLETION. Developer acknowledges that the full and timely

completion of all Deliverables and milestones in the Development Plan is a material condition of this Agreement. Sun shall be entitled to terminate this Agreement, pursuant to Section 8.1(b)(ii), for any failure by Developer to timely meet any deliverable or milestone in the Development Plan. The parties recognize that, taking into account the uncertainties of complex software development, and the mutual dependencies of the parties on each other under this Agreement, it may be necessary to amend the objectives and milestones of the Development Plan from time to time. Accordingly, the parties hereby agree to consider in good faith any reasonable proposals from one another to amend the Development Plan in light of the experience of the parties in implementing the development of the Port under this Agreement.

3. OWNERSHIP AND LICENSE RIGHTS

3.1 OWNERSHIP RIGHTS. Sun shall own and maintain all Sun Intellectual Property Rights to any and all Sun pre-existing intellectual property and any enhancements, modifications and/or Derivative Works thereto. Developer shall own and maintain all Developer Intellectual Property Rights to any and all Developer pre-existing intellectual property and any enhancements, modifications and/or Derivative Works thereto. Except for the foregoing, the parties agree that all right, title, and interest in and to all inventions and discoveries jointly developed hereunder, including all rights in copyrights or other Intellectual Property

3

Rights pertaining thereto, shall be jointly owned by both Developer and Sun. Both Developer and Sun shall be free to fully exploit, without obligation to account to the other party, any and all rights, title, and interest in such intellectual property, including any copyright, trade secret, or other proprietary rights, under the laws of the United States or any other jurisdiction.

3.2 SUN LICENSE TO DEVELOPER. Sun hereby grants to Developer a non-exclusive, non-transferable right and license to use Sun's confidential information disclosed pursuant to this Agreement solely for the purpose of Porting the Product and Documentation and supporting the Ported Product and Ported Documentation.

3.3 DEVELOPER LICENSE TO SUN. Developer hereby grants to Sun an irrevocable, perpetual, non-exclusive, royalty-free and fully paid up right and license to internally use two (2) copies of each Deliverable for the purposes of Sun's technical assistance with the Port through Sun's 2 engineers as referenced in Section 2.2, and when applicable to use, make, copy, display and publicly perform up to ten (10) copies each of the Beta and FCS version of the Ported Product and Ported Documentation for Sun's demonstration and marketing purposes.

4. EVALUATION AND PAYMENT

4.1 EVALUATION AND TESTING. Sun shall have the right to evaluate and test the Ported Product and Ported Documentation prior to their commercial release. Developer shall deliver to Sun, on the dates specified in the Development Plan, the Deliverables for testing and evaluation. Developer shall provide all assistance necessary for Sun fully to test and evaluate the Deliverables. Sun shall have the right to reject any Deliverable because of any Non-Conformance. Sun shall advise Developer in writing within ten (10) business days of receipt of any Deliverable for testing or evaluation whether Sun accepts or rejects such Deliverable. If Sun rejects the Deliverable, then Sun shall provide to Developer a written report stating the reasons for such rejection. Upon rejection, Developer shall prepare a Correction and resubmit to Sun such Deliverable within twenty-one (21) business days. Sun shall evaluate the Correction and notify Developer of its acceptance or rejection in the manner set forth in this Section 4.1.

4.2 ACCEPTANCE CRITERIA. Sun shall develop the initial set of acceptance criteria. Developer agrees to develop a mutually agreeable acceptance and testing plan ("Acceptance and Testing Plan") to be delivered to Sun per the schedule set forth in the Development Plan in Exhibit B, which shall be attached to this Agreement as an Exhibit and incorporated by reference herein, and which shall include, but not be limited to the following: (a) details regarding the schedule of milestones/deliverables in the Development Plan; (b) a testing/quality assurance plan ("Testing/QA Plan"); and (c) Porting development methodology/architecture description for the following milestones/deliverables: pre-Alpha and Alpha (as herein defined), Beta and FCS versions of the Ported Product.

4.3 PAYMENT OF FEES.

(a) SUN INVESTMENT. Sun will pay to Developer the dollar amount(s) set forth on the Development Plan subject to Sun's standard payment terms of net forty-five (45) days from receipt of invoice from Developer. Invoices shall not be received by Sun before the due date of the respective payment. In the event that Developer fails to deliver the Deliverables set forth in the Development Plan within five (5) business days from the delivery date set forth in the Development Plan, Developer waives its rights to the payment(s) unless (i) Developer has cured such failure to deliver pursuant to Section 9.1, or (ii) mutually agreed otherwise by the parties.

(b) REPAYMENT OF SUN INVESTMENT. Developer shall repay to Sun its Sun Investment (as defined herein) in the amounts specified herein in United States dollars. Such repayments shall be made on a quarterly basis within forty-five (45) days following the end of the calendar quarter to which they relate, accompanied by a report pursuant to Section 4.4 below. This repayment obligation shall commence with the first such payment being due and payable the earlier of either (i) forty-five (45) days after the first calendar quarter within which the Ported Product ships commercially to Customers, or (ii) on or before August 15, 2000, and shall terminate when the accumulated total of such repayments equal the Sun Investment (the "Total Repayment Amount"). The term "Sun

Investment" shall mean the following pay-

4

ments made or resources contributed to Developer by Sun: a porting fee in the amount of Three Hundred Fifty Thousand Dollars (\$350,000) (less any waived payments under Section 4.3(a), or any other milestone payments not made by Sun), and technical support resources valued in the amount of Twenty Thousand Dollars (\$20,000) per month during the development of the Ported Product, not to exceed Three Hundred Thousand Dollars (\$300,000) in total. Repayment of the technical support resource portion of the Sun Investment may be reduced by Developer to the extent that Developer can document such lengths of times of unavailability of one or two Stand-in Engineers (assuming in such case, the unavailability of the Dedicated Engineers). Such reduction of the Repayment Amount shall be based on the hourly rate of eighty dollars (\$80) per hour per engineer, pursuant to the hourly schedule of availability as set forth in Section 2.2(b), above.

(c) Payment Method. Developer shall repay the Sun Investment by paying Sun twelve percent (12%) of Developer's Net Receipts on account of Ported Products sold by Developer or its direct or indirect distributors (whether on a stand alone or integrated basis) during the prior calendar quarter. As used herein, "Net Receipts" means amounts actually received by Developer for Ported Products, less: (a) all sales, use, luxury, turnover, purchase, or like or similar taxes received from customers or distributors in relation to the sale of Ported Products; (b) insurance and freight charges and fees billed to and received from customers or distributors in relation to the sales of Ported Products, and (c) any returns of Ported Products and transportation charges actually allowed on returns. Payments not made when due and payable shall bear interest at One Percent (1%) per month. Payment of such interest shall not limit Sun's other rights or remedies.

(d) TAXES. All payments required by this Agreement are exclusive of taxes and Developer agrees to bear and be responsible for the payment of all such taxes, including, but not limited to, all sales, use, rental receipt, personal property or other taxes which may be levied or assessed in connection with this Agreement, excluding taxes based on Sun's income.

4.4 RECORDS; AUDIT RIGHTS; REPORTS

(a) RECORD KEEPING. Developer shall maintain and provide to Sun along with the payments specified in Section 4.3(b) records sufficient to determine the correctness of the fees and other payments required to be paid pursuant to this Agreement, in a form reasonably acceptable to Sun, which reports shall include, but not be limited to, the (audited, if available, and unaudited, if not) financial statements (balance sheets and profit and loss statements) for the calendar quarter to which the payments relate, and a certified statement of (i) the number of Ported Products sold or distributed in the applicable calendar quarter and the Developer's U.S. List Price for those Ported Products, and (ii) the total cumulative dollar volume of Ported Products sold or distributed as of

the end of that quarter.

(b) AUDIT RIGHTS. The following audit provision shall continue throughout the term of this Agreement and shall survive for a twelve (12) month period after the repayment obligation expires insofar as applicable to repayment obligations accrued prior to such expiration.

(i) RIGHT TO AUDIT. Sun shall have the right to audit the records and accounts, including the financial and cash flow statements (collectively referred to herein as the "Records") of Developer kept in accordance with Section 4.4(a) above. The right to audit may only be exercised only through a Sun designated auditor (the "Auditor") once in any twelve (12) month period commencing on the first commercial shipment of FCS Ported Product, provided, however, that if an audit discloses an underpayment greater than ten percent (10%), Sun may conduct a follow up audit no sooner than three (3) months later. If a follow up audit does not disclose underpayments greater than ten percent (10%), the right to audit may then again only be exercised once in any twelve (12) month period, until and unless such an underpayment of greater than ten percent (10%) is disclosed by a further audit. In such a case, a follow up audit may be held no sooner than three (3) months later. This foregoing formula shall be used by the parties for the duration of the Agreement for subsequent audits and follow up audits. The Auditor shall be adequately bound to keep confidential the trade secrets of the audited party learned during the course of or pursuant to the audit. Any such audit shall be performed only during Developer's normal business hours and shall be performed in such a manner as to avoid unreasonable interference with Developer's business operations; and the Auditor shall be limited to reporting the adequacy of Developer's Records, including, but not limited to,

5

whether Developer is in compliance with the terms of this Agreement and the amount, if any, of underpayment or overpayment of the amounts due Sun pursuant to this Agreement. Except as expressly provided in Section 4.4(b)(ii), Sun shall bear all costs and expenses associated with the exercise of its right to audit.

(ii) ERRORS IN PAYMENT. In the event that any errors in payment shall be determined, such errors shall be corrected by appropriate adjustment in payment (plus interest at eight percent (8%) per annum) for the quarterly period during which the error is discovered. In the event of underpayment of more than five percent (5%) of the amount due for that period, Developer shall reimburse Sun the reasonable charges of the Auditor in performing the audit that identified the underpayments.

(c) REPORTS. Developer shall also provide Sun, on a quarterly basis, a six (6) month rolling forecast of Developer's projected revenues. Such forecast shall not be binding on Developer.

5. PRODUCT MARKETING, DISTRIBUTION AND SUPPORT

5.1 DEVELOPER OBLIGATIONS. Except for Exhibit E attached to this Agreement, Developer shall be solely responsible for the marketing, distribution, and support of the Ported Product and Ported Documentation. Developer shall use commercially reasonable efforts to market, distribute, and support the Ported Product and Ported Documentation. The parties agree to perform and deliver the milestones and deliverables of the marketing activities ("Marketing Activities") as set forth in Exhibit E, and each party shall be responsible for its own expenses associated therewith.

5.2 SUN MARKETING RIGHTS. Sun may include the Ported Product and Ported Documentation on lists of third-party applications, and it may provide such lists to customers. Sun has the right to use the Ported Product and Ported Documentation as set forth in Section 3.3.

5.3 SUN AFFILIATE DISTRIBUTION RIGHTS. In the event that any Sun affiliate desires to include the Ported Product and Ported Documentation on its product price list, Developer agrees to negotiate in good faith the terms and conditions of any necessary marketing or distribution agreement.

5.4 USE OF SUN TRADEMARKS. "Sun Trademarks" shall mean all names, marks, logos, designs, trade dress and other brand designations used by Sun in connection with the Sun Platform. Developer is granted no right, title or license to, or interest in, any Sun Trademarks. Developer acknowledges Sun's rights in Sun Trademarks and agrees that any use of Sun Trademarks by Developer shall inure to the sole benefit of Sun. Developer agrees not to (a) challenge Sun's ownership or use of, (b) register, or (c) infringe any Sun Trademarks, nor shall Developer incorporate any Sun Trademarks into Developer's trademarks, service marks, company names, Internet addresses, domain names, or any other similar designations. If Developer acquires any rights in any Sun Trademarks by operation of law or otherwise, it will immediately at no expense to Sun assign such rights to Sun along with any associated goodwill, applications, and/or registrations.

5.5 SUN TRADEMARK AND LOGO POLICIES. Developer may refer to Sun's products by their associated Trademarks, provided that Developer shall (a) comply with the then current version of the Sun Trademark and Logo Usage Requirements; and (b) attribute all such marks to Sun Microsystems, Inc. by using the appropriate "tm" symbols after such marks, and inserting the following trademark legend following the copyright notice in the document, or some other location readily apparent to the reader:

> "Sun, Sun Microsystems, the Sun logo, Java and all Java based and Sun based marks [INSERT ANY OTHER SUN TRADEMARKS USED IN THE DOCUMENT] are trademarks or registered trademarks of Sun Microsystems, Inc. in the U.S. and other countries."

In addition, any and all such references to Sun's products shall be truthful and not misleading. Specifically, and by example only, Developer shall not use Sun, Solaris, Java, or any Java based marks or any other Sun Trademark in the name of Developer's products or the combined products, e.g. the combined products may

6. CONFIDENTIAL INFORMATION

6.1 CONFIDENTIALITY OBLIGATION. Neither party ("Recipient") which receives Confidential Information from the other party ("Discloser") shall disclose Discloser's Confidential Information to any third party, nor use the Discloser's Confidential Information for any purpose other than is expressly contemplated by this Agreement. Recipient shall use the same degree of care to protect Discloser's Confidential Information as it uses to protect its own Confidential Information, but no less than reasonable care, to prevent its unauthorized disclosure, use, or publication. Recipient may disclose Discloser's Confidential Information only to Recipient's employees, contractors, or other agents who reasonably require access to such Confidential Information and who have been previously bound in writing to a non-disclosure agreement that protects the Confidential Information. Each party agrees to notify the other immediately in the event of an unauthorized disclosure or use of any Confidential Information.

6.2 TERM OF OBLIGATION. The parties' duty to protect Confidential Information shall survive any expiration or termination of this Agreement, and shall extend for a period of five (5) years from the date of disclosure of the Confidential Information for business information, and a period of ten (10) years for technical information (except for each party's source code, which shall be protected in perpetuity).

6.3 EXCEPTIONS. This Agreement imposes no duty upon Recipient with respect to Confidential Information that: (a) was in the possession of, or was known by, the receiving party prior to its receipt from the disclosing party; (b) is or becomes generally known to the public without violation of this Agreement; (c) is obtained by the receiving party from a third party, without an obligation to keep such information confidential; (d) is independently developed by the receiving party without use of the Confidential Information; or (e) is otherwise required to be disclosed in compliance with applicable laws or regulations (such as securities laws and SEC regulations), or order by a court or other regulatory body having competent jurisdiction; provided that if Recipient is required to make any such disclosure of the Discloser's Confidential Information Recipient will, except where impracticable for necessary disclosures, give reasonable advance notice to Discloser of such disclosure requirement and will use commercially reasonable efforts to secure confidential treatment of such Confidential Information required to be disclosed. This section will not affect any other confidential disclosure agreement between the parties.

6.4 ACKNOWLEDGMENT. Developer acknowledges that Sun may now or in the future be developing by itself or jointly with other parties information or products that may be similar to the Product, Documentation, Ported Product, Ported Documentation, or Developer's Confidential Information. Accordingly, nothing in this Agreement shall be construed as a representation or inference that Sun will not develop or acquire information or products, for itself or others, that are similar to or compete with the Product, Documentation, Ported Product, Ported Documentation, or Developer's Confidential Information, provided that Sun has not done so by using or disclosing Developer's Confidential Information.

6.5 RETURN OF MATERIALS. Recipient shall return to Discloser all Confidential Information as set forth in Section 9.2 below, or upon any earlier request to do so made in writing by Discloser.

6.6 PUBLICITY. The terms and conditions of this Agreement are confidential. Any disclosures by either party about the existence of this Agreement, its terms and conditions, and the activities contemplated herein are subject to the disclosing party obtaining the prior written approval of the other party.

7. WARRANTIES AND INDEMNIFICATION

7.1 WARRANTY. Developer represents and warrants that: (a) Developer is the sole owner of the Product and Documentation, or is fully licensed on a world wide basis to use, modify, copy, market, license, distribute or sell to others for any use of the Product and Documentation contemplated by this Agreement; and (b) the modification, testing, copying, marketing, licensing, distribution, sale, and any use of the Ported Products and Ported Documentation as contemplated by this Agreement, do not infringe or otherwise violate any rights of any party in any territory of the world.

7.2 PRODUCT WARRANTY. Developer further warrants, for a period of one hundred twenty (120) days from Sun's acceptance of the FCS version of the Ported Product and Ported Documentation, that the Ported

Product and Ported Documentation licensed to Sun pursuant to Section 3.3 will substantially conform to the Specifications, or, as Sun's sole and exclusive remedy under this subsection (i.e., not in relation to remedies set forth in Sections 7.5 and 7.6. below) Developer will use reasonable efforts to correct any Non-Conformance or replace any non-conforming product with a conforming product. The foregoing warranty will not apply, however, to any Non-Conformance resulting from modification, misuse or abuse of the Ported Product or Ported Documentation by anyone other than Developer without Developer's consent. Unless otherwise agreed in writing, all other software or documentation provided by Developer, if any, shall be provided "AS IS."

7.3 UNLESS SPECIFIED IN THIS AGREEMENT, ALL EXPRESS OR IMPLIED CONDITIONS, REPRESENTATIONS AND WARRANTIES, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT, ARE DISCLAIMED, EXCEPT TO THE EXTENT SUCH DISCLAIMERS ARE HELD TO BE LEGALLY INVALID.

7.4 INDEMNIFICATION BY SUN. Sun will defend at its expense any legal proceeding brought against Developer, to the extent that it is based on a claim that the use of any Sun products is a direct infringement of a copyright or of a U.S. patent, and will pay all damages and costs awarded by a court of final appeal attributable to such claim, provided that Developer: a) provides Notice to Sun of the claim promptly to Sun; (b) gives Sun sole control of the defense and settlement of the claim; (c) provides to Sun, at Sun's expense all available information, assistance and authority to defend; and (d) has not compromised or settled such proceeding without Sun's prior written consent.

7.5 INDEMNIFICATION BY DEVELOPER. Developer will defend at its expense any legal proceeding brought against Sun to the extent it is based on a claim that the use of the Products, Documentation, Ported Product and Ported Documentation is a direct infringement of a copyright or of a U.S. patent, and will pay all damages and costs awarded by a court of final appeal attributable to such claim, provided that Sun: (a) provides notice of the claim promptly to Developer; (b) gives Developer sole control of the defense and settlement of the claim; (c) provides Developer, at Developer's expense, all available information, assistance and authority to defend; and (d) has not compromised or settled such proceeding without Developer's prior written consent.

7.6 REMEDY. If either party's products are found to infringe or, in the other party's opinion, are likely to be found to infringe, the indemnitor may elect to: (i) obtain for indemnitee or indemnitee's customers the right to use such products; (ii) replace or modify the products so that they become non-infringing; or, if neither of these alternative is reasonably available, (iii) remove the infringing or allegedly infringing products, granting indemnitee or indemnitee's customer credit for the purchase price of such product. Neither party shall have liability for any infringement or claim which results from: a) use of its products in combination with any equipment, software or data of the other party; b) compliance with designs or specifications of the other party or the other party's customers; or c) use of an allegedly infringing version of its products, if the alleged infringement could be avoided by the use of a different version made available to the other party or the other party's customers.

This Section states the entire liability of the parties with respect to infringement of any intellectual property rights concerning the products of each party and neither party shall have any additional liability with respect to any alleged or proven infringement.

8. LIMITATION OF LIABILITY

Except (i) for obligations under Article 6, Article 7, and Section 9.2, and (ii) to the extent not prohibited by law:

(a) THE PARTIES' SOLE REMEDIES FOR MATERIAL BREACH OF THIS AGREEMENT SHALL BE THE RETURN OF ANY DEVELOPMENT EQUIPMENT LOANED TO, REIMBURSEMENT OF ANY PAYMENTS MADE TO, AND/OR RECEIPT OF ANY PAYMENTS DUE FROM THE BREACHING PARTY HEREUNDER.

8

(b) NEITHER PARTY WILL BE LIABLE FOR ANY INDIRECT, PUNITIVE, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGE IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT (INCLUDING LOSS OF BUSINESS, REVENUE, PROFITS, USE, DATE OR OTHER ECONOMIC ADVANTAGE), HOWEVER IT ARISES, WHETHER FOR BREACH OR IN TORT, EVEN IF THAT PARTY HAS BEEN PREVIOUSLY ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

(c) Liability for damages shall be limited and excluded, even if any exclusive remedy provided for in this Agreement fails of its essential purpose.

9. TERM AND TERMINATION

9.1 TERM AND TERMINATION.

(a) This Agreement will commence on Effective Date and will expire two (2) years after acceptance of the FCS version of the Ported Product as set forth in the Development Plan, unless earlier terminated in accordance with Sections 9.1(b) and 9.1(c).

(b) Either party may terminate this Agreement: (i) immediately upon giving Notice of any material breach by the other party, if the nature of the breach is such that it cannot be remedied; or (ii) thirty (30) days following Notice to the other party of a material remediable breach, if the other party has not remedied such breach within that thirty-day period.

(c) Sun may terminate this Agreement at any time without cause upon Notice to Developer. If such termination takes place prior to Sun's acceptance of the FCS version of the Ported Product and Ported Documentation, Sun will reimburse Developer for reasonable non-cancelable and non-recoverable direct expenses incurred by Developer in the course of performing its Porting obligations, less any amounts previously paid by Sun under this Agreement. In case of such termination under this subsection only, or termination by Developer for Sun's breach, Developer shall not be obligated to repay the Sun Investment. Notwithstanding the foregoing, in such event, if Developer continues to distribute the Ported Product, Developer shall continue to repay the Sun Investment to Sun pursuant to the terms of this Agreement.

9.2 RETURN OF MATERIALS. Upon the expiration or any termination of this Agreement, the Recipient of Confidential Information hereunder shall return all Confidential Information (including Development Equipment), and any copies thereof, to the Discloser within ten (10) working days of such expiration or

termination.

9.3 DISTRIBUTION OF FCS VERSION OF PORTED PRODUCT. Developer may continue to ship the FCS version of the Ported Product following termination of this Agreement for any reason.

10. NOTICES

All Notices required by this Agreement must be in writing and delivered in person or by means evidenced by a delivery receipt and will be effective upon receipt by the persons specified below:

SUN	DEVELOPER
Sun Microsystems, Inc.	NetObjects, Inc.
901 San Antonio Road, M/S UMPK10-201	301 Galveston Drive
Palo Alto, CA 84303	Redwood City, CA 94063
Attn.: General Counsel	Attn.: Mr. Stephen Kong

11. GENERAL

11.1 RELATIONSHIP OF THE PARTIES. This Agreement is not intended to create a relationship such as a partnership, franchise, joint venture, agency, or employment relationship. Neither party may act in a manner which expresses or implies a relationship other than that of independent contractor, nor bind the other party.

9

11.2 ASSIGNMENT. Neither party may assign or otherwise transfer any of its rights or obligations under this Agreement, without the prior written consent of the other party, except that Sun may assign this Agreement to an affiliated company.

11.3 SURVIVAL. Rights and obligations under this Agreement which by their nature should survive will remain in effect after termination or expiration hereof.

11.4 FORCE MAJEURE. A party is not liable under this Agreement for non-performance caused by events or conditions beyond that party's control if the party makes reasonable efforts to perform.

11.5 WAIVER. Any express waiver or failure to exercise promptly any right under this Agreement will not create a continuing waiver or any expectation of non-enforcement.

11.6 PARTIAL INVALIDITY. If any term or provision of this Agreement is found to be invalid under any applicable statute or rule of law then, that provision notwithstanding, this Agreement shall remain in full force and effect

and such provision shall be deleted.

11.7 EXPORT LAW. All Development Equipment and technical data delivered under this Agreement are subject to U.S. export control laws and may be subject to export or import regulations in other countries. Developer agrees to comply strictly with all such laws and regulations and acknowledges that it has the responsibility to obtain such licenses to export, re-export or import as may be required after delivery to Developer.

11.8 GOVERNING LAW. Any action related to this Agreement will be governed by California law and controlling U.S. federal law. No choice of law rules of any jurisdiction will apply.

11.9 COUNTERPARTS; FACSIMILES. This Agreement may be executed in counterparts. For purposes hereof, a facsimile copy of this Agreement, including the signature page hereto shall be deemed to be an original. Notwithstanding the foregoing, the parties shall deliver original execution copies of this Agreement to one another as soon as practicable following execution thereof.

11.10 ENTIRE AGREEMENT. This Agreement (including the Exhibits) is the parties' entire agreement relating to its subject matter. It supersedes all prior or contemporaneous oral or written communications, proposals, conditions, representations and warranties and prevails over any conflicting or additional terms of any quote, order, acknowledgment, or other communication between the parties relating to its subject matter during the term of this Agreement. No modification to this Agreement will be binding unless in writing and signed by an authorized representative of each party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective authorized representatives as of the Effective Date.

SUN MICROSYSTEMS, INC.

DEVELOPER; NETOBJECTS, INC.

By: /s/ [ILLEGIBLE]

By: /s/ Mark Patton

Name: [ILLEGIBLE]

Name: Mark Patton

Title: Vice President

Title: V.P. Worldwide Sales & Corp. Marketing

Date: 3/26/99

Date: 3/26/99

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
NetObjects, Inc.:

We consent to the use of our forms of report included herein and to the reference to our firm under the heading "Experts" in the Prospectus.

Our form of report dated December 21, 1998 contains an explanatory paragraph that states that the Company has suffered recurring losses from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. The Consolidated Financial Statements and Financial Statement Schedules do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Mountain View, California
April 19, 1999

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints Samir Arora and Russell F. Surmanek, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file, any and all amendments to this Registration Statement, including any and all post-effective amendments and amendments thereto and any registration statement relating to the same offering as this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their and his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

<TABLE>

<S>

<C> <C>

/s/ RUSSELL F. SURMANEK

Russell F. Surmanek

</TABLE>