

SECURITIES AND EXCHANGE COMMISSION

FORM S-1/A

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

Filing Date: **1999-07-27**
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FILER

NETIQ CORP

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SANTA CLARA CA 95054
4083307000

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

AMENDMENT NO. 3
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NetIQ Corporation
(Exact name of Registrant as specified in its charter)

<TABLE>			
<S>	<C>	<C>	
Delaware	7372	77-0405505	
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)	
</TABLE>			

NetIQ Corporation
5410 Betsy Ross Drive
Santa Clara, California 95054
(408) 330-7000
(Address, including zip code, and telephone number, including area code, of
Registrant's principal executive offices)

Ching-Fa Hwang
President and Chief Executive Officer
NetIQ Corporation
5410 Betsy Ross Drive
Santa Clara, California 95054
(408) 330-7000
(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copies to:

Thomas C. DeFilippis, Esq. Wilson Sonsini Goodrich & Rosati Professional Corporation 650 Page Mill Road Palo Alto, California 94304 (650) 493-9300	William D. Sherman, Esq. Morrison & Foerster LLP 755 Page Mill Road Palo Alto, California 94304 (650) 813-5600
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Approximate date of commencement of proposed sale to the public: As soon as
practicable after the effective date of this Registration Statement.

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. []

NetIQ hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until NetIQ 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 the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

++++
+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 it is not soliciting an offer to buy +
+these securities in any state where the offer or sale is not permitted. +
++++

SUBJECT TO COMPLETION, DATED JULY 27, 1999

3,000,000 Shares

[LOGO OF NET IQ APPEARS HERE]

Common Stock

Prior to this offering, there has been no public market for our common stock. The initial public offering price is expected to be between \$11.00 and \$13.00 per share. We have been approved to list our common stock on The Nasdaq Stock Market's National Market under the symbol "NTIQ."

The underwriters have an option to purchase a maximum of 450,000 additional shares to cover over-allotments of shares.

Investing in the common stock involves risks. See "Risk Factors" on page 5.

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	Price to Public -----	Underwriting Discounts and Commissions -----	Proceeds to NetIQ -----
<S>	<C>	<C>	<C>
Per Share.....	\$	\$	\$
Total.....	\$	\$	\$

</TABLE>

Delivery of the shares of common stock will be made on or about , 1999.

Neither the Securities and Exchange Commission nor any state securities

commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

BancBoston Robertson Stephens

Hambrecht & Quist

This prospectus is dated , 1999.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this prospectus is accurate only on the date of this document.

Dealer Prospectus Delivery Obligation

Until , 1999 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

[Inside gatefold: Descriptive text accompanying graphic depiction of computer console screen, computers and servers.

Applications Management Optimizing Performance and Availability for Highly Complex Windows NT Environments

- . Centrally manages the performance of distributed Windows NT-based systems and applications
- . Helps ensure the availability of systems and applications through automated problem detection and correction
- . Designed specifically for the Windows NT environment
- . Integrates with leading systems management frameworks

NetIQ's Comprehensive Approach

NetIQ believes that the combination of AppManager's comprehensive functionality together with its use of familiar and native Microsoft technology and standards provides a superior solution for managing systems and applications in distributed Windows NT environments.

Comprehensive and Easy to Use

The NetIQ AppManager Suite provides a consolidated view of a business' entire Windows NT environment from a central, easy-to-use console.

Scalable and Reliable

The NetIQ AppManager Suite is highly reliable and scales easily to accommodate a business' rapid growth in the number of windows NT-based servers and applications.

Extensible and Interoperable

The NetIQ AppManager Suite can be easily extended to monitor a business' custom applications without having to learn proprietary languages. And IT personnel can easily integrate the NetIQ AppManager Suite with network and systems management frameworks right "out-of-the-box."]

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully.

NetIQ Corporation

We develop applications management software that enables businesses to optimize the performance and availability of their Windows NT-based systems and applications. As the use of Windows NT in highly complex computing environments, including the Internet, continues to expand, businesses are increasingly relying on Windows NT-based systems and applications for critical business functions. These applications include Microsoft Exchange Server, Lotus Domino/Notes, Oracle, Citrix WinFrame, Microsoft Internet Information Server and Microsoft SQL Server. As a result, businesses are facing new challenges in managing their highly complex Windows NT environments.

Our NetIQ AppManager Suite helps businesses address these challenges by providing a comprehensive and automated solution to optimize the performance and availability of these systems and applications and reduce associated support costs. AppManager's architecture scales easily to accommodate rapid growth in the number of servers and applications and can be closely integrated with existing system, network and hardware management solutions. Moreover, AppManager's comprehensive functionality and ease of use resulting from its use of familiar Microsoft technology and standards offer a superior solution for

managing diverse Windows NT-based systems and applications in highly complex computing environments, including the Internet.

Our products are used by businesses in a wide variety of industries and computing environments. As of the date of this prospectus, we license our AppManager products to more than 400 customers, including ALCOA, AT&T, Boeing Shared Services Group, Charles Schwab & Co., Countrywide Home Loans, Dell Computer, General Electric, Georgia-Pacific, Glaxo Wellcome, Merck & Co., Microsoft, Nabisco, NationsBank, Nordstrom Information Systems, Pfizer, Shell Services International, Southern Company Services, the Department of Veterans Affairs and Wells Fargo Bank N.A. We have established development and/or marketing relationships with Citrix, Compaq, Computer Associates, Dell Computer, Hewlett-Packard, IBM, including both its Lotus and Tivoli subsidiaries, Microsoft and Oracle.

We were incorporated in California in June 1995 and our revenue has increased from \$0.4 million in fiscal 1997 to \$7.1 million in fiscal 1998 to \$15.1 million in the nine months ended March 31, 1999. We incurred net losses of \$3.1 million in fiscal 1998 and \$0.5 million in the nine months ended March 31, 1999 and at March 31, 1999 we had an accumulated deficit of \$6.8 million.

Our principal executive offices are located at 5410 Betsy Ross Drive, Santa Clara, California 95054, and our telephone number is (408) 330-7000. Our Web address is www.netiq.com. Information contained on our Web site does not constitute part of this prospectus.

NetIQ, AppManager, Knowledge Scripts and Work Smarter are registered United States trademarks of NetIQ. NetIQ Partner Network and the NetIQ logo are also trademarks of NetIQ. This prospectus also contains trademarks and tradenames of other companies.

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The Offering

<TABLE>	<C>	<S>
Common stock offered.....		3,000,000 shares
Common stock to be outstanding after this offering.....		14,624,274 shares
Use of proceeds.....		For working capital, capital expenditures and potential strategic investments or acquisitions. See "Use of Proceeds" on page 17 of this prospectus
Nasdaq National Market symbol.....		NTIQ

Except as otherwise indicated, all references to the number of outstanding shares of common stock are based on shares outstanding as of March 31, 1999 and assume no exercise of the underwriters' over-allotment option and the conversion of each outstanding share of convertible preferred stock into one share of common stock immediately prior to the closing of this offering. Also, the information in this prospectus reflects the effects of a 2-for-3 reverse stock effected in July 1999 and assumes that the initial public offering price will be \$12.00 per share, the midpoint of the range disclosed on the cover of this prospectus.

Please see "Capitalization" on page 18 of this prospectus for a more complete discussion regarding the outstanding shares of common stock, securities to purchase common stock and other related matters.

Summary Consolidated Financial Information

The pro forma consolidated balance sheet data summarized below gives effect to the conversion of outstanding preferred stock into common stock upon completion of this offering. The pro forma consolidated balance sheet data also reflects the repayment of a \$5.0 million promissory note plus accrued interest and the application of the net proceeds received in connection with the exercise of a warrant to purchase 280,025 shares of common stock at an exercise price of \$10.80 per share. See "Capitalization" on page 18 of this prospectus, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 21 of this prospectus and "Description of Capital Stock" on page 61 of this prospectus for further information regarding this warrant and the promissory note. The pro forma as adjusted consolidated balance sheet data summarized below reflects the application of the net proceeds from the sale of the 3,000,000 shares of common stock offered by NetIQ at the assumed initial public offering price of \$12.00 and after deducting the underwriting discounts and commissions and estimated offering expenses.

<TABLE>
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	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:					
Revenue.....	\$ --	\$ 388	\$ 7,070	\$ 3,420	\$15,109
Gross profit.....	--	333	6,428	3,058	13,683
Loss from operations.....	(1,006)	(2,397)	(3,373)	(3,081)	(590)
Net loss.....	(909)	(2,281)	(3,111)	(2,866)	(501)
Basic and diluted net loss per share.....	\$ (1.55)	\$ (1.62)	\$ (1.34)	\$ (1.31)	\$ (0.15)
Shares used to compute basic and diluted net loss per share.....	587	1,411	2,325	2,192	3,294
Pro forma basic and diluted net loss per share.....			\$ (0.32)		\$ (0.05)
			=====		=====
Shares used to compute pro forma basic and diluted net loss per share.....			9,725		10,694
			=====		=====

</TABLE>

<TABLE>
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	March 31, 1999		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands)		
<S>	<C>	<C>	<C>
Consolidated Balance Sheet Data:			
Cash and cash equivalents.....	\$11,565	\$ 9,476	\$41,821
Working capital.....	5,076	7,987	40,332
Total assets.....	17,613	15,524	47,869
Long term obligations, less current portion.....	241	241	241
Total stockholders' equity.....	5,971	8,882	41,227

</TABLE>

You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock. Investing in our common stock involves a high degree of risk. Any of the following risks could materially adversely affect our business, operating results and financial condition and could result in a complete loss of your investment.

We have a history of losses, we expect to incur losses in the future and we may not ever become profitable.

We were founded in June 1995, and our limited operating history makes it difficult to forecast our future operating results. We have not been profitable in any quarter since inception, and we incurred net losses of \$0.9 million for the period from inception through June 30, 1996, \$2.3 million for fiscal 1997, \$3.1 million for fiscal 1998 and \$0.5 million for the nine months ended March 31, 1999. As of March 31, 1999, we had an accumulated deficit of \$6.8 million. We expect to continue to incur net losses in the near future and possibly longer. We anticipate that our expenses will increase substantially in the foreseeable future as we continue to develop our technology, expand our distribution channels and increase our sales and marketing activities. These efforts may prove more expensive than we currently anticipate and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. If we fail to increase our revenues to keep pace with our expenses, we will continue to incur losses. If we do achieve profitability in any period, we cannot be certain that we will sustain or increase such profitability on a quarterly or annual basis. For more detailed information regarding our operating results and financial condition, please see "Selected Consolidated Financial Data" on page 20 of this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21 of this prospectus.

Our revenue may not continue to grow at the same rate in the future as it has in the past.

Although our revenue has grown substantially in recent quarters, we do not expect our revenue to grow at such a rapid rate in the future, and our revenue could in fact decline. Our total revenue has grown from \$0.4 million in fiscal 1997 to \$7.1 million in fiscal 1998 to \$15.1 million in the nine months ended March 31, 1999. This growth rate reflects the relatively recent introduction of our AppManager product suite in the U.S. and abroad. As our business matures, it is unlikely that our revenue will continue to grow at the same rapid pace as it has since we introduced AppManager in 1997. If our revenue does not increase at or above the rate analysts expect, the trading price for our common stock may decline. We believe that our future growth rates will depend on our ability to expand our penetration of our existing markets, which will require significant expenses that we may not have sufficient resources to undertake.

Unanticipated fluctuations in our quarterly operating results due to such factors as change in the demand for AppManager and changes in the market for Windows NT and related products could affect our stock price.

We believe that quarter-to-quarter comparisons of our financial results are not necessarily meaningful indicators of our future operating results, and you should not rely on them as an indication of our future performance. If our quarterly operating results fail to meet the expectations of analysts, the trading price of our common stock could be negatively affected. Our quarterly operating results have varied substantially in the past and may vary substantially in the future depending upon a number of factors described below and elsewhere in this "Risk Factors" section of the prospectus, including many that are beyond our control. These factors include:

- . Changes in demand for AppManager or for applications management software solutions generally, including any changes in customer purchasing patterns relating to year 2000 concerns
- . Changes in demand for Windows NT-based systems and applications
- . Increased competition in general and any changes in our pricing policies that may result from increased competitive pressures

- . Varying budgeting cycles of our customers and potential customers
- . Varying size, timing and contractual terms of enterprise-wide orders for our products
- . Our ability to develop and introduce on a timely basis new or enhanced versions of our products
- . Potential downturns in our customers' businesses, in the domestic or international economies
- . Changes in the mix of revenue attributable to domestic and international sales
- . Software defects and other product quality problems
- . Changes in the mix of revenue attributable to higher-margin software license revenue as opposed to substantially lower-margin service revenue

If a large number of the orders that are typically booked at the end of a quarter are not booked, our net income and revenue for that quarter could be substantially reduced.

A majority of our software license revenue in any quarter depends on orders booked and shipped in the last month, weeks or days of that quarter. At the end of each quarter, we typically have either minimal or no backlog of orders for the subsequent quarter. If a large number of orders or any large, enterprise-wide orders are not placed or are deferred, our net income and revenue in that quarter could be substantially reduced.

If customers that are delaying introducing new software products to their computing environments to avoid potential year 2000 problems also delay purchases of our software, our revenue will be lower.

Prior to the end of 1999 and continuing into 2000, there is likely to be an increased customer focus on addressing year 2000 compliance issues. Some customers have indicated to us that they will delay deployment of new software, including new versions and product updates, at various times over the next six to nine months to avoid the possibility of introducing or encountering any new year 2000 problems. There is a risk that existing or potential customers may also choose to defer new software product purchases as a result of year 2000 concerns. Moreover, customers may reallocate capital expenditures or personnel in order to fix year 2000 problems of existing systems instead of purchasing new software. If customers defer purchases or reallocate capital expenditures and personnel, it could lower our product sales and service revenue. In addition, year 2000 compliance issues also could cause a significant number of companies, including our current customers, to reevaluate their current system needs and, as a result, consider switching to other systems and suppliers.

New product introductions and pricing strategies by our competitors could adversely affect our ability to sell our products or could result in pressure to price our products in a manner that reduces our margins.

We may not be able to compete successfully against our competitors and this could impair our ability to sell our products. The market for applications management software to help optimize the performance availability of Windows NT-based systems and applications is new, rapidly evolving and highly competitive, and we expect competition in this market to persist and intensify. New products for this market are frequently introduced and existing products are continually enhanced. Competition may also result in changes in pricing policies by us or our competitors which could hurt our ability to sell our products and could adversely affect our profits. Many of our current competitors have greater financial, technical, marketing, professional services and other resources than we do. For example, the annual revenue of each of our major competitors, including IBM, Computer Associates and BMC, approximates or exceeds \$1 billion. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products than we can. Many of these companies have an extensive customer base and broad customer relationships, including relationships with

many of our current and potential customers. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to grow our business and sell our products will be negatively affected.

For a further description of the competitive pressures we face, see "Business--Competition" on page 45 of this prospectus.

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New competitors could emerge and this could impair our ability to grow our business and sell our products.

We may face competition in the future from established companies who have not previously entered the market for applications management software for optimizing the performance and availability of Windows NT-based systems and applications as well as from emerging companies. Barriers to entry in the software market are relatively low. Established companies may not only develop their own Windows NT-based applications management solutions, but they may also acquire or establish cooperative relationships with our current competitors. It is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. If those future competitors are successful, we are likely to lose market share and our revenue would likely decline.

We may face competition from Microsoft in the future. Microsoft may enter the market for managing the performance and availability of Windows NT-based systems and applications in the future. This could materially adversely affect our competitive position and hurt our ability to sell our products. As part of its competitive strategy, Microsoft could bundle applications management software with its Windows NT operating system software, which could discourage potential customers from purchasing our products. Even if the standard features of future Microsoft operating system software were more limited than those of our AppManager products, a significant number of customers or potential customers might elect to accept more limited functionality in lieu of purchasing additional software. Moreover, competitive pressures resulting from this type of bundling could lead to price reductions for our products which would reduce our profit margins.

Potential third party competition may create bundling or compatibility issues and adversely affect our ability to sell our products. In addition to Microsoft, other potential competitors may bundle their products or incorporate applications management software for optimizing the performance availability of Windows NT-based systems and applications into existing products, including for promotional purposes. In addition, our ability to sell our products will depend, in part, on the compatibility of our products with other third party products, such as messaging, Internet and database applications. Some of these third party software developers may change their products so that they will no longer be compatible with our products. If our competitors bundled their products in this manner or made their products incompatible with ours, this could materially adversely affect our ability to sell our products and could lead to price reductions for our products which could reduce our profit margins.

Please see "Business--Competition" on page 45 of this prospectus for a further discussion on the possible competitive pressures we may face in the future.

We will need to expand our distribution channels in order to develop our business and increase revenue.

Our ability to sell our products in new markets and to increase our share of existing markets will be impaired if we fail to significantly expand our distribution channels. Our sales strategy requires that we establish multiple indirect marketing channels in the United States and internationally through value added resellers, systems integrators and distributors and original equipment manufacturers, and that we increase the number of customers licensing

our products through these channels. Moreover, our channel partners must market our products effectively and be qualified to provide timely and cost-effective customer support and service. If they are unable to do so, this could harm our ability to increase revenue.

We will need to expand our relationship with Tech Data and develop relationships with other distributors to increase sales of our products.

Our domestic resellers order our products through Tech Data Corporation, which is currently our sole U.S. distributor. We intend to add additional U.S. and international distributors, but may not be able to do so and may not be able to maintain our existing relationship with Tech Data. Sales of our AppManager products through Tech Data accounted for approximately \$575,000, or 4%, of software license revenue for the nine

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months ended March 31, 1999. Our agreement with Tech Data is for successive one-year terms that expire each June, but is subject to automatic one year renewals unless either party provides a termination notice prior to the renewal date. Either party to the distribution agreement may terminate the contract upon 30 days written notice to the other party. Our current agreement with Tech Data does not prevent Tech Data from selling products of other companies, including those of our competitors, and does not require that Tech Data purchase minimum quantities of our products. Tech Data and any of our future distributors could give higher priority to the products of other companies than they give to our products. As a result, any significant reduction in sales volume through any of our current or future distribution partners could lower our revenue. In addition, sales through these channels generally have lower costs than direct sales and any significant decrease in sales through these channels could also lower our gross margins. Furthermore, our relationships with our distribution partners may not generate enough revenue to offset the significant resources used to develop these channels.

We will need to expand our field sales and inside sales organizations to grow our business and increase sales of our products.

Because we rely heavily on our field sales and inside sales organizations, any failure to expand those organizations could limit our ability to sell our products and expand our market share. We are planning to significantly expand our field sales efforts in the U.S. and internationally and we are investing, and plan to continue to invest, substantial resources in this expansion. Despite these efforts, we may experience difficulty in recruiting and retaining qualified field sales personnel. Concurrent with expanding our field sales efforts, we are also expanding our efforts to sell our products through inside sales personnel who, in addition to working with our third party channel partners, sell our AppManager products through telephone sales efforts to customers typically having fewer than 100 Windows NT servers and that are not served through our field sales efforts or third party channels.

If the markets for Windows NT and applications management software for Windows NT-based systems and applications do not continue to develop as we anticipate, our ability to grow our business and sell our products will be adversely affected.

Windows NT. AppManager is designed to support Windows NT-based systems and applications and we expect our products to be dependent on the Windows NT market for the foreseeable future. If the market for Windows NT systems declines or develops more slowly than we currently anticipate, this would materially adversely affect our ability to grow our business, sell our products, and achieve and maintain profitability. Although the market for Windows NT has grown rapidly in recent periods, this growth may not continue at the same rate, or at all.

Applications Management Software for Windows NT. The market for applications management software for optimizing the performance and availability of Windows NT-based systems and applications may not develop or may grow more slowly than

we anticipate and this could materially adversely affect our ability to grow our business, sell our products, and achieve and maintain profitability. The rate of acceptance of our AppManager products is dependent upon the increasing complexity of businesses' Windows NT environments as these businesses deploy additional servers and applications using this operating system. Many companies have been addressing their applications management needs for Windows NT-based systems and applications internally and only recently have become aware of the benefits of third-party solutions, such as our AppManager products, as their needs have become more complex. Our future financial performance will depend in large part on the continued growth in the number of businesses adopting third party applications management software products and their deployment of these products on an enterprise-wide basis.

The lengthy sales cycle for our products makes our revenues susceptible to fluctuations.

The delay or failure to complete sales, especially large, enterprise-wide sales, in a particular quarter or calendar year could reduce our quarterly and annual revenue. We have traditionally focused sales of our products to workgroups and divisions of a customer, resulting in a sales cycle ranging between 90 and 180

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days. The sales cycle associated with the purchase of our products is subject to a number of significant risks over which we have little or no control, including:

- . customers' budgetary constraints and internal acceptance procedures
- . concerns about the introduction or announcement of our or our competitors' new products, including product announcements by Microsoft relating to Windows NT
- . customer requests for product enhancements

Increasingly, we are focusing more of our selling effort on products for the customer's entire enterprise. However, the sales cycle for these enterprise-wide sales typically can be significantly longer than the sales cycle for smaller-sized departmental sales. Enterprise-wide sales of our AppManager products require an extensive sales effort throughout a customer's organization because decisions to license and deploy this type of software generally involve the evaluation of the software by many people, in various functional and geographic areas, each often having specific and conflicting requirements. This evaluation process often requires significant efforts to educate information technology decision-makers about the benefits of our products for the Windows NT environment.

We have experienced significant growth in our business in recent periods and our ability to manage this growth and any future growth will affect our ability to achieve and maintain profitability.

Our ability to achieve and maintain profitability will depend in part on our ability to implement and expand operational, customer support and financial control systems and to train and manage our employees. We may not be able to augment or improve existing systems and controls or implement new systems and controls in response to future growth, if any. In addition, we will need to expand our facilities to accommodate the growth in our personnel. Any failure to manage growth could divert management attention from executing our business plan and hurt our ability to successfully expand our business. Our historical growth has placed, and any further growth is likely to continue to place, a significant strain on our resources. We have grown from 14 employees at June 30, 1996 to 111 employees at March 31, 1999. We have also opened 10 field sales offices and have significantly expanded our operations. We are currently implementing new financial and accounting systems and to be successful, we will need to expand our other infrastructure programs, including implementing additional management information systems, improving our operating and administrative systems and controls, training new employees and maintaining close coordination among our executive, engineering, accounting, finance,

marketing, sales, operations and customer support organizations. In addition, our growth has resulted, and any future growth will result, in increased responsibilities for management personnel. Managing this growth will require substantial resources that we may not have.

We will need to recruit and retain additional qualified personnel to successfully grow our business.

Our future success will also likely depend in large part on our ability to attract and retain experienced sales, research and development, marketing, technical assistance and management personnel. If we do not attract and retain such personnel, this could materially adversely affect our ability to grow our business. Competition for qualified personnel in the computer software industry is intense, particularly in the Silicon Valley, and in the past we have experienced difficulty in recruiting qualified personnel, especially technical and sales personnel. Moreover, we intend to expand the scope of our international operations and these plans will require us to attract experienced management, service, marketing, sales and customer support personnel for our international offices. We expect competition for qualified personnel to remain intense, and we may not succeed in attracting or retaining such personnel. In addition, new employees generally require substantial training in the use of our products, which in turn requires significant resources and management attention. There is a risk that even if we invest significant resources in attempting to attract, train and retain qualified personnel, we will not be successful in our efforts. Our costs of doing business would increase without the expected increase in revenues.

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Our relationships with Microsoft are important to our product development, marketing and sales efforts and any deterioration of these relationships could adversely affect our ability to develop, market and sell our products.

Any deterioration of our relationships with Microsoft could materially adversely affect our competitive position and our ability to develop, market and sell our products. We do not have any agreements to ensure that our existing relationships with Microsoft will continue or expand. We rely on our participation in Microsoft's testing and feedback programs to develop our technology and enhance the features and functionality of our software. Traditionally, Microsoft has not prohibited companies who develop software that supports Microsoft operating systems from participating in such programs. However, Microsoft may prohibit us from participating in such programs in the future for competitive or other reasons. Recently, Microsoft has permitted one of our engineers to work with its Windows NT development group at its Redmond, Washington headquarters. Microsoft also contracts for one of our engineers to provide support for Microsoft's use of our products. Additionally, we participate in joint marketing programs with Microsoft and count Microsoft as one of our significant customers. Microsoft is also currently distributing our AppManager WBEM product with its Windows 2000 operating server test version release. However, Microsoft is under no obligation to continue to distribute this product in the future, nor is Microsoft obligated to continue to work with our engineers.

If we are unable to successfully to expand our international operations, this could adversely affect our ability to grow our business.

We intend to expand the scope of our international operations and currently have field offices in London, Munich, Sydney and Tokyo. If we are unable to expand our international operations successfully and in a timely manner, this could materially adversely affect our ability to increase revenue. Our continued growth and profitability will require continued expansion of our international operations, particularly in Europe and the Asia-Pacific region. We have only limited experience in developing, marketing, selling and supporting our products internationally and may not succeed in expanding our international operations.

The success of our international operations is dependent upon many factors

which could adversely affect our ability to sell our products internationally and could affect our profitability.

International sales represented approximately 10% of our total revenue in fiscal 1998 and approximately 22% of total revenue for the nine months ended March 31, 1999. Our international revenue is attributable principally to our European operations. Our international operations are, and any expanded international operations will be, subject to a variety of risks associated with conducting business internationally, many of which are beyond our control. The following factors may adversely affect our ability to achieve and maintain profitability and our ability to sell our products internationally:

- . Longer payment cycles
- . Seasonal reductions in business activity during the summer months in Europe and other parts of the world
- . Increases in tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries
- . Difficulties in localizing our products for foreign markets
- . Fluctuations in currency exchange rates
- . Recessionary environments in foreign economies
- . Problems in collecting accounts receivable
- . Difficulties in staffing and managing international operations
- . Limited or unfavorable intellectual property protection

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If we do not respond adequately to our industry's evolving technology standards or do not continue to meet the sophisticated needs of our customers, sales of our products may decline.

Our future success will depend on our ability to address the increasingly sophisticated needs of our customers by supporting existing and emerging technologies, including technologies related to the development of the Windows NT operating system generally. If we do not enhance our products to meet these evolving needs, this could materially adversely affect our ability to remain competitive and sell our products. We will have to develop and introduce new products and enhancements to our existing AppManager products on a timely basis to keep pace with technological developments, evolving industry standards, changing customer requirements and competitive products that may render existing products and services obsolete. In addition, because our AppManager products are dependent upon Windows NT, we will need to continue to respond to technology advances in this operating system, including major revisions. Our position in the existing market for applications management software for optimizing performance and availability of Windows NT-based systems and applications could be eroded rapidly by product advances. Consequently, the life cycles of our products are difficult to estimate. We expect that our product development efforts will continue to require substantial investments that we may not have the resources to make.

We may experience delays in developing our products that could adversely affect our ability to introduce new products, maintain our competitive position and grow our business.

If we are unable, for technological or other reasons, to develop and introduce new and improved products in a timely manner, this could affect our ability to introduce new products, maintain our competitive position and grow our business and achieve and maintain profitability. We have experienced product development delays in new versions and update releases in the past and may experience similar or more significant product delays in the future. To date, none of these delays has materially affected our business. However, future delays may have a material adverse effect on our business. Difficulties in product development could delay or prevent the successful introduction or marketing of new or improved products or the delivery of new versions of our products to our customers.

Our executive officers and other key personnel are critical to our business and

they may not remain with NetIQ in the future which could hurt our ability to grow our business.

Our success will depend to a significant extent on the continued service of our executive officers and other key employees, including key sales, consulting, technical and marketing personnel. If we lose the services of one or more of our executives or key employees, including if one or more of our executives or key employees decided to join a competitor or otherwise compete directly or indirectly with us, this could harm our business and could affect our ability to successfully implement our business objectives.

Our future revenue is partially dependent upon our current customers licensing additional AppManager products.

If our current customers do not purchase additional products, this would reduce our revenue. During the nine months ended March 31, 1999, approximately 36% of license revenue was derived from additional sales to current customers. In order to increase software license revenue, our sales efforts target our existing customer base to expand these customers' use of our AppManager products. Most of our current customers initially license a small portion of our products for pilot programs. Our customers may not license additional AppManager products and may not expand their use of our products. In addition, as we deploy new versions of our AppManager products or introduce new products, our current customers may not require the functionality of our new products and may not license these products. We also depend on our installed customer base for future revenue from maintenance renewal fees. The terms of our standard license arrangements provide for a one-time license fee and a prepayment of one year of software maintenance and support fees. Our maintenance agreements are renewable annually at the option of our customers but there are no minimum payment obligations or obligations to license additional software.

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Errors in our products could result in significant costs to us and could impair our ability to sell our products.

Because our software products are complex, they may contain errors, or "bugs," that can be detected at any point in a product's life cycle. These errors could materially adversely affect our reputation which could result in significant costs to us and could impair our ability to sell our products. The costs we may incur in correcting any product errors may be substantial and could decrease our profit margins. While we continually test our products for errors and work with customers through our customer support services to identify and correct bugs, errors in our products may be found in the future. Testing for errors is complicated in part because it is difficult to simulate the highly complex computing environments in which our customers use our products as well as because of the increased functionality of our product offerings. In the past, we have discovered errors in our products and have experienced delays in the shipment of our products during the period required to correct these errors. These delays have principally related to new versions and product update releases. To date, none of these delays has materially affected our business. However, product errors or delays in the future could be material. Detection of any significant errors may result in, among other things, loss of, or delay in, market acceptance and sales of our products, diversion of development resources, injury to our reputation, or increased service and warranty costs. Moreover, because our products support Windows NT-based systems and applications, any software errors or bugs in the Windows NT operating server software or the systems and applications that our products manage may result in errors in the performance of our software.

We may be subject to product liability claims that could result in significant costs to us.

We may be subject to claims for damages related to product errors in the future. A material product liability claim could materially adversely affect our business because of the costs of defending against these types of lawsuits, diversion of key employees' time and attention from the business and potential

damage to our reputation. Our license agreements with our customers typically contain provisions designed to limit exposure to potential product liability claims. Some of our licensing agreements state that if our products fail to perform, we will correct or issue replacement software. Our standard license also states that we will not be liable for indirect or consequential damages caused by the failure of our products. Limitation of liability provisions like those in our license agreements, however, may not be effective under the laws of some jurisdictions if local laws treat those types of warranty exclusions as unenforceable. Although we have not experienced any product liability claims to date, the sale and support of our products involves the risk of such claims. In particular, issues relating to year 2000 compliance have increased awareness of the potential adverse effects of software defects and malfunctions.

We have warranted to a majority of our major licensees that our products will be year 2000 compliant and any problems our products experience with year 2000 issues could result in third party claims. Potential problems may occur in our third party equipment or software, which could result in significant costs.

If any of our licensees experience year 2000 problems as a result of their use of our AppManager products, they could assert claims for damages which, if successful, could result in us incurring significant costs to us that could lower our profit margins. While we currently believe that our software products are generally year 2000 compliant, we may learn that our software products do not contain all necessary software routines and codes necessary for the accurate calculation, display, storage and manipulation of data involving dates. In addition, in a majority of our major software licenses, we have warranted that the use or occurrence of dates on or after January 1, 2000, will not adversely affect the performance of our products with respect to four digit date dependent data or the ability to create, store, process and output information related to such data. In addition, we use third-party equipment and software that may not be year 2000 compliant. If this third-party equipment or software does not operate properly with regard to the year 2000, we may incur unexpected expenses to remedy any problems. Moreover, if our key systems, or a significant number of our systems, were to fail as a result of year 2000 problems, we could incur substantial costs and disruption of our business. For a more detailed description of our year 2000 preparedness assessment, see "Management's Discussion and

Analysis of Financial Condition and Results of Operations--Year 2000 Compliance" on page 30 of this prospectus.

If we fail to protect our intellectual property rights, competitors may be able to use our technology or trademarks and this could weaken our competitive position, reduce our revenue and increase costs.

Our success is heavily dependent upon proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights and prevent competitors from using our technology in their products. These laws and procedures provide only limited protection. We have applied for three patents relating to our engineering work. Two of these patents have been issued or approved for issuance and the third patent application is pending, but may never be issued. These patents may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Our ability to sell our products and prevent competitors from misappropriating our proprietary technology and trade names is dependent upon protecting our intellectual property. Despite precautions that we take, it may be possible for unauthorized third parties to copy aspects of our current or future products or to obtain and use information that we regard as proprietary. In particular, we may provide our licensees with access to our proprietary information underlying our licensed applications. Additionally, our competitors may independently develop similar or superior technology. Policing unauthorized use of software is difficult and some foreign laws do not protect our proprietary rights to the same extent as United States laws. Litigation may be necessary in the future to

enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could materially adversely affect our business, future operating results and financial condition.

While we have settled a claim that we infringed a third party's intellectual property rights, third parties in the future for competitive or other reasons could assert that our products infringe their intellectual property rights. Such claims could injure our reputation and adversely affect our ability to sell our products.

Third parties may claim that our current or future products infringe their proprietary rights and these claims, whether they have merit or not, could harm our business including by increasing our costs. We previously litigated a claim with Compuware alleging that we had infringed a third party's intellectual property rights, and although this claim has been settled and no other claims of this nature are currently pending, any future claims could affect our relationships with existing customers and may prevent future customers from licensing our products. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 21 of this prospectus for a further discussion of the Compuware litigation and settlement agreement. The intensely competitive nature of our industry and the important nature of technology to our competitors' businesses may contribute to the likelihood of being subject to third party claims of this nature. Any such claims, with or without merit, could be time consuming, result in potentially significant litigation costs, including costs related to any damages we may owe resulting from such litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or license agreements may not be available on acceptable terms or at all. We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors in the software industry grows and the functionality of products in different industry segments overlaps.

Seasonal trends in sales of our software products may affect our quarterly operating results.

We expect to experience seasonality in sales of our software products in the future. These seasonal trends could materially affect our quarter-to-quarter operating results. Revenue and operating results in our quarter ending December 31 are sometimes higher than in our other quarters, because many customers make purchase decisions based on their calendar year-end budgeting requirements. In addition, because the incentive compensation structure for our sales organization is based, in part, on satisfaction of fiscal year-end quotas and because our fiscal year ends on June 30, our quarter ending June 30 tends to reflect the efforts of our sales organization to meet these fiscal year end objectives.

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As our expanding international operations in Europe and the Asia-Pacific region are increasingly conducted in currencies other than the U.S. dollar, fluctuations in the value of foreign currencies could result in currency exchange losses.

Currently, a majority of our international business is conducted in U.S. dollars. However, as we expand our international operations, we expect that our international business will increasingly be conducted in foreign currencies. Fluctuations in the value of foreign currencies relative to the U.S. dollar have caused, and we expect such fluctuation to increasingly cause, currency translation gains and losses. We cannot predict the effect of exchange rate fluctuations upon future quarterly and annual operating results. We may experience currency losses in the future. To date, we have not adopted a hedging program to protect us from risks associated with foreign currency fluctuations.

Because we license technology from Summit Software that helps AppManager run

our applications management modules, any failure to maintain satisfactory licensing arrangements with this party could result in substantial costs to us.

We license technology that helps AppManager run our applications management modules from Summit Software on a non-exclusive, worldwide basis. Our AppManager product modules for Windows NT, Windows NT Workstation and Super Console incorporate the Summit Software technology. Although our agreement allows us to continue to sell products using the Summit technology for a period of 24 months after the license terminates, our ability to sell our products could be adversely affected if we are not able to replace this technology on commercially reasonable terms. We license this technology on a year-to-year basis which is automatically renewed each August unless otherwise terminated. Our license for this technology is terminable by Summit upon 60 days notice in the event we breach our agreement with Summit, including our failure to pay royalty fees on a timely basis or any other material breach by us of the license agreement. For a further description of our license agreement with Summit, see "Business--Intellectual Property" on page 46 of this prospectus.

Provisions in our charter documents and in Delaware law may discourage potential acquisition bids for NetIQ and prevent changes in our management which our stockholders may favor.

Provisions in our charter documents could discourage potential acquisition proposals and could delay or prevent a change in control transaction that our stockholders may favor. These provisions could have the effect of discouraging others from making tender offers for our shares, and as a result, these provisions may prevent the market price of our common stock from reflecting the effects of actual or rumored takeover attempts and may prevent stockholders from reselling their shares at or above the price at which they purchased their shares. These provisions may also prevent changes in our management that our stockholders may favor. Our charter documents do not permit stockholders to act by written consent, do not permit stockholders to call a stockholders meeting and provide for a classified board of directors, which means stockholders can only elect, or remove, a limited number of our directors in any given year. Furthermore, upon completion of the offering, our board of directors will have the authority to issue up to 5,000,000 shares of preferred stock in one or more series. Our board of directors can fix the price, rights, preferences, privileges and restrictions of such preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. In addition, Delaware law may inhibit potential acquisition bids for NetIQ. We are subject to the antitakeover provisions of Delaware law which regulate corporate acquisitions. Delaware law prevents certain Delaware corporations, including NetIQ, from engaging, under certain circumstances, in a "business combination" with any "interested stockholder" for three years following the date that such stockholder became an interested stockholder. For a further discussion of these charter provisions and Delaware law, see "Description of Capital Stock" on page 61 of this prospectus.

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The substantial number of shares that will be eligible for sale in the near future may adversely affect the market price for our common stock and may prevent stockholders from reselling their shares at or above the price at which they purchased their shares.

Sales of a substantial number of shares of our common stock in the public market following this offering could materially adversely affect the market price for our common stock. As additional shares of our common stock become available for resale in the public markets, this could increase the supply for our common stock which could adversely affect the price of our common stock. This may prevent stockholders from reselling their shares at or above the price at which they purchased their shares. The number of shares of common stock available for sale in the public market is limited by restrictions under federal securities law and under agreements that our stockholders have entered into with the underwriters or with us.

For a further description of the eligibility of shares for sale into the public market following the offering see "Shares Eligible for Future Sale" on page 64 of this prospectus.

New investors in our common stock will experience immediate and substantial dilution.

The initial public offering price is substantially higher than the book value per share of our common stock. Investors purchasing common stock in this offering will, therefore, incur immediate dilution of \$9.18 in net tangible book value per share of common stock assuming an initial public offering price of \$12.00 and after taking into consideration the effects of the issuance of the shares offered hereby and the exercise of the warrant to purchase 280,025 shares of common stock issued to Compuware. See "Dilution" on page 19 of this prospectus for a further discussion of the dilutive effects of this offering and the exercise of the Compuware warrant. This dilution figure includes the impact of deductions of the estimated underwriting discounts and commissions and estimated offering expenses payable from the initial public offering price. Investors will incur additional dilution upon the exercise of outstanding stock options.

Our stock will likely be subject to substantial price and volume fluctuations which may prevent stockholders from reselling their shares at or above the price at which they purchased their shares.

Fluctuations in the price and trading volume of our common stock may prevent stockholders from reselling their shares above the price at which they purchased their shares. Stock prices and trading volumes for many software companies fluctuate widely for a number of reasons, including some reasons which may be unrelated to their businesses or results of operations. This market volatility, as well as general domestic or international economic, market and political conditions, could materially adversely affect the market price of our common stock without regard to our operating performance. In addition, our operating results may be below the expectations of public market analysts and investors. If this were to occur, the market price of our common stock would likely significantly decrease.

Our investment of the proceeds from this offering may not yield a significant return.

We will have broad discretion as to the use of the proceeds from this offering and we may not invest these proceeds to yield a significant return. Our primary purposes for this offering are to create a public market for our common stock and to raise working capital for general corporate purposes, and potential strategic investments or acquisitions. See "Use of Proceeds" on page 17 of this prospectus for a further discussion regarding our plans regarding the use of proceeds from this offering. Until the need arises to use the proceeds, we plan to invest the net proceeds in investment grade, interest-bearing securities.

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FORWARD-LOOKING STATEMENTS

Many statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in the prospectus that are not historical facts. When used in this prospectus, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed

USE OF PROCEEDS

We will receive net proceeds of \$32,345,000 from the sale of 3,000,000 shares of common stock at an assumed initial public offering price of \$12.00 per share after deducting underwriting commissions, discounts and estimated expenses.

The principal purposes of this offering are to create a public market for our common stock and to raise working capital. As of the date of this prospectus, we have no specific plans regarding the use of the net proceeds of this offering other than for general corporate purposes. Pending such uses, we intend to invest the net proceeds of the initial public offering in investment grade, interest-bearing securities. We may use the proceeds of the offering for potential strategic investments or acquisitions that complement our products, services, technologies or distribution channels. However, we do not currently have any plans to make any such strategic investments or acquisitions.

Upon the completion of this offering we will pay approximately \$2.1 million to satisfy our outstanding loan obligation to Compuware which will become due upon completion of this offering. In addition, approximately \$3.0 million of the loan obligation to Compuware will be cancelled in connection with Compuware's exercise of their warrant to purchase 280,025 shares of common stock at an assumed purchase price of \$10.80 per share, 90% of the anticipated assumed public offering price of \$12.00 per share, which exercise will be effective upon completion of the offering. The Compuware loan was made and the Compuware warrant was issued in connection with a settlement agreement we entered into with Compuware in March 1999. For a more complete description of the Compuware loan, the Compuware warrant, the Compuware settlement agreement and a discussion of our liquidity position, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21 of this prospectus.

DIVIDEND POLICY

We have never declared or paid any cash dividends on shares of our common stock. We intend to retain any future earnings for future growth and do not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization at March 31, 1999 on the following three bases:

- . actual
- . on a pro forma basis to reflect the automatic conversion of all outstanding preferred stock into common stock, the repayment of a \$5.0 million promissory note plus accrued interest and the exercise of a warrant to purchase 280,025 shares of common stock upon completion of this offering, and to show the effects of increases in the number of authorized shares of common stock and preferred stock upon completion of this offering
- . on a pro forma as adjusted basis to show the effect of our receipt of the estimated net proceeds from the sale of 3,000,000 shares of common stock offered at an assumed initial public offering price of \$12.00 per share and the application of the net proceeds therefrom

As indicated above, the pro forma capitalization information reflects the repayment of a \$5.0 million promissory note plus accrued interest of \$113,000 and the receipt of net proceeds in connection with the exercise of a warrant to purchase 280,025 shares of common stock at an assumed exercise price of \$10.80 per share, and the resulting charge to operations of approximately \$336,000 for

the fair value of such warrant, based on the assumed initial public offering price of \$12.00 per share, which promissory note and warrant were issued to Compuware as part of the settlement agreement relating to litigation involving Compuware. Under the terms of the warrant, the per share exercise price is equal to 90% of the per share sales price of shares of common stock sold in this offering. For further information regarding this warrant and for more information regarding the repayment of the promissory note and of accrued interest thereon which is payable upon completion of the initial public offering contemplated by this prospectus, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview" on page 21 of this prospectus and "Description of Capital Stock" on page 61 of this prospectus.

The outstanding share information excludes 2,846,744 shares of common stock that were reserved for issuance upon exercise of stock options under our stock option plan as of March 31, 1999, of which options to purchase 2,114,739 shares were outstanding at such date at a per share weighted average exercise price of \$0.76. In addition, in connection with this offering, our board of directors has approved an increase of 1,366,666 shares to be reserved under our stock option plan and 500,000 shares to be reserved under our employee stock purchase plan. The outstanding share information also excludes 26,666 shares of common stock issued by NetIQ in May 1999 in connection with a software development agreement.

The capitalization information set forth in the table below is qualified by, and should be read in conjunction with, the more detailed Consolidated Financial Statements and notes thereto appearing elsewhere in this prospectus.

<TABLE>
<CAPTION>

	March 31, 1999		
	Actual	Pro Forma	
		Pro Forma	As Adjusted

		(in thousands)	
<S>	<C>	<C>	<C>
Current portion of long-term obligations.....	\$ 5,144	144	144
Long-term obligations, less current portion.....	241	241	241
Stockholders' equity:			
Preferred Stock, \$0.001 par value, 11,100,000 shares authorized and 7,399,977 outstanding, actual; 5,000,000 shares authorized, no shares outstanding, pro forma; 5,000,000 shares authorized, no shares outstanding, pro forma as adjusted.....	10,955	--	--
Common Stock, \$0.001 par value, 30,000,000 shares authorized, 3,944,272 shares outstanding, actual; 100,000,000 shares authorized, 11,624,274 shares outstanding, pro forma; 100,000,000 shares authorized, 14,624,274 shares outstanding, pro forma as adjusted.....	4,143	18,458	50,803
Deferred stock-based compensation.....	(2,325)	(2,325)	(2,325)
Accumulated deficit.....	(6,802)	(7,251)	(7,251)
	-----	-----	-----
Total stockholders' equity.....	5,971	8,882	41,227
	-----	-----	-----
Total capitalization.....	\$11,356	\$ 9,267	\$41,612
	=====	=====	=====

</TABLE>

DILUTION

The pro forma net tangible book value of NetIQ as of March 31, 1999, was

\$8,882,000, or approximately \$0.76 per share. Pro forma net tangible book value per share represents the pro forma amount of NetIQ's total assets less total liabilities, divided by the number of shares of common stock outstanding, and reflects the effects of the conversion of the outstanding preferred stock into common stock, the exercise of the Compuware warrant, the repayment of the Compuware \$5.0 million note and accrued interest thereon. After giving effect to the sale of the 3,000,000 shares of common stock offered at an assumed initial public offering price of \$12.00 per share and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by NetIQ, our pro forma net tangible book value at March 31, 1999, would have been \$41,227,000, or approximately \$2.82 per share. This represents an immediate increase in pro forma net tangible book value of \$2.06 per share to existing stockholders and an immediate dilution in net tangible book value of \$9.18 per share to new investors of common stock in this offering. The following table illustrates this dilution on a per share basis:

<TABLE>		
<S>		<C> <C>
Assumed public offering price per share.....		\$12.00
Pro forma net tangible book value per share as of March 31, 1999.....	\$0.76	
Increase attributable to new investors.....	2.06	

Pro forma net tangible book value per share after offering..		2.82

Dilution per share to new investors.....		\$ 9.18
		=====

</TABLE>

The following table sets forth, on a pro forma basis as of March 31, 1999, the differences between the number of shares of common stock purchased, the total consideration paid and the average price per share paid by existing holders of common stock including the assumed exercise of warrants, and by the new investors, before deducting underwriting discounts and commissions and estimated offering expenses payable by NetIQ, at an assumed public offering price of \$12.00 per share.

<TABLE>					
<CAPTION>					
		Shares Purchased	Total Consideration	Average	
		-----	-----	Price	
		Number	Amount	Per Share	
		-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders.....	11,624,274	79%	\$14,184,000	28%	\$ 1.22
New investors.....	3,000,000	21	36,000,000	72	\$12.00
	-----	-----	-----	-----	
Total.....	14,624,274	100.0%	50,184,000	100.0%	
	=====	=====	=====	=====	

</TABLE>

To the extent that any shares are issued upon exercise of options that were outstanding at March 31, 1999 or granted after that date, or reserved for future issuance under our stock plans, there will be further dilution to new investors. For a more detailed discussion of our stock plans and outstanding options to purchase common stock see "Management--Incentive Stock Plans" on page 51 of this prospectus, "Description of Capital Stock" on page 61 of this prospectus and Notes 5 and 13 of Notes to Consolidated Financial Statements on pages F-10 and F-17 of this prospectus.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and

with "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this prospectus. The consolidated statements of operations data for the years ended June 30, 1996, 1997 and 1998, and the nine months ended March 31, 1999, and the consolidated balance sheet data at June 30, 1997 and 1998, and March 31, 1999, are derived from the audited consolidated financial statements included elsewhere in this prospectus. The consolidated balance sheet data as of June 30, 1996, are derived from audited financial statements not included in this prospectus. The consolidated statements of operations data for the nine months ended March 31, 1998, are derived from unaudited consolidated financial statements included elsewhere in this prospectus. In our opinion, these unaudited statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information when read in conjunction with the consolidated financial statements and notes thereto. Results for the nine months ended March 31, 1999, are not necessarily indicative of the expected results for the full year.

<TABLE>
<CAPTION>

	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:					
Revenue:					
Software license.....	\$ --	\$ 369	\$ 6,603	\$ 3,186	\$13,137
Service.....	--	19	467	234	1,972
Total revenue.....	--	388	7,070	3,420	15,109
Cost of revenue:					
Software license.....	--	9	235	159	532
Service.....	--	46	407	203	894
Total cost of revenue.....	--	55	642	362	1,426
Gross profit.....	--	333	6,428	3,058	13,683
Operating expenses:					
Sales and marketing.....	77	1,238	5,748	3,600	8,027
Research and development.....	665	1,003	2,192	1,462	2,652
General and administrative.....	264	479	1,611	994	2,239
Stock-based compensation.....	--	10	250	83	1,355
Total operating expenses.....	1,006	2,730	9,801	6,139	14,273
Loss from operations.....	(1,006)	(2,397)	(3,373)	(3,081)	(590)
Interest income, net.....	97	116	262	215	89
Net loss.....	\$ (909)	\$ (2,281)	\$ (3,111)	\$ (2,866)	\$ (501)
Basic and diluted net loss per share(1).....	\$ (1.55)	\$ (1.62)	\$ (1.34)	\$ (1.31)	\$ (0.15)
Shares used to compute basic and diluted net loss per share(1)...	587	1,411	2,325	2,192	3,294
Pro forma basic and diluted net loss per share(2).....			\$ (0.32)		\$ (0.05)
Shares used to compute pro forma basic and diluted net loss per share(2).....			9,725		10,694

</TABLE>

<TABLE>
<CAPTION>

	June 30,			March 31,
	1996	1997	1998	1999
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Consolidated Balance Sheet Data:				
Cash and cash equivalents.....	\$ 32	\$7,748	\$3,358	\$11,565
Working capital.....	1,755	7,493	4,314	5,076
Total assets.....	2,255	8,202	8,205	17,613
Long-term obligations, less current portion.....	--	--	--	241
Total stockholders' equity.....	1,880	7,787	4,939	5,971

</TABLE>

-
- (1) See Note 6 to the Consolidated Financial Statements for the determination of shares used in computing basic and diluted net loss per share on page F-14 of this prospectus.
 - (2) See Note 1 to the Consolidated Financial Statements for the determination of shares used in computing pro forma basic and diluted net loss per share on page F-8 of this prospectus.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Consolidated Financial Statements and the Notes thereto. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth in the following discussion and under "Risk Factors," "Business" and elsewhere in this prospectus.

Overview

We develop applications management software that enables businesses to optimize the performance and availability of their Windows NT-based systems and applications.

From our incorporation in June 1995 until the first sales of AppManager in February 1997, we were principally engaged in development-stage activities, including product development, sales and marketing efforts and recruiting qualified management and other personnel. Our total revenue has grown from \$388,000 in fiscal 1997, to \$7.1 million in fiscal 1998 and to \$15.1 million in the nine months ended March 31, 1999. This rapid revenue growth reflects our relatively early stage of development, and we do not expect revenue to increase at the same rate in the future.

Operating expenses grew from \$1.0 million in fiscal 1996 to \$2.7 million in fiscal 1997 to \$9.8 million in fiscal 1998 and to \$14.3 million in the nine months ended March 31, 1999. Our operating expenses increased as we expanded our operations, including growing our employee base from 14 at June 30, 1996 to 111 at March 31, 1999. Our operating expenses, which include charges for stock-based compensation, together with cost of revenue have exceeded revenue in every quarter since inception. This reflects our strategy to make the investments necessary to capture market share and grow revenue as quickly as possible, while maintaining a high level of fiscal control, product quality and customer satisfaction. Our cumulative losses have resulted in an accumulated deficit of \$6.8 million at March 31, 1999.

We have derived the large majority of our revenue from software licenses. We also derive revenue from sales of annual maintenance service agreements and, to a lesser extent, consulting and training services. Service revenue has increased in recent periods as license revenue has increased and as the size of our installed base has grown. We expect service revenue to increase as a percentage of total revenue in the future and, as a consequence, our cost of service revenue to increase in absolute dollars and as a percentage of total revenue. The pricing of the AppManager Suite is based on the number of systems and applications managed, although volume and enterprise pricing is also available. Our customers typically purchase one year of product software maintenance with their initial license of our products. Thereafter, customers are entitled to receive software updates, maintenance releases and technical support for an annual maintenance fee equal to a fixed percentage of the current list price of the licensed product.

Cost of service revenue, as a percentage of service revenue, has declined from 242% in fiscal 1997 to 87% in fiscal 1998 and 45% in the nine months ended March 31, 1999. Cost of software license revenue has remained in the range of 2% to 6% of license revenue throughout these periods. Although service revenue has increased as a percentage of total revenue from 5% in fiscal 1997 to 7% in fiscal 1998 to 13% in the nine months ended March 31, 1999, the declining cost of service revenue has resulted in an increase in overall gross margin from 86% in fiscal 1997 to 91% in each of fiscal 1998 and the nine months ended March 31, 1999. We anticipate that service revenue will increase as a percentage of total revenue in the future as customers continue to renew maintenance service contracts and, if we are unable to reduce the costs of service revenue, our margins may decline.

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We sell our products through both our direct sales force, which includes our field and inside sales personnel, as well as through indirect channels, such as distributors, value-added resellers and original equipment manufacturers. To date, the majority of our sales have resulted from the efforts of our field and inside sales personnel. However, revenue through our third-party channel partners represented approximately 10% of total revenue in fiscal 1998 and 30% of total revenue in the nine months ended March 31, 1999, and our strategy is to increase sales through third-party channel partners. During both fiscal 1998 and the nine months ended March 31, 1999, no single customer accounted for more than 10% of our consolidated revenue. International sales did not account for any of our revenue in fiscal 1997, but represented 10% of total revenue in fiscal 1998 and 22% of total revenue in the nine months ended March 31, 1999. We anticipate that as we expand our international sales efforts, the percentage of revenue derived from international sources will continue to increase.

Generally, we sell perpetual licenses and recognize revenue in accordance with generally accepted accounting principles upon meeting each of the following criteria:

- . execution of a written purchase order, license agreement or contract;
- . delivery of software and authorization keys;
- . the license fee is fixed and determinable;
- . collectibility of the proceeds within six months is assessed as being probable; and
- . vendor-specific objective evidence exists to allocate the total fee to elements of the arrangement.

Vendor-specific objective evidence is based on the price generally charged when an element is sold separately, or if not yet sold separately, is established by authorized management. All elements of each order are valued at the time of revenue recognition. For sales made through our distributors, resellers and original equipment manufacturers, we recognize revenue at the time these partners report to us that they have sold the software to the end user and after all revenue recognition criteria have been met.

In September 1996, Compuware Corporation filed a complaint against us alleging misappropriation of trade secrets, copyright infringement, unfair

competition and other claims. Compuware asserted these claims after a number of prior Compuware employees founded our company or later joined us as officers and employees. See "Management--Executive Officers and Directors" at page 47 of this prospectus for a description of the prior positions held by our officers while at Compuware. We reached a settlement of these claims in January 1999 and final documentation was entered into and the claims dismissed in March 1999. Prior to reaching a settlement with Compuware, we incurred significant expenses related to the litigation, primarily relating to legal fees, and management attention was partially diverted to this litigation matter. As part of the settlement in March 1999, Compuware loaned us \$5.0 million, subordinated to our bank credit facility, with interest at 6% per year. This loan, including all accrued interest, is payable upon the closing of this offering. Additionally, as part of the settlement in March 1999, we issued Compuware a warrant to purchase 280,025 shares of common stock at 90% of the per share sale price of shares sold to investors in this offering, or \$10.80 per share using the assumed initial offering price of \$12.00 per share. Compuware has delivered to us a notice that it will exercise the warrant in full upon the closing of this offering. The settlement agreement with Compuware provides that the maximum number of shares purchasable under the warrant equals two percent of the outstanding number of shares of our outstanding stock assuming exercise of all outstanding options on the date that we filed our registration statement in connection with this offering. The 280,025 warrant share figure represents two percent of our outstanding common stock on May 26, 1999, the date we filed our registration statement for this offering. Upon completion of this offering, we will pay approximately \$2.1 million to satisfy our loan and interest obligation to Compuware, and the remaining \$3.0 million loan obligation will be forgiven in connection with Compuware's exercise of the warrant. Additionally, as part of our settlement agreement, we agreed not to recruit personnel from Compuware until after December 31, 1999, or release any systems management software for managing UNIX systems on or before December 31, 1999.

Historical Results of Operations

The following table sets forth our historical results of operations expressed as a percentage of total revenue for fiscal 1997 and 1998 and for the nine months ended March 31, 1998 and 1999. We did not have any revenue in fiscal 1996. Our historical operating results are not necessarily indicative of the results for any future period.

<TABLE>
<CAPTION>

	Percentage of Total Revenue			
	Year Ended June 30,		Nine Months Ended March 31,	
	1997	1998	1998	1999
<S>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data				
Revenue:				
Software license.....	95%	93%	93%	87%
Service.....	5	7	7	13
Total revenue.....	100	100	100	100
Cost of revenue:				
Software license.....	2	3	5	3
Service.....	12	6	6	6
Total cost of revenue.....	14	9	11	9
Gross margin:.....	86	91	89	91

Operating expenses:				
Sales and marketing.....	319	81	105	53
Research and development.....	259	31	43	18
General and administrative.....	123	23	29	15
Stock-based compensation.....	3	4	2	9
	-----	----	-----	-----
Total operating expenses.....	704	139	179	95
	-----	----	-----	-----
Loss from operations.....	(618)	(48)	(90)	(4)
Interest income, net.....	30	4	6	1
	-----	----	-----	-----
Net loss.....	(588)%	(44)%	(84)%	(3)%
	=====	=====	=====	=====

Cost of software license revenue, as a percentage of software license revenue...	2 %	4 %	5 %	4 %
Cost of service revenue, as a percentage of service revenue.....	242 %	87 %	87 %	45 %

</TABLE>

Comparison of Nine Months Ended March 31, 1998 and 1999

Revenue

Our total revenue increased from \$3.4 million in the nine months ended March 31, 1998, to \$15.1 million in the nine months ended March 31, 1999, representing growth of 342%. During this same period, our software license revenue increased from \$3.2 million to \$13.1 million, representing growth of 312%. These increases were due primarily to increases in the number of software licenses sold, reflecting increased acceptance of our AppManager products and expansion of our field and inside sales organizations and our third-party channel partners. During the nine months ended March 31, 1999, approximately 36% of license revenue was derived from current customers, compared to approximately 14% in the nine months ended March 31, 1998. Service revenue increased from \$234,000 in the nine months ended March 31, 1998 to \$2.0 million in the nine months ended March 31, 1999, representing growth of 743%. This increase was due primarily to maintenance fees associated with new software licenses. Approximately 65% of consolidated license revenues since inception of the Company was recorded in the nine months ended March 31, 1999. Service revenue increased as a percentage of total revenue due to the compounding effect of our base of installed licenses as a significant majority of our early customers have renewed their maintenance service agreements.

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Cost of Revenue

Cost of Software License Revenue. Our cost of software license revenue includes the costs associated with software packaging, documentation, such as user manuals and CDs, and production, as well as non-employee commissions and royalties. Our cost of software license revenue has increased from \$159,000, or 5% of software license revenue, in the nine months ended March 31, 1998, to \$532,000, or 4% of software license revenue, in the nine months ended March 31, 1999. The increase in absolute dollar amount was due principally to increases in software license revenue, while the percentage decline was due to decreases in non-employee commissions and royalty costs, which represented 3% of license revenue in nine months ended March 31, 1998, but less than 2% in nine months ended March 31, 1999.

Cost of Service Revenue. Cost of service revenue consists primarily of personnel costs and expenses incurred in providing telephonic and on-site maintenance services and consulting services. Costs associated with training activities consist principally of allocated labor and departmental expenses as well as training materials. Cost of service revenue was \$203,000 and \$894,000 during the nine months ended March 31, 1998 and 1999, respectively, representing 87% and 45% of related service revenue. The increase in dollar

amount of cost of service revenue is primarily attributable to the growth in our installed customer base. Cost of service revenue as a percent of service revenue declined due primarily to economies of scale achieved as our revenue and installed base have grown. We expect service revenue to increase as a percentage of total revenue as our installed license base grows and, as a consequence, our cost of service revenue to increase in absolute dollars and as a percentage of total revenue.

Operating Expenses

Sales and Marketing. Our sales and marketing expenses consist primarily of personnel costs, including salaries and employee commissions, as well as expenses relating to travel, advertising, public relations, seminars, marketing programs, trade shows and lead generation activities. Sales and marketing expenses increased from \$3.6 million in the nine months ended March 31, 1998, to \$8.0 million in the nine months ended March 31, 1999. This increase in dollar amount was due primarily to the hiring of additional field sales, inside sales and marketing personnel, which increased from 21 people to 37 people at the end of each period, and expanding our sales infrastructure and third-party channel partners, as well as higher commissions, which increased 233% compared to our total revenue increases of 342%. Sales and marketing expenses represented 105% and 53% of total revenue for the nine months ended March 31, 1998 and 1999, respectively. The decline in sales and marketing expenses as a percentage of total revenue was principally the result of economies of scale resulting from the increased number of sales transactions, including follow-on sales to existing customers, as well as the allocation of marketing expenses over a substantially increased revenue base. We expect to continue hiring additional sales and marketing personnel and to increase promotion, advertising and other marketing expenditures in the future. Accordingly, we expect sales and marketing expenses will increase in absolute dollars in future periods.

Research and Development. Our research and development expenses consist primarily of salaries and other personnel-related costs, as well as facilities costs, consulting fees and depreciation. These expenses increased from \$1.5 million, or 43% of total revenue, in the nine months ended March 31, 1998, to \$2.7 million, or 18%, of total revenue in the nine months ended March 31, 1999. This increase in dollar amount resulted principally from increases in engineering and technical writing personnel, which increased from 23 people to 35 people at the end of each period, together with increases in facility costs relating to our new facility which we leased in July 1998. The decline in research and development expenses as a percentage of total revenue was due to the growth in total revenue. To date, all research and development costs have been expensed as incurred in accordance with Financial Accounting Standards Board Statement No. 86 as our current software development process is essentially completed concurrent with the establishment of technological feasibility. We expect to continue to devote substantial resources to product development such that research and development expenses will increase in absolute dollars in future periods and may increase slightly in the near future as a percentage of total revenue as a result of expenses related to a third party development effort which will be incurred primarily over the next several quarters.

General and Administrative. Our general and administrative expenses consist primarily of personnel costs for finance and administration, information systems and human resources, as well as professional services expenses such as legal and accounting, and provision for doubtful accounts. General and administrative expenses increased from \$1.0 million in the nine months ended March 31, 1998, to \$2.2 million in the nine months ended March 31, 1999, representing 29% and 15% of total revenues, respectively. The increase in dollar amount was due primarily to increased staffing necessary to manage and support our growth. General and administrative personnel increased from five people at March 31, 1998, to 12 people at March 31, 1999. Legal expenses have been a significant cost in both periods, amounting to \$458,000 and \$897,000 for the nine months ended March 31, 1998 and 1999, respectively. These legal costs have principally been due to the Compuware litigation, for which a settlement

was reached in January 1999 and final documentation was entered into and the claims dismissed in March 1999. In addition, occupancy costs charged to general and administrative expense increased by \$533,000 during the period as a result of the lease of our new facility in July 1998. The decrease in general and administrative expense as a percentage of total revenue was due primarily to the growth in total revenue. We believe that our general and administrative expenses will increase in absolute dollars as we expand our administrative staff, add new financial and accounting software systems, and incur additional costs related to being a public company, such as expenses related to directors' and officers' liability insurance, investor relations and stock administration programs and increased professional fees. Additionally, based on an assumed initial public offering price of \$12.00 per share, we anticipate that we will incur additional general and administrative expenses of approximately \$336,000 in the quarter ending September 30, 1999, relating to the assumed exercise of the warrant to purchase common stock issued in connection with the Compuware litigation settlement agreement.

Stock-Based Compensation. During the nine months ended March 31, 1998 and 1999, we recorded deferred stock-based compensation of \$473,000 and \$2.7 million, respectively, relating to stock option grants to employees and non-employees. These amounts are being amortized over the vesting periods of the granted options, which is generally four years for employees. During the nine months ended March 31, 1998 and 1999, we recognized stock-based compensation expense of \$83,000 and \$1.4 million, respectively. At March 31, 1999, total deferred stock-based compensation was \$2.3 million. We expect to amortize approximately \$600,000 of deferred stock-based compensation for the quarter ended June 30, 1999, and up to approximately \$200,000 of deferred stock-based compensation each quarter through June 30, 2003.

Interest Income, Net. Interest income, net, represents interest income earned on our cash and cash equivalent balances and interest expense on our equipment loans and loan subordinated to our bank line of credit. For the nine months ended March 31, 1998 and 1999, interest and other income, net, was \$215,000 and \$89,000, respectively. The decline in interest income, net is the result primarily of lower cash and cash equivalent balances in the 1999 period, coupled with interest on the \$5.0 million subordinated debt, commencing in the quarter ended March 31, 1999. The subordinated loan plus any accrued interest will be repaid upon the closing of this offering and will be offset by the cash proceeds from the exercise of the Compuware warrant. See "--Liquidity and Capital Resources" on page 29 of this prospectus for a further discussion of this loan and the Compuware warrant.

Income Taxes. We incurred net operating losses in the nine months ended March 31, 1998 and 1999, and consequently paid no federal, state or foreign income taxes.

Comparison of Fiscal Years Ended June 30, 1996, 1997 and 1998

The trends discussed in the comparisons of operating results for the nine months ending March 31, 1998 and 1999, generally apply to the comparison of results of operation for fiscal 1996, 1997 and 1998, except for differences discussed below.

Revenue

We did not recognize any revenue in fiscal 1996. We began selling software licenses for the AppManager Suite in February 1997, and our software license revenue increased from \$369,000 in fiscal 1997 to \$6.6

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million in fiscal 1998. Service revenue increased from \$19,000 in fiscal 1997 to \$467,000 in fiscal 1998, principally from increases in new customer licenses.

Cost of Revenue

Cost of Software License Revenue. Our cost of software license revenue increased from \$9,000, or 2% of software license revenue, in fiscal 1997 to \$235,000, or 4% of software license revenue, in fiscal 1998. The increase in absolute dollar amount was due principally to increases in the number of software licenses sold, while the percentage increase was due principally to an increase in our reserve for product returns by \$50,000 in fiscal 1998.

Cost of Service Revenue. Our cost of service revenue increased from \$46,000 in fiscal 1997 to \$407,000 in fiscal 1998. These costs amounted to 242% and 87% of service revenue, respectively. The decline in cost of service revenue as a percentage of service revenue declined due primarily to economies of scale achieved as our revenue and installed base have grown.

Operating Expenses

Sales and Marketing. Our sales and marketing expenses increased from \$77,000 in fiscal 1996, to \$1.2 million in fiscal 1997 and to \$5.7 million in fiscal 1998. The increase reflects the hiring of additional sales and marketing personnel in connection with the building of our direct, reseller and original equipment manufacturer channels, and higher commissions associated with increased sales volume. Our personnel in sales and marketing increased from three at June 30, 1996, to nine at June 30, 1997, to 34 at June 30, 1998. Sales and marketing expenses accounted for 319% of total revenue in fiscal 1997 and 81% of total revenue in fiscal 1998. The decrease as a percentage of total revenue was due primarily to growth in our total revenue.

Research and Development. Research and development expenses increased from \$665,000 in fiscal 1996, our first year of product development, to \$1.0 million in fiscal 1997, and to \$2.2 million in 1998. The increase in each of these periods was due primarily to increases in personnel in each period. Our personnel in research and development increased from six at June 30, 1996 to 14 at June 30, 1997 and to 30 at June 30, 1998. Research and development expenses accounted for 259% of total revenue in fiscal 1997 and 31% of total revenue in fiscal 1998. The decrease as a percentage of total revenue was due primarily to growth in our total revenue.

General and Administrative. General and administrative expenses increased from \$264,000 in fiscal 1996, to \$479,000 in fiscal 1997 and to \$1.6 million in fiscal 1998. These costs, which represented 123% of total revenue in fiscal 1997 and 23% of total revenue in 1998, were the result of increases in personnel, facility-related costs and legal expenses. Our personnel in general and administrative positions increased from two at June 30, 1996 and 1997, to eight at June 30, 1998. Legal expenses were \$186,000 in fiscal 1997 and \$762,000 in fiscal 1998, and related principally to the Compuware litigation that commenced in September 1996 for which a settlement was reached in January 1999 and final documentation was entered into and the claims dismissed in March 1999. The decrease as a percentage of total revenue was the result of growth in our total revenue.

Stock-Based Compensation. In fiscal 1998, we recorded deferred stock-based compensation of \$1.2 million in connection with stock option grants and amortized \$250,000 of this amount as an expense for that year.

Interest Income, Net. We recognized interest income, net of \$97,000, \$116,000 and \$262,000 in fiscal 1996, 1997 and 1998, respectively. These amounts are the result of investments made out of cash balances in excess of operating requirements, which resulted from our two preferred stock financings in September 1995 and May 1997.

Income Taxes. We incurred net operating losses in fiscal 1996, 1997 and 1998, and consequently paid no federal, state or foreign income taxes.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly results of operations

data for the seven most recent quarters ended March 31, 1999, as well as such data expressed as a percentage of our total revenue for the periods presented. The information in the table below should be read in conjunction with our Consolidated Financial Statements and the Notes thereto included elsewhere in this prospectus. We have prepared this information on the same basis as the Consolidated Financial Statements and the information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Our quarterly operating results have varied substantially in the past and may vary substantially in the future. You should not draw any conclusions about our future results from the results of operations for any particular quarter.

<TABLE>
<CAPTION>

	Three Months Ended						
	Sep. 30, 1997	Dec. 31, 1997	Mar. 31, 1998	Jun. 30, 1998	Sep. 30, 1998	Dec. 31, 1998	Mar. 31, 1999
	(in thousands, except as a percentage of total revenue)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data							
Revenue:							
Software license.....	\$ 526	\$1,479	\$ 1,181	\$3,417	\$3,640	\$4,519	\$4,978
Service.....	23	75	136	233	450	628	894
Total revenue.....	549	1,554	1,317	3,650	4,090	5,147	5,872
Cost of revenue:							
Software license.....	18	68	73	76	87	158	287
Service.....	20	65	118	204	176	384	334
Total cost of revenue.....	38	133	191	280	263	542	621
Gross profit.....	511	1,421	1,126	3,370	3,827	4,605	5,251
Operating expenses:							
Sales and marketing....	895	1,209	1,496	2,148	2,125	2,864	3,038
Research and development.....	416	493	553	730	884	806	962
General and administrative.....	261	332	401	617	523	742	974
Stock-based compensation.....	--	--	83	167	364	661	330
Total operating expenses.....	1,572	2,034	2,533	3,662	3,896	5,073	5,304
Loss from operations...	(1,061)	(613)	(1,407)	(292)	(69)	(468)	(53)
Interest income, net...	90	71	54	47	19	38	32
Net loss.....	\$ (971)	\$ (542)	\$ (1,353)	\$ (245)	\$ (50)	\$ (430)	\$ (21)
As a Percentage of Total Revenue:							
Revenue:							
Software license.....	96%	95%	90%	94%	89%	88%	85%
Service.....	4	5	10	6	11	12	15
Total revenue.....	100	100	100	100	100	100	100
Cost of revenue:							
Software license.....	3	5	6	2	2	3	5
Services.....	4	4	9	6	4	7	6
Total cost of revenue.....	7	9	15	8	6	10	11

Gross margin.....	93	91	85	92	94	90	89
Operating expenses:							
Sales and marketing....	163	78	114	59	52	56	52
Research and development.....	76	32	42	20	22	16	16
General and administrative.....	47	20	30	16	13	14	16
Stock-based compensation.....	0	0	6	5	9	13	6
	-----	-----	-----	-----	-----	-----	-----
Total operating expenses.....	286	130	192	100	96	99	90
	-----	-----	-----	-----	-----	-----	-----
Loss from operations...	(193)	(39)	(107)	(8)	(2)	(9)	(1)
Interest income, net...	16	4	4	1	1	1	1
	-----	-----	-----	-----	-----	-----	-----
Net loss.....	(177)%	(35)%	(103)%	(7)%	(1)%	(8)%	(0)%
	=====	=====	=====	=====	=====	=====	=====

Cost of software license revenue, as a percentage of software license revenue.....	3%	5%	6%	2%	2%	3%	6%
Cost of service revenue, as a percentage of service revenue.....	87%	87%	87%	88%	39%	61%	37%

</TABLE>

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The trends discussed in the comparisons of operating results for the nine months ended March 31, 1998 and 1999, and fiscal 1996, 1997 and 1998 generally apply to the comparison of results of operations for our seven most recent quarters ended March 31, 1999, except for differences as discussed below.

Our total revenue increased in every quarter, except the quarter ended March 31, 1998, which reflected a modest decline from the prior quarter due to the timing of initial orders, which at our early stage of development represented significant portions of revenue. Our service revenue has increased every quarter and reflects an increasing percentage of total revenue due to the compounding effect of our base of installed licenses.

Cost of software license revenue ranged from 2% to 6% of related software license revenue during the seven quarters ended March 31, 1999, as a result of the timing of the purchase of user manuals, packaging materials and CDs, which are expensed when purchased in volume. Cost of service revenue was approximately 87% of related service revenue in each of the four quarters ended June 30, 1998, based on time spent on post-sale support activities by home office and field-based technical personnel. Cost of service revenue declined in fiscal 1999 as a percentage of total revenue due primarily to economies of scale achieved as our revenue and installed base grew. During the quarter ended December 31, 1998, we incurred a one-time charge of \$132,000 relating to a special consulting project for one customer. Excluding this one-time charge, the cost of service revenue as a percentage of service revenue would have been 40% for that quarter.

Total operating expenses increased in absolute dollar terms in every quarter during the seven quarters ended March 31, 1999. Total operating expenses during the first three quarters of fiscal 1998 ranged from 130% to 286% of total revenue, due principally to the start-up nature of our various operating activities, and since that time have ranged from 90% to 100% of total revenue as an explicit strategy of investment to allow for rapid growth. In the near future, we expect to continue to devote substantial resources to product development and expansion of our sales and marketing efforts, and expect that total operating expenses to increase in absolute dollars in future periods,

although the percentage of revenue will vary depending on the level of revenue.

We have experienced some seasonality of buying patterns resulting in generally higher orders in the quarters ended December 31 and June 30 and we expect these seasonal trends to continue for the foreseeable future. See "Risk Factors--Seasonal trends in sales of our software products ..." on page 13 of this prospectus for a further discussion of these seasonal trends.

Recent Operating Results

For our quarter ended June 30, 1999, we had total revenue of approximately \$6.5 million, total cost of revenue of approximately \$600,000 and operating expenses of approximately \$6.7 million. We incurred a net loss of approximately \$800,000. Our operating expenses increased as compared to our quarter ended March 31, 1999, due to increases in sales and marketing expenses, primarily related to increases in commissions, and increases in research and development expenses, related primarily to a new development project. Increases in sales and marketing and research and development expenses were partially offset by decreases in general and administrative expenses due to lower legal expenses. We believe this unaudited information reflects all adjustments, consisting of only normal recurring adjustments that we consider necessary for a fair presentation of the information for the period presented. These results may not be indicative of our future performance.

Effect of Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board, or FASB, issued SFAS No. 130, Reporting Comprehensive Income, which requires an enterprise to report, by major components and as a single total, the change in its net assets during the period from nonowner sources; and SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, which establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Our comprehensive loss was equal to our net loss for all periods presented. We currently operate in one reportable segment under SFAS No. 131.

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In June 1998, FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedge accounting when certain conditions are met. SFAS No. 133 is effective for us in fiscal 2001. Although we have not fully assessed the implications of SFAS No. 133, we do not believe that adoption of this statement will have a material impact on our financial position, results of operations or cash flows.

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-9 which provides certain amendments to SOP 97-2 Software Revenue Recognition, and is effective for our fiscal year beginning July 1, 1999. We do not believe that adoption of this statement will have a material impact on our financial position, results of operations or cash flows.

Liquidity and Capital Resources

We have funded our operations to date primarily through private sales of preferred equity securities, totaling \$11.0 million and, to a lesser extent, through capital equipment leases and sales of common stock and option exercises. As of March 31, 1999, we had \$11.6 million in cash and cash equivalents.

Our operating activities resulted in net cash outflows of \$834,000, \$2.0 million and \$3.9 million in fiscal 1996, 1997 and 1998, respectively. Sources of cash during these periods were principally from increases in deferred revenue, accrued compensation and other liabilities. Uses of cash in these periods were principally from net losses and increases in accounts receivable. In the nine months ended March 31, 1999, our operating activities provided

positive cash flow of \$3.4 million derived principally from increases in deferred revenue and stock-based compensation.

Our investing activities, after excluding the purchase and maturity of temporary cash investments in fiscal 1996 and fiscal 1997, resulted in cash outflows, principally related to the acquisition of capital assets, of \$152,000, \$238,000, \$529,000 and \$790,000 in the fiscal 1996, 1997 and 1998, and the nine months ended March 31, 1999, respectively.

Financing activities provided cash of \$3.1 million in fiscal 1996, \$7.9 million in fiscal 1997, principally related to the proceeds of the issuance of preferred stock. Financing activities provided cash of \$5.6 million in the nine months ended March 31, 1999, principally from the proceeds of the \$5.0 million loan from Compuware and proceeds from our bank credit facility.

As of March 31, 1999, our principal commitments consisted of the \$5.0 million loan from Compuware, \$385,000 of advances under our prior bank credit facility in equipment purchases, and \$3.1 million in accounts payable, accrued compensation and other accrued liabilities. The Compuware loan will be repaid upon completion of the offering, which will be offset by the cash proceeds of approximately \$3.0 million from the exercise of the warrant issued to Compuware in connection with the settlement of litigation. We have a term loan in the principal amount of \$433,000 with a bank that will be repaid through monthly installments through January 2002. The borrowings from Compuware and the bank are secured by substantially all of our assets.

Deferred revenue consist principally of the unrecognized portion of revenue received under maintenance service agreements. These amounts are recognized ratably over the term of the service agreement. Deferred revenue was \$3.2 million at March 31, 1999.

We believe that the net proceeds from this offering, together with our cash balances and cash flow generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Thereafter, we may require additional funds to support our working capital requirements, or for other purposes, and may seek to raise such additional funds through public or private equity financings or from other sources. We may not be able to obtain adequate or favorable financing at that time. Any financing we obtain may dilute your ownership interests. A portion of our cash may

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be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we may evaluate potential acquisitions of businesses, products or technologies. We have no current plans, agreements or commitments, and are not currently engaged in any negotiations with respect to any such transaction.

Year 2000 Compliance

Background of Year 2000 Issues

Many currently-installed computer and communications systems and software products are unable to distinguish between twentieth century dates and twenty-first century dates. This situation could result in system failures or miscalculations causing disruptions, in the operations of any business, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies' software and computer and communications systems may need to be upgraded or replaced to comply with such "year 2000" requirements.

Our Products

In the ordinary course of our business, we test and evaluate our software products. We believe that our AppManager Suite is year 2000 compliant, meaning

that the use or occurrence of dates on or after January 1, 2000, will not materially affect the performance of such software products or the ability of such products to correctly create, store, process and output information of data involving dates. However, we may learn that some modules do not contain all necessary software routines and codes necessary for the accurate calculation, display, storage and manipulation of data involving dates. In addition, in the majority of our larger contracts with customers, we have warranted that the use or occurrence of dates on or after January 1, 2000, will not adversely affect the performance of our products with respect to four digit date dependent data or the ability to create, store, process and output information related to such data. If any of our licensees experience year 2000 problems as a result of their use of our software products, those licensees could assert claims for damages. Many of our licensing agreements provide that if our products do not perform to their specifications, we will correct such problems or issue replacement software. If these corrective measures fail, we may refund the license fee associated with the non-performing product. To date we have not received any year 2000 related claims on our software products.

Our State of Readiness

Our business depends on the operation of numerous systems that could potentially be impacted by year 2000 related problems. The systems include:

- . computer and communications hardware and software systems used to deliver our software enabling keys and allow our customers and employees to download product, documentation and Knowledge Scripts
- . computer and communications hardware and software systems used internally in the management of our business
- . communications networks such as the Internet and private intranets
- . the internal systems of our customers and suppliers
- . non-information technology systems and services we use to manage our business, such as telephone, security and building management systems.

Based on an analysis of all systems potentially impacted by conducting business in the year 2000 and beyond, we are pursuing a phased approach to making such systems and our operations ready for the year 2000. Beyond awareness of the issues and scope of systems involved, the phases of activities in progress include:

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- . an assessment of specific underlying computer and communications systems, programs and hardware
- . remediation or replacement of year 2000 non-compliant technology
- . validation and testing of technologically-compliant year 2000 solutions
- . implementation of year 2000 compliant systems.

The table below provides a summary of the status and timing of phased activities.

<TABLE>

<CAPTION>

Impacted Systems -----	Status -----	Targeted Implementation -----
<S> Hardware and software systems used to deliver services	<C> Systems upgraded or replaced as appropriate, conducting validation and testing	<C> July 31, 1999

Hardware and software systems used to manage our business	Systems upgraded or replaced as appropriate, conducting validation and testing	July 31, 1999
Communication networks used to provide services	Assessment completed, conducting validation and testing	September 30, 1999
Operability with internal systems of customers and suppliers	Assessment completed, conducting validation and testing	September 30, 1999
Non-information technology systems and services	Assessment and remediation underway, conducting validation and testing	September 30, 1999

</TABLE>

We have obtained assurances from a majority of the providers of our internal production computer systems, including Compaq, Dell, Hewlett-Packard, IBM and Micron, that our computer systems are year 2000 compliant. These production computers run on the Microsoft Windows NT Server 4.0 operating system, and in accordance with Microsoft's instructions a corrective release has been implemented to ensure that this operating system is year 2000 compliant. We have also obtained assurances from a majority of the providers of our significant software applications such as Microsoft Exchange Server 5.5 and Microsoft SQL Server 6.5, that these applications are year 2000 compliant. We have also received assurances from the provider of our new accounting system software, that this software is year 2000 compliant.

Our network routers are manufactured by Cisco Systems. We have replaced non-compliant series routers with compliant series routers. We have also received assurances from our third party vendors that our other networking equipment is year 2000 compliant and that our remote access equipment, such as our Lucent InterNetworking Systems, is year 2000 compliant.

We have also received assurances from our third party vendors that our telephone system and our voicemail system are year 2000 compliant. Our Cardkey building security system is in the process of being upgraded to a new system which we believe will be year 2000 compliant. Regarding other non-information technology systems, such as the fire alarm system for our building, we are awaiting responses to our written questionnaires from providers of these systems.

Costs to Address Year 2000 Issues

To date, we have not incurred any material costs directly associated with our year 2000 compliance efforts, except for compensation expense associated with our salaried employees who have devoted some of their time to our year 2000 assessment and remediation efforts. We do not expect the total cost of year 2000

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problems to be material to our business, financial condition and operating results. We would have incurred the replacement cost of non-information technology systems regardless of the year 2000 issue due to technology obsolescence and our growth. We have and will continue to expense all costs arising from year 2000 issues, funding them from working capital.

We do not believe that future expenditures to upgrade internal systems and applications will materially harm our business. In addition, although we do not know the potential costs of redeployment of personnel and any delays in implementing other projects, we anticipate the costs to be immaterial and we expect minimal adverse impact to the business.

See "Risk Factors--We have warranted..." on page 12 of this prospectus for a discussion of risks to our business related to year 2000 issues.

Contingency Plans

We have not yet developed a contingency plan for handling year 2000 problems that are not detected and corrected prior to their occurrence. Upon completion of testing and implementation activities, we will be able to assess areas requiring contingency planning, and we expect to institute appropriate contingency planning at that time. Any failure to address any unforeseen year 2000 issue could harm our business.

Customers' Purchasing Patterns

Prior to the end of 1999 and continuing into 2000, there is likely to be an increased customer focus on addressing year 2000 compliance issues. Some customers have indicated to us that they will delay deployment of new software, including new versions and product updates, at various times over the next six to nine months to avoid the possibility of introducing or encountering any new year 2000 problems. There is a risk that existing or potential customers may also choose to defer new software product purchases as a result of year 2000 concerns. Moreover, customers may reallocate capital expenditures or personnel in order to fix year 2000 problems of existing systems instead of purchasing new software. If customers defer purchases or reallocate capital expenditures and personnel, it could materially adversely affect our business, future quarterly and annual operating results and financial condition. In addition, year 2000 compliance issues also could cause a significant number of companies, including our current customers, to reevaluate their current system needs and, as a result, consider switching to other systems and suppliers.

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BUSINESS

The following Business section contains forward-looking statements relating to future events or our future financial performance, which involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth in "Risk Factors" and elsewhere in this prospectus.

NetIQ Overview

We develop applications management software that enables businesses to optimize the performance and availability of their Windows NT-based systems and applications. As use of Windows NT in highly complex computing environments, including the Internet, continues to expand, businesses are increasingly relying on Windows NT-based systems and applications for critical business functions. These applications include Microsoft Exchange Server, Lotus Domino/Notes, Oracle, Citrix WinFrame, Microsoft Internet Information Server and Microsoft SQL Server. As a result, these businesses are facing new challenges in managing their highly complex Windows NT environments in order to maintain required service levels, ensure continuous uptime and reduce support costs. Our NetIQ AppManager Suite enables businesses to address these challenges by centrally managing the performance of their highly complex Windows NT environments, helping ensure availability through automated monitoring, correction and reporting features and lower the total cost of ownership. We believe that AppManager's comprehensive functionality and ease of use resulting from the utilization of familiar Microsoft technology and standards offer a superior solution for managing diverse Windows NT-based systems and applications in highly complex computing environments.

Our products are used by businesses in a wide variety of industries and computing environments. As of the date of this prospectus, we license our AppManager products to more than 400 customers, including ALCOA, AT&T, Boeing Shared Services Group, Charles Schwab & Co., Countrywide Home Loans, Dell Computer, General Electric, Georgia-Pacific, Glaxo Wellcome, Merck & Co., Microsoft, Nabisco, NationsBank, Nordstrom Information Systems, Pfizer, Shell Services International, Southern Company Services, the Department of Veterans Affairs and Wells Fargo Bank, N.A. These customers have purchased at least \$100,000 in software licenses and services since the beginning of fiscal 1997, and accounted for approximately 34% of our total revenue in fiscal 1998 and 32%

of total revenue in the nine months ended March 31, 1999. International Data Corporation reports that we are one of the five largest performance management software providers for the Windows NT environment as measured by software license and maintenance revenue for 1998.

Industry Background

The Windows NT operating system is a leading platform for distributed computing. According to International Data Corporation a leading information technology research firm, the market for Windows NT-based servers will grow from 1.3 million servers in 1998, or 32% of all server operating systems shipped in that year, to an estimated 3.3 million servers by 2002, or 51% of all server operating systems shipped in that year. The growth of Windows NT has been driven by the use of this platform for applications that businesses increasingly rely on such as electronic messaging, Internet, group collaboration and database applications. For example, businesses are increasingly deploying electronic mail servers using Windows NT. According to International Data Corporation, the worldwide market for all new electronic mail server software, for example Microsoft Exchange and Lotus Domino/Notes, will grow from 698,000 servers in 1998 to 868,000 servers in 2001. In addition, International Data Corporation also estimates that the percentage of all electronic mail server software deployed on Windows NT as opposed to other operating systems will grow from approximately 43% in 1998 to approximately 65% in 2001. Because businesses rely on Windows NT-based systems and applications, these systems and applications require high performance and availability standards, including around-the-clock uptime.

The growth and deployment of Windows NT-based systems and applications in highly complex computing environments have created a number of unique performance and application management challenges. These complex, distributed computing environments are characterized by multiple servers running multiple enterprise-

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wide system applications at remote locations. These challenges range from basic tasks such as monitoring central processing unit utilization and memory and disk-space availability to tasks as complex as monitoring Internet traffic and e-mail response times or identifying specific database commands that are creating bottlenecks for system performance. The consequences of failing to meet these challenges are particularly high because businesses are increasingly relying on the applications being deployed on Windows NT to perform critical business functions. Moreover, the manner in which businesses are deploying these systems and applications can increase the likelihood of system failure. According to the Gartner Group, an industry research firm, in a survey of more than 100 companies, Windows NT-specific issues created an average of 224.5 hours of unscheduled downtime per machine per year, as compared to UNIX system-specific issues which averaged 23.6 hours of downtime and AS/400 system-specific issues which averaged 5.2 hours of downtime.

A new and rapidly growing market has emerged to address the performance and availability management challenges created by the evolution of enterprise distributed computing on Windows NT. The goal of applications management solutions is to ensure the availability of distributed computing resources and to optimize the performance of these resources through automated monitoring, correction and reporting procedures. According to International Data Corporation, the Windows NT-based distributed operations management market is expected to grow from \$1.1 billion in 1998 to \$2.8 billion by 2002.

We believe that traditional systems management solutions have not been able to adequately address the unique challenges of the complex deployment of systems and applications within the Windows NT environment. Among these traditional systems management solutions are "framework" products that attempt to address all aspects of system and application management problems across multiple platforms, such as Windows NT, UNIX and AS/400, with a single product suite. According to the Gartner Group, these framework products have generally

performed poorly, have been difficult to implement and Gartner Group estimates that 36 months after purchase, 70% of enterprise management framework implementations fail to be fully and successfully implemented and utilized. UNIX-based systems management vendors have attempted to modify their UNIX-based platforms to address specific systems and applications management needs for Windows NT. In addition, because these framework and UNIX-based systems management solutions have not been designed specifically for the Windows NT platform, they often are not easy to use because they do not incorporate the "look and feel" of Windows NT. Furthermore, many of these systems management solutions offer only limited reporting functions and utilize an architecture that does not easily scale to accommodate the growth in the number of Windows NT servers and applications organizations are deploying across their computing enterprises. Because of their limitations, framework and UNIX-based system management solutions often require extensive and costly customization, long deployment times and significant ongoing support, thereby increasing organizations' total cost of ownership.

The unique challenges for managing Windows NT-based systems and applications have created the need for Windows NT-based applications management solutions designed specifically for the Windows NT environment. We believe a complete applications management software solution for the distributed Windows NT environment must incorporate the following characteristics:

- . Comprehensive breadth and depth of performance and availability management capabilities optimized for the Windows NT environment
- . Familiar "look and feel" of Microsoft Windows NT-based products that information technology professionals can easily adopt and use
- . Advanced architecture that scales to support rapid growth in the number of servers and applications deployed on the Windows NT platform yet retains centralized access and control
- . Rapid deployment capabilities and low maintenance costs that result in improved return on investment
- . Close integration with other systems, network and hardware management solutions

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The NetIQ Solution

Our AppManager products provide a comprehensive solution for centrally managing the performance of businesses' Windows NT environments. Utilizing a centralized console with automated monitoring, correction and reporting capabilities, our products help optimize the performance and availability of Windows NT systems and applications and reduce associated support costs. Key features of our solution include:

Comprehensive Windows NT-Based Systems and Application Management Functionality

AppManager consists of fully integrated product modules known as "AppManagers" that provide comprehensive functionality for managing Windows NT-based systems and the popular applications that run on Windows NT. AppManager has broad functionality that enables information technology professionals to rapidly detect problems, identify the underlying source of the problems, implement corrective measures and generate focused management reports through an automated process. AppManager also provides more than 500 pre-packaged "Knowledge Scripts," or business rules and policies, that indicate the most relevant statistics that need to be monitored at specified thresholds and intervals. Information technology professionals can easily customize these Knowledge Scripts or develop their own to meet organization-specific requirements.

Utilizes and Builds Upon Microsoft Technology and Standards

AppManager utilizes and builds upon leading Microsoft technologies and standards, protocols and application programming interfaces. As a result, AppManager looks, feels and operates in the same manner as Microsoft Windows NT

products, helping information technology professionals adopt and use AppManager more easily than system management solutions that have been adapted from solutions for non-Windows platforms. Furthermore, as new and emerging Windows NT standards and product features develop, we will incorporate these standards and features into AppManager.

Scalable Product; Centralized Control

AppManager's architecture scales easily to accommodate growth in the number of Windows NT servers and Windows NT-based applications that organizations deploy in their computing environments. Many of our customers gradually adopt and roll-out Windows NT throughout their enterprise on a server-by-server basis, and deploy additional Windows NT-based applications on an application-by-application basis. As customers increase their use of Windows NT-based systems and applications, our architecture scales to accommodate this growth and continues to enable information technology professionals to manage their server base from a centralized console.

Rapid Deployment; Reduced Total Cost of Ownership

Because AppManager provides comprehensive, "out-of-the-box" functionality and has the "look and feel" of Microsoft Windows NT products, it is easier for information technology professionals to deploy and maintain our products than traditional system management solutions. AppManager requires minimal customization, maintenance and ongoing customer support and is designed to reduce the total cost of ownership and administration of distributed Windows NT environments, relative to other system management solutions. Our Knowledge Scripts enable information technology professionals to quickly implement AppManager and our architecture enables organizations to efficiently roll-out AppManager from limited departmental uses to managing multiple important applications throughout an organization.

Open Architecture that Integrates with Existing System, Network and Hardware Management Products

Since many of our customers have made significant investments in legacy system and network management applications, we have designed our products to integrate closely with these solutions. We have developed "connectors" that integrate with leading enterprise management framework products by sharing performance and event information. In addition, because many organizations have purchased Windows NT

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servers from multiple hardware vendors, AppManager includes product modules that integrate with hardware management tools to monitor the status and performance of the hardware underlying Windows NT systems.

Optimized for Microsoft's Channel

Because we focus exclusively on the Windows NT market, we understand and can address the needs of this marketplace. We target our sales efforts on the Windows NT segments of our customers' information technology departments where the need for products and expertise similar to ours is particularly acute. Moreover, because our products have the "look and feel" of Microsoft technology and are developed for Microsoft users, Microsoft's third party resellers and channel partners typically find our products easy to market, sell and support.

Strategy

Our objective is to be the leading provider of applications management software that enables businesses to optimize the performance and availability of their Windows NT-based systems and applications. Key elements of our strategy include:

Enhancing Position as a Leading Provider of Windows NT Applications Management Solutions

We intend to strengthen our technology leadership position in the Windows NT applications management software market by continuing to focus on managing applications that businesses are increasingly relying on to perform critical business functions, including electronic messaging, Internet, group collaboration and database applications. We intend to enhance our comprehensive solutions by offering broader "out-of-the box" functionality and closer integration with third party system, network and hardware management products. We also intend to continue to introduce additional AppManager modules for managing additional important applications such as Microsoft's Commerce Server.

Target Enterprise-wide Deployment within Existing Customer Base

As of the date of this prospectus, we license our products to over 400 customers across a broad range of industries. A number of our customers initially deploy AppManager on a departmental basis or for managing particular Windows NT-based systems or applications. We have focused and will continue to focus on expanding existing customers' use of AppManager to an enterprise-wide deployment managing multiple applications.

Expand Distribution Channels

We have formed relationships with value added resellers, system integrators, original equipment manufacturers and distributors. We intend to build upon these relationships and to pursue new ones. In particular, we intend to continue to focus on relationships with third party resellers of Microsoft products that constitute the most significant distribution channel for Windows NT-based systems and applications.

Increase International Presence

We believe that international markets present a substantial growth opportunity for us as the worldwide market for Windows NT-based systems and applications continues to expand and as organizations increasingly recognize the advantages of applications management solutions. We intend to expand our field and inside sales forces and establish additional field offices in the United States and internationally. We plan to complement our current international distribution channels by developing relationships with additional international resellers, distributors and original equipment manufacturers. Working with our Japanese original equipment manufacturers, we have developed branded Japanese versions of our AppManager products for each of these original equipment manufacturers to market, sell and support and we intend to develop additional localized versions of our products in the future.

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Expand Relationships with Microsoft

We intend to expand our relationships with Microsoft to further develop our applications management solutions for Windows NT-based systems and applications and expand our penetration of the Windows NT market. We participate in Microsoft's testing and feedback programs for new systems and applications and intend to support all current and future Windows NT technologies and standards. We plan to continue to participate in joint marketing programs with Microsoft, expand Microsoft's use of our products and continue to support new Microsoft Windows NT-based applications.

Products and Technology

We develop, market and support the NetIQ AppManager Suite, a leading applications management software solution for distributed Windows NT environments. AppManager's automated monitoring, correction and reporting features help information technology professionals optimize the performance and increase the availability of their Windows NT-based systems and electronic messaging, Internet and database applications, while reducing associated support costs. Additionally, AppManager can monitor the status and performance of the hardware underlying Windows NT systems. By using our AppManager

connector integration products, information technology professionals can use AppManager with system and network management framework products to share performance and event information. The following diagram illustrates how AppManager enables information technology professionals to comprehensively manage applications, underlying operating systems and hardware platforms that businesses rely on to perform critical business functions in their Windows NT environment from a central console.

NetIQ's Comprehensive Approach to Managing
Windows NT Environments

[Graphic depiction of the interface between the company's product, the applications, the Windows NT operating system and hardware platforms.]

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Our AppManager product suite is a set of fully integrated product modules known as "AppManagers." The following table summarizes the functionality of our Windows NT-based AppManager products by server or product category.

<TABLE>

<CAPTION>

Server or Product Category	NetIQ Products (Year Introduced)	Representative Functionality
<p><C> Windows NT Operating Systems</p>	<p><C> AppManager for</p> <ul style="list-style-type: none"> . Microsoft Windows NT (1996) . Microsoft Cluster Server (1997) . Windows NT Server, Terminal Server Edition (1998) . Citrix WinFrame (1998) . Microsoft Windows Load Balance Service (1999) 	<p><S></p> <ul style="list-style-type: none"> . Identifies CPU bottlenecks and terminates runaway processes . Checks if key services are down and auto-starts . Tracks disk space utilization . Determines if running low on DHCP leases . Resets terminal server session . Reboots downed Windows NT server
<p>Messaging Servers</p>	<p>AppManager for</p> <ul style="list-style-type: none"> . Microsoft Exchange Server (1996) . Lotus Domino/Notes (1997) . Microsoft Message Queue Server (1997) 	<ul style="list-style-type: none"> . Monitors e-mail connectivity and response time . Reports on e-mail traffic flow . Identifies top senders and receivers of e-mail . Monitors e-mail space usage
<p>Internet/Web Servers</p>	<p>AppManager for</p> <ul style="list-style-type: none"> . Microsoft Internet Information Server (1996) . Microsoft Commercial Internet System News Server (1997) . Microsoft Proxy Server (1998) . Microsoft Site Server (1999) 	<ul style="list-style-type: none"> . Monitors connection to URLs . Examines contents of URLs and checks for changes . Monitors the availability of a web server . Displays HTTP connections . Detects unauthorized login

	. Microsoft Site Server, Commerce Edition (1999)	attempts . Detects if an Internet port or IP address can be accessed
Database Servers	AppManager for . Microsoft SQL Server (1996) . Microsoft Transaction Server (1997) . Oracle (1998)	. Identifies SQL statements utilizing most amount of system resources . Monitors database space usage . Tracks locking conditions . Truncates transaction log if running out of space
Hardware Management Tools	AppManager for . Compaq Insight Manager (1997) . HP TopTools for Servers (1998) . Dell OpenManage (1998) . NEC ESMPPro* (1998) . IBM NetFinity (1999)	. Monitors computer temperature . Detects if UPS battery is running low . Reports error status of network interface cards . Monitors system voltage . Tracks asset information such as serial numbers
Third-Party Tools	AppManager for . Microsoft Systems Management Server (1996) . Microsoft SNA Server (1999) . CA ARCServe (1999) . Seagate Backup Exec (1999)	. Detects if software distribution has failed . Checks status of tool's services and auto-restart . Monitors SNA connections . Determines if backup job has failed
"Connector" to Management Frameworks	AppManager Connector for . Tivoli Enterprise (1998) . CA Unicenter TNG (1998) . HP OpenView Network Node Manager (1998)	. Receives events from AppManager . Invokes AppManager console from within framework . Distributes AppManager software
Console Products	AppManager for . Operator Console (1996) . Developer Console (1996) . Web Access Console (1997)	. Views and acknowledges events . Generates service level agreement reports . Edits pre-defined Knowledge Scripts . Displays performance metrics

</TABLE>

* Available only with the Japanese edition of the NetIQ AppManager Suite.

We also provide a localized version of our AppManager products for the Japanese market.

Native Windows NT Implementation

AppManager uses standard Microsoft technology such as Visual Basic for Applications scripting, the Microsoft COM object model and SQL Server. As a

result, AppManager looks, feels and operates the same as Microsoft products. Our use of widely accepted Microsoft standards also makes our AppManager products easy to customize and implement in a customer's existing IT environment. We intend to continue to support new Microsoft technology, including emerging Windows 2000-based technologies such as Active Directory and Windows Management Instrumentation, a component of Microsoft's Web-based Enterprise Management initiative, or WBEM.

Open Architecture that Easily Scales to Accommodate Growth

AppManager's advanced architecture easily scales to accommodate growth in the number of Windows NT servers businesses deploy in their highly complex computing environment and includes an exception-based communication mechanism that reports only system events and exception data which minimizes network traffic, and intelligent management agents that can continue to monitor systems and applications regardless of the status of the network connection. AppManager also offers information technology professionals the flexibility to work from a robust Web-based interface to start and stop monitoring jobs and view performance and event data.

AppManager's architecture is comprised of the following tiers:

- . AppManager Console. The console is an easy-to-use graphical user interface program that displays systems and applications as resource icons within a familiar Microsoft Explorer-type tree view. The console is used to centrally define and control the execution of Knowledge Scripts, business rules and policies. The Knowledge Scripts run as Visual Basic for Applications scripts that collect performance data, monitor for events and initiate corrective actions.
- . Web Console. The Web console is an optional program that lets users monitor their entire Windows NT environment from a Web browser.
- . Repository Server. The repository server is a Microsoft SQL Server database that stores performance and availability management data. The repository server allows for custom reporting and provides over 165 standardized reports for users to choose from. These standardized reports focus on summarizing inventory, performance and event data collected by AppManager for both Windows NT-based systems and applications, and are designed to help information technology personnel determine if they are meeting their required service levels.
- . Management Server. The management server is a program that manages event-driven communication between the repository and the agent programs.
- . Agent. The agent is an easy-to-use and easy-to-deploy program that receives requests from the management server to either run or stop a Knowledge Script. After receiving a request, the agent program communicates back any system events and exceptional data collected by the running Knowledge Scripts. Users can centrally "push" the AppManager agents to remote systems for easy deployment.

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The following graphic illustrates the multiple tiers of the NetIQ AppManager architecture:

[Graphic depiction of the relationship between AppManager consoles, management server, repository server and agents.]

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Customers

As of the date of this prospectus, we license our AppManager products to more than 400 customers. The following is a representative list of our customers that have purchased at least \$100,000 in software licenses and services since the beginning of fiscal 1998:

Government

Defense Intelligence Agency
Department of Veterans Affairs
Ministere Emploi et Solidarite
US Postal Inspection Service

Utilities/Energy

Exxon Computing Services
Fina Oil and Chemical Company
Koch Industries
Shell Services International
Southern Company Services
Williams Information Services

Financial Services

Arthur Andersen & Co.
Charles Schwab & Co.
Dresdner Bank AG
Great West Life & Annuity Insurance
JC Bradford & Co.
NationsBank/Bank of America
Northern Trust
Safeco Insurance Companies
Standard & Poor's
Unum Corp.
Wells Fargo Bank N.A.

Manufacturing/Distribution

ALCOA
Boeing Shared Services
General Electric
Georgia-Pacific

Pharmaceuticals/Health Care

Baptist Memorial Hospital
Cerner Corporation
Glaxo Wellcome
Mayo Foundation for Medical
Education and Research
Merck & Co.
Pfizer

High Technology

Dell Computer
Interliant
Microsoft Corporation
Microstrategy
NCR Corporation
Network Associates
PeopleSoft
Siemens Business Services

Retail/Consumer Packaged Goods

London Drugs
Nabisco Foods
Nordstrom Information Systems
Office Depot
Pepsi-Cola
Philip Morris Europe

Telecommunications

American Telephone & Telegraph
Co.
BellSouth Cellular Corp.
Belgacom

Representative Customer Applications

<TABLE>
<CAPTION>

Customer	Application
<S> Office Depot	<C> As the world's largest supplier of office products with global operations that include over 739 stores across North America, France and Japan, Office Depot relies on its Microsoft Windows NT-based e-commerce site to serve thousands of customers. As a key element of the company's information technology strategy, Office Depot depends on the NetIQ AppManager Suite to ensure the performance and availability of over 130 distributed Windows NT and Exchange servers that run the company's public e-commerce site, Business Services Division and support center. AppManager is also instrumental in maintaining the health of the company's Compaq hardware deployment via integration with Compaq Insight Manager.

Southern Company The largest producer of electricity in the United States, Atlanta-based Southern Company supplies electricity to 11 million customers in the southeastern United States, while its international subsidiaries and affiliates serve South America, Europe, and Asia. Southern Company depends on an information infrastructure that includes more than 500 Windows NT servers running numerous critical applications. Having rejected systems management frameworks as not providing enough depth or breadth within the Windows NT environment, Southern Company decided to look for an optimized management solution. Southern Company's requirements included that the management tool must be able to be deployed in an easy and quick manner, and it must provide the deep level of monitoring required by Southern Company to ensure the availability and reliability of the Windows NT infrastructure. Southern Company selected AppManager because it best met those requirements, and subsequently rolled out AppManager to their entire Windows NT server deployment in less than three months.

Countrywide
Home Loans Enterprise server management tools are crucial assets to the information technology support staff of Countrywide Home Loans, the nation's largest independent residential mortgage lender and servicer. Tools such as NetIQ AppManager Suite enable Countrywide's network administrators to avoid potentially critical system or application problems, as well as the ability to accurately diagnose failures if they do occur. AppManager also enhances and extends Countrywide's monitoring capabilities, giving staff quick access to systems information on virtually any of its 400 Microsoft BackOffice-based production servers.

Charles Schwab Charles Schwab & Co., Inc., a securities brokerage firm, uses AppManager to monitor its Windows NT-based server environment at its more than 290 branch offices. Schwab initially licensed AppManager to monitor its messaging environment and later expanded its use to a Windows-NT based server environment.

</TABLE>

Sales, Marketing and Distribution

Field and Inside Sales

We market our software and services through our field sales organization located at our headquarters facility in Santa Clara, California, our domestic field offices in Chicago, Dallas, Denver, New York and Washington, D.C., and our international field offices in London, Munich, Sydney and Tokyo. Each of our field sales offices includes a territory manager and one or more systems engineers. The territory manager and system engineer concentrate on Fortune 1000-sized accounts that have at least 100 Windows NT servers. Channel sales representatives focus on managing sales activities of our regional channel partners and branch sales offices of our national reseller partners. Typically, our sales process will include an initial sales presentation in person or over the phone, a product demonstration, a product evaluation period, a closing meeting and a purchase process. Generally the sales process includes licensing our products to potential customers on a trial basis. Our sales process typically takes 90 to 180 days, but this process can be longer for large,

enterprise-wide sales.

Our field sales organization is complemented by an inside sales organization with offices at our Santa Clara, California headquarters and in our London and Sydney field offices. Our inside sales organization typically handles orders from customers who have fewer than 100 Windows NT servers that are not processed or sold through the channel, or at times in concert with our channel partners. Our inside sales personnel also handle sales lead qualification, help recruit regional channel partners and distribute leads to the field sales organization or channel partners.

Value Added Resellers, System Integrators, Distributors and Original Equipment Manufacturers

We have implemented a channel partner program, our NetIQ Partner Network, that provides training, certification, technical support, priority communications regarding upcoming activities and products and joint sales and marketing activities. In North America, Tech Data is the primary distributor of our product and our sole U.S. distributor as of the date of this prospectus, and, as of March 31, 1999, we had over 50 third party channel partners who purchase our products through Tech Data. We sell our products to Tech Data based upon previously-negotiated prices. Tech Data, in turn, resells our products to their resellers at previously-negotiated prices. Our agreement with Tech Data is for successive one-year terms that expire each June, but is subject to automatic one-year renewals unless either party provides a termination notice prior to the renewal date. Either party to the distribution agreement may terminate the contract upon 30 days written notice to the other party. We have also established a network of value added resellers and system integrators in Europe, Latin America and the Asia-Pacific region who perform marketing, sales and technical support functions in their country or region. Each value added reseller may distribute our products directly to the customer and/or through other resellers. We had 25 channel partners outside of North America as of March 31, 1999. In addition, we have worked with NEC, Fujitsu and Hitachi to develop branded Japanese versions of AppManager that each of these original equipment manufacturers markets, sells and supports.

Marketing

We have a number of marketing programs designed to inform customers about the capabilities and benefits of our AppManager products. Our marketing efforts include participation in industry trade shows, technical conferences and technology seminars, preparation of competitive analyses, sales training, publication of technical and educational articles in industry journals, advertising, public relations, and analyst and press tours.

Relationships with Developers of Windows NT-Based Systems and Applications

We have relationships with developers of Windows NT-based systems and applications including Citrix, Compaq, Computer Associates, Dell Computer, Hewlett-Packard, IBM, including both its Lotus and Tivoli subsidiaries, Microsoft and Oracle. As part of these relationships, we often develop joint marketing programs with these software and hardware vendors. Our relationship with Microsoft is an example of this type of

product-based relationship. Microsoft is one of our largest customers, and sales of software licenses to Microsoft represented 2% of our software license revenue in both fiscal 1999 and the nine months ended March 31, 1999. Microsoft's information technology group selected AppManager to monitor the performance and availability of its worldwide Windows NT environment, as well as to centrally monitor its Windows NT-based applications server infrastructure. Microsoft also currently distributes our AppManager for WBEM Agent on its current version of Windows 2000 operating system software. Recently, Microsoft has permitted one of our engineers to work with its Windows NT development group at its Redmond, Washington headquarters. Microsoft also

contracts for one of our engineers to provide support for Microsoft's use of our products. Another example of our product-based relationships is our relationship with Compaq, whose service organization is a worldwide reseller of AppManager.

International Sales

International sales did not account for any of our revenue in fiscal 1997, but represented 10% of total revenue in fiscal 1998 and 22% of total revenue in the nine months ended March 31, 1999. We anticipate that as we expand our international sales efforts, the percentage of revenue derived from international sources will continue to increase. Currently, a majority of our international business is conducted in U.S. dollars. However, as we expand our international operations, we expect that our international business will increasingly be conducted in foreign currencies. Fluctuations in the value of foreign currencies relative to the U.S. dollar have caused, and we expect such fluctuation to increasingly cause, currency transaction gains and losses. We cannot predict the effect of exchange rate fluctuations upon future quarterly and annual operating results. We may experience currency losses in the future. To date, we have not adopted a hedging program to protect us from risks associated with foreign currency fluctuations.

Customer Support

Our technical support organization provides ongoing technical support for our customers and for prospective customers during the period in which a prospective customer evaluates our AppManager. We offer technical support services 24 hours a day, seven days a week via our Internet site, telephone, e-mail, a support Web site and fax. Customers are notified about the availability of regular maintenance and enhancement releases via Internet-based e-mail. Initial product license fees include one year of product software maintenance and support. Thereafter, customers are entitled to receive software updates, maintenance releases and technical support for an annual maintenance fee.

We also offer training courses for the implementation and administration of our products. Product training is provided on a periodic basis at our headquarters in Santa Clara, California, at the offices of members of our NetIQ Partner Network and also at customer sites throughout the United States and Europe.

Our professional services group provides product training, consulting and implementation services for a fee in order to assist customers in maximizing the benefits of our products. A significant focus of our professional services group is also to train and support partners who are members of the NetIQ Network Partner channel program in how to provide AppManager-related services and support to customers.

Research and Development

Our research and development organization is responsible for the design, development and release of our products. The group is organized into development, quality assurance, product management, documentation and localization disciplines. Members from each discipline form separate product teams that work closely with sales, marketing and customer support to better understand market needs and user requirements. Additionally, we have a well developed information feedback loop with our customers to respond to and address their changing system and application management requirements. When appropriate, we also utilize third parties to expand the capacity and technical expertise of our internal research and development team. On occasion, we have licensed third-party technology which we believe shortens time to market without compromising competitive position or product quality.

We have made substantial investments in research and development. Our research and development expenses were \$0.7 million, \$1.0 million, \$2.2 million and \$2.7 million in fiscal 1996, 1997 and 1998 and the nine months ended March

31, 1999, respectively. The dollar increase in fiscal 1997 and fiscal 1998 was due primarily to increased staffing and the purchasing of additional hardware and software for development and testing purposes. For a further discussion of our research and development programs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21 of this prospectus and "Risk Factors--If we do not respond adequately to our industry's evolving technology standards . . ." on page 11 of this prospectus.

Competition

The market for applications management software for optimizing the performance and availability of Windows NT-based systems and applications is new, rapidly evolving and highly competitive, and we expect competition in this market to persist and intensify. New products for this market are frequently introduced and existing products are continually enhanced. We may not be able to compete successfully against current and/or future competitors and such inability would materially adversely affect our business, future quarterly and annual operating results and financial condition. See "Risk Factors--New product introductions and pricing strategies by our existing competitors . . ." beginning on page 6 of this prospectus, regarding risks associated with current competitive pressures.

Existing Competition. We currently face competition from a number of sources, including:

- . Providers of network and systems management framework products such as IBM, Computer Associates and Hewlett-Packard
- . Providers of performance and availability management solutions such as BMC Software
- . Customers' internal information technology departments that develop or integrate system and application monitoring tools for their particular needs

Future Competition. We may face competition in the future from established companies who have not previously entered the market for performance and availability management software for Windows NT-based systems and applications as well as from emerging companies. Barriers to entry in the software market are relatively low. Established companies may not only develop their own Windows NT-based system and application management solutions, but they may also acquire or establish cooperative relationships with our current competitors, including cooperative relationships between large, established companies and smaller private companies. These larger companies may be able to acquire the technology and expertise of smaller companies to penetrate our market quickly. It is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

To date, Microsoft has not competed against us in the market for applications management software for optimizing the performance and availability of Windows NT-based systems and applications. However, Microsoft may enter this market in the future, and this could materially adversely affect our business, future annual and quarterly results of operations and financial condition. As part of its competitive strategy, Microsoft could bundle performance and availability management software with its Windows NT operating system software and this could discourage potential customers from purchasing our products. Even if the functionality provided as standard features by future Microsoft operating system software were more limited than that of our AppManager products, a significant number of customers or potential customers might elect to accept more limited functionality in lieu of purchasing additional software. Moreover, competitive pressures resulting from this type of bundling could lead to price reductions for our products which would reduce our margins and could materially adversely affect our business, quarterly and annual operating results and financial condition.

In addition to Microsoft, other potential competitors may bundle their products or incorporate applications management software for optimizing the performance and availability of Windows NT-based systems and applications into existing products including for promotional purposes. In addition, our ability to sell our

products will depend, in part, on the compatibility of our products with other third party products. These third party software developers may change their products so that they will no longer be compatible with our products. If our competitors were to bundle their products in this manner or make their products non-compatible with ours, this could materially adversely affect our ability to sell our products and could lead to price reductions for our products which could reduce our profit margins.

Intellectual Property

Our success is heavily dependent upon proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. These laws and procedures provide only limited protection. We have applied for three patents relating to our engineering work. Two of these patents have been issued or approved for issuance. The third patent application is pending.

We license technology that helps AppManager Suite run our applications management modules from Summit Software on a non-exclusive, worldwide basis. Our AppManager product modules for Windows NT, Windows NT Workstation and Super Console incorporate to Summit Software technology. Under the terms of our license agreement, we pay limited royalties to Summit. We license this technology on a year-to-year basis which is automatically renewed each August and, in the event our license agreement for this technology is terminated, we may continue to sell our AppManager Suite with the Summit technology for a period of 24 months following the termination of the licensing agreement. Our license is terminable upon 60 days notice in the event a default under the licensing agreement occurs, including our failure to pay royalty fees on a timely basis or any other material breach by us of the license agreement.

Employees

As of March 31, 1999, we had 111 employees, 35 of whom were engaged in research and development, 38 in sales and marketing, 26 in customer support and 12 in finance and administration. None of our employees is represented by a collective bargaining agreement. We have not experienced any work stoppages and consider our relations with our employees to be good. For a discussion of our need to attract and retain additional qualified personnel, see "Risk Factors-- We will need to recruit and retain additional qualified personnel..." on page 9 of this prospectus.

Facilities

Our principal administrative, sales, marketing, customer support and research and development facility is located at our headquarters facility in Santa Clara, California. We currently occupy approximately 23,000 square feet of office space in the Santa Clara facility under the terms of a lease expiring in July 2003. Our current facility will not be adequate to meet our needs for the next 12 months and we are currently evaluating additional space in the local area. We believe that suitable additional facilities will be available as needed on commercially reasonable terms.

We also lease space for sales and marketing offices in Denver, New York City, Dallas, and Washington, D.C. and have international field offices in Sydney, London, Munich, and Tokyo.

MANAGEMENT

The following table sets forth information with respect to our executive officers and directors as of the date of this prospectus.

Executive Officers And Directors

<TABLE>

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Name	Age	Position
----	---	-----
<C>	<C>	<S>
Ching-Fa Hwang.....	50	President, Chief Executive Officer and Director
James A. Barth.....	56	Vice President, Finance, Chief Financial Officer and Secretary
Her-Daw Che.....	50	Vice President, Engineering and Director
Thomas R. Kemp.....	33	Vice President, Marketing
Stephen M. Kendall.....	43	Vice President, Asia Pacific
Glenn S. Winokur.....	40	Vice President, Sales
Kuo-Wei ("Herbert") Chang(1) (2)..	37	Director
Louis C. Cole(2).....	55	Director
Alan W. Kaufman(1) (2).....	61	Director
Ying-Hon Wong.....	41	Director

</TABLE>

(1) Member of Audit Committee

(2) Member of Compensation Committee

Ching-Fa Hwang co-founded NetIQ in June 1995 and has served as our President and Chief Executive Officer and as a director since our inception. From June 1995 to March 1999, Mr. Hwang also served as our Chief Financial Officer. From September 1994 to June 1995, Mr. Hwang served as the Vice President of Research at Compuware, a developer of information systems software. From August 1993 to September 1994, Mr. Hwang served as the Vice President of Technical Services and General Manager at the EcoSystems Business Group of Compuware. In May 1991, Mr. Hwang co-founded EcoSystems Software, a client/server management software provider, and served as its Vice President of Engineering from its inception until its sale to Compuware in August 1993. Mr. Hwang holds a B.S. in electrical engineering from National Taiwan University and a M.S. in computer science from the University of Utah.

James A. Barth has served as our Vice President, Finance, Chief Financial Officer and Secretary since March 1999. From November 1997 until March 1999, Mr. Barth served as the Vice President, Chief Financial Officer and Secretary of Interlink Computer Sciences, a developer of enterprise networking software designed for the IBM mainframe platform. From October 1994 to August 1997, Mr. Barth served as Executive Vice President, Chief Financial Officer and Secretary at MagiNet, a provider of interactive entertainment and information systems for hotels. From March 1994 to October 1994, he served as Vice President and Chief Financial Officer at ACC Microelectronics, a semiconductor company. From 1982 to March 1994, Mr. Barth served as Vice President, Chief Financial Officer and Secretary at Rational Software, a developer of object-oriented software engineering tools. Mr. Barth holds a B.S. in business administration from the University of California at Los Angeles and is a certified public accountant.

Her-Daw Che co-founded NetIQ and has served as our Vice President, Engineering and as a director since November 1995. From September 1993 to July 1995, Mr. Che served as the Director of Engineering of the EcoSystems Business Group at Compuware. Mr. Che co-founded EcoSystems and served as its Director of Engineering from its inception until its sale to Compuware. Mr. Che holds a B.S. in electrical engineering from National Taiwan University and an M.S. in computer science and a Ph.D. in computer science from the University of Pennsylvania.

Thomas R. Kemp has served as our Vice President, Marketing since May 1997. From January 1996 to April 1997, Mr. Kemp served as our Director of Products. From April 1995 to November 1995, Mr. Kemp served as a Director of Product

Management at Compuware and from August 1993 to March 1995, he served as a Manager of Systems Engineers at Compuware. From July 1992 to July 1993, Mr. Kemp served as a Manager of System Engineers at EcoSystems until its sale to Compuware. Prior to July 1992, Mr. Kemp held various consulting and marketing positions at Oracle Corporation, a database management company. Mr. Kemp holds a B.S. in computer science and history from the University of Michigan.

Glenn S. Winokur has served as our Vice President, Sales since May 1997. From May 1996 to April 1997, Mr. Winokur served as our Director of Sales. From March 1994 to May 1996, Mr. Winokur served as a Regional Sales Manager at Compuware. Mr. Winokur has a B.S. in business administration and marketing from the University of Illinois.

Stephen M. Kendall has served as our Vice President, Asia Pacific since September 1997. From March 1997 to August 1997, Mr. Kendall served as a Vice President at Commerce Direct International. From December 1993 to January 1997, Mr. Kendall served as the Vice President of Sales, Asia Pacific at Cheyenne Software, a provider of storage management, security and communications software products. Mr. Kendall has a B.A. in Asian studies from Cornell University and a M.B.A. from the Institut Europeen d'Administration des Affaires in Fontainebleau, France.

Kuo-Wei ("Herbert") Chang has been a director since May 1997. Since April 1996, Mr. Chang has been the president of InveStar Capital, Inc., a technology venture capital management firm based in Taiwan. From July 1994 to March 1996, Mr. Chang was a Senior Vice President at the WK Technology Fund, a technology venture capital management firm based in Taiwan. From July 1992 to June 1994, Mr. Chang served as the Vice President of Sales and Marketing at DynaLab, a developer of electronic document solutions. Mr. Chang holds a B.S. in geology from National Taiwan University and a M.B.A. from National Chiao-Tung University in Taiwan.

Louis C. Cole has been a director since September 1998. Since June 1989, Mr. Cole has been President, Chief Executive Officer and a director of Legato Systems, which develops, markets and supports network storage management software products. Since April 1995, Mr. Cole has also served as Chairman of the Board of Legato. Mr. Cole also serves as a director of Inference, a provider of enterprise customer relationship management software, and Rogue Wave Software, a provider of object-oriented software parts and related tools software. Mr. Cole holds a B.S. in mathematics and education from Pennsylvania State University at Edinboro.

Alan W. Kaufman has been a director since August 1997. Since August 1997, Mr. Kaufman has served as a director of QueryObject Systems, which develops and markets proprietary business intelligence software, and he has served as Chairman of the Board of QueryObject since March 1998. Mr. Kaufman was President and Chief Executive Officer of QueryObject from October 1997 to December 1998. From December 1996 to October 1997, Mr. Kaufman was an independent consultant. From April 1985 to December 1996, Mr. Kaufman held various positions at Cheyenne Software, including most recently as Executive Vice President of Worldwide Sales. Mr. Kaufman is also a director of Global Telecommunication Solutions, a provider of prepaid phone cards. Mr. Kaufman holds a B.S. in electrical engineering from Tufts University.

Ying-Hon Wong co-founded NetIQ in June 1995 and has served as a director since our inception. Since January 1991, Mr. Wong has been a General Partner of Wongfratris Investment Company, a venture investment firm. Mr. Wong holds a B.S. in electrical engineering and industrial engineering from Northwestern University and a M.B.A. from the Wharton School of Business at the University of Pennsylvania.

Classified Board

Our certificate of incorporation and bylaws provide for a board of directors of six members consisting of three classes of directors, each serving staggered three-year terms. As a result, a portion of our board of

directors will be elected each year. To implement the classified structure, prior to the completion of this offering, two of the nominees to the board will be elected to one-year terms, two will be elected to two-year terms and two will be elected to three-year terms. After this offering, directors will be elected for three-year terms. Herbert Chang and Ying-Hon Wong have been designated Class I directors whose terms expire at the 1999 annual meeting of stockholders. Alan Kaufman and Her-Daw Che have been designated Class II directors whose terms expire at the 2000 annual meeting of stockholders. Louis Cole and Ching-Fa Hwang have been designated Class III directors whose terms expire at the 2001 annual meeting of stockholders. See "Description of Capital Stock--Antitakeover Effects of Some Provisions of Our Certificate of Incorporation and Bylaws" beginning on page 62 of this prospectus for a further description of the antitakeover provisions in our charter documents.

Executive officers are appointed by the board of directors on an annual basis and serve until their successors have been duly elected and qualified. There are no family relationship among any of our directors, officers or key employees.

Audit Committee

We have established an audit committee, which consists of Mr. Chang and Mr. Kaufman. The audit committee reviews our internal accounting procedures and consults with and reviews the services provided by our independent auditors.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Mr. Chang, Mr. Cole and Mr. Kaufman. The Compensation Committee is responsible for determining salaries, incentives and other forms of compensation for our directors, officers and other employees and administering various incentive compensation and benefit plans. Ching-Fa Hwang, our President, Chief Executive Officer and a member of our board of directors, participates in all discussions and decisions regarding salaries and incentive compensation for all of our employees and consultants, except that he is excluded from discussions regarding his own salary and incentive compensation. No interlocking relationship exists between any member of our Compensation Committee and any member of any other company's board of directors or compensation committee.

Director Compensation

We reimburse each member of our board of directors for out-of-pocket expenses incurred in connection with attending board meetings. No member of our board of directors currently receives any additional cash compensation for serving as a member of the Board.

In May 1997, we granted an option to Herbert Chang in his capacity as a director to purchase up to 183,333 shares of common stock with an exercise price of \$0.30 per share which vests in annual installments over three years. Because of Mr. Chang's contractual obligations with Investar Burgeon Venture Capital, the option was issued in the name of Investar Burgeon Venture Capital Inc. The vesting of this option terminates if Mr. Chang ceases to be a member of the board of directors.

In August 1997, we granted an option to Alan Kaufman as a director to purchase up to 66,666 shares of common stock at an exercise price of \$0.30 per share. This option vests in annual installments over four years.

In November 1998, we granted an option to Louis Cole as a director to purchase up to 50,000 shares of common stock at an exercise price of \$1.50 per share. 25% of the option shares vest on the first anniversary of the grant date and the remaining shares vest ratably on a quarterly basis over the next three years.

In November 1998, we granted non-statutory options to purchase up to 66,666 shares of common stock to Her-Daw Che and 80,000 shares of common stock to Ching-Fa Hwang, each with an exercise

price of \$1.50 per share. 37.5% of the shares subject to these options were vested at the time of grant, and 6.25% of the remaining shares subject to these options vest on a quarterly basis through April 2001.

In November 1998, we granted an option to Ying-Hon Wong in his capacity as a director to purchase up to 53,333 shares of common stock with an exercise price of \$1.50 per share. Because of Mr. Wong's contractual obligations with Wongfratris Investment Company, the option was issued in the name of Wongfratris Investment Company. In January 1999 this option was exercised in full subject to a right of repurchase in favor of NetIQ with respect to 63.5% of the shares acquired if Mr. Wong ceases to be a member of the board of directors. This repurchase right lapses as to 6.25% of the shares purchased each quarter through April 2001.

See "Certain Transactions" on page 57 of this prospectus for additional information about a consulting arrangement we have with one of our directors.

Our stock option plan includes an automatic nondiscretionary grant mechanism that provides that options will be granted to non-employee directors who on the date of grant do not beneficially hold 1% or more of our total voting power. Our stock option plan specifically provides for an initial automatic grant of an option to purchase 8,333 shares of common stock to a non-employee director who first becomes a director after our initial public offering. After our initial public offering, each non-employee director who has served on the board for at least six months will be granted an option to purchase 8,333 shares of common stock on that date of the annual meeting of our stockholders. However, if the first annual meeting following our initial public offering falls within six months of the effective date of the initial public offering no grants will be made until the following annual meeting. Each option granted to a non-employee director under this program will have a term of five years and the shares subject to these options shall be fully vested on the date of grant. The exercise price of these options will be 100% of the fair market value per share of common stock on the date of grant. See "Incentive Stock Plans--1995 Stock Plan" on page 51 of this prospectus for more detailed information regarding our stock option plan.

Executive Compensation

The table below sets forth information concerning the compensation earned for services rendered to NetIQ in all capacities during the fiscal year ended June 30, 1999 by our President and Chief Executive Officer and our next most highly compensated executive officers whose salary, bonus and commission for fiscal 1999 exceeded \$100,000. Other than the salary, bonus and commission described in the table below, we did not pay any named executive officer any fringe benefits, perquisites or other compensation in excess of 10% of such executive officer's salary and bonus during fiscal 1999. Bonus and commission figures for fiscal 1999 include bonuses and commissions earned and paid in fiscal 1999 as well as bonuses and commissions earned in fiscal 1999 but paid in fiscal 2000. Commissions are cash-based incentive compensation for our sales executives that are earned as licenses are sold.

Summary Compensation Table

<TABLE>
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Name and Principal Position	Annual Compensation		Other Annual Compensation	Long Term Compensation	All Other Compensation	
	Salary	Bonus	Commissions	Securities Underlying Options (#'s)	Life Insurance Premiums	Medical Expenses
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Ching-Fa Hwang President and Chief Executive Officer.....	\$ 93,749	\$ --	\$ --	80,000	\$108	\$1,683
Thomas R. Kemp Vice President, Marketing.....	113,699	--	--	33,333	108	2,333
Stephen M. Kendall Vice President, Asia Pacific.....	100,328	--	19,437	20,000	108	6,714
Glenn Winokur Vice President, Sales..	90,287	--	133,450	33,333	108	2,536

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Option Grants During Fiscal Year 1999

The following table sets forth information with respect to stock options granted to each of the named executive officers during fiscal 1999, including the potential realizable value assuming an initial public offering price of \$12.00 per share over the 10 year term of the options based on assumed rates of stock appreciation of 5% and 10%, compounded annually and subtracting from that result the total option exercise price. These assumed rates of appreciation comply with the rules of the SEC and do not represent our estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock. In fiscal 1999, we granted options to acquire up to an aggregate of 1,299,216 shares to employees and directors, all under our stock option plan and all at an exercise price equal to not less than the fair market value of our common stock on the date of grant as determined in good faith by the board of directors. Optionees may pay the exercise price by cash, check, promissory note, delivery of already-owned shares of our common stock which have been owned by the optionee for more than six months or the date of surrender or under a cashless exercise procedure, to the extent authorized by the board. Options under the stock option plan generally vest over four years with 25% of the shares subject to option vesting on the first anniversary of the grant date, and the remaining option shares vesting ratably quarterly thereafter.

<TABLE>
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Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciations for Options Terms	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal 1999	Exercise Price Per Share	Expiration Date	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ching-Fa Hwang.....	80,000	6.16%	\$1.50	05/18/02	\$1,443,239	\$2,369,993
Thomas R. Kemp.....	33,333	2.57%	11.25	04/30/09	276,557	662,492
Stephen M. Kendall.....	20,000	1.54%	11.25	04/30/09	165,936	397,499
Glenn Winokur.....	33,333	2.57%	11.25	04/30/09	276,557	662,492

Aggregate Option Exercises During the Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth the number of shares acquired and the value realized upon exercise of stock options during fiscal 1999, and the number of shares of common stock subject to exercisable stock options held as of June 30, 1999, by the named executive officers. The "Value Realized" and the "Value of Unexercised In-the-Money Options at June 30, 1999" is based upon a value of \$12.00 per share, the assumed initial public offering price, minus the per share exercise price, multiplied by the number of shares underlying the option.

<TABLE>
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Date	Number of Shares Acquired on Exercise		Number of Securities Underlying Unexercised Options at June 30, 1999		Value of Unexercised In-the-Money Options at June 30, 1999	
	Exercised	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ching-Fa Hwang.....	--	--	40,000	40,000	\$420,000	420,000
Thomas R. Kemp.....	67,493	\$ 804,867	1,670	94,168	19,540	747,170
Stephen M. Kendall.....	39,790	465,543	--	76,876	--	680,449
Glenn Winokur.....	90,208	1,077,084	22,290	74,167	265,143	509,558

Incentive Stock Plans

1995 Stock Plan

The board of directors adopted our stock option plan in November 1995 and our stockholders approved the stock option plan in April 1996. In connection with this offering, the board of directors approved the amendment and restatement of stock option plan in May 1999 and we anticipate that our stockholders will approve the amendment and restatement prior to the completion of this offering. The stock option plan provides for the grant to employees of incentive stock options within the meaning of Section 422 of the United States tax code, and for the grant to employees, directors and consultants of nonstatutory stock options and stock purchase rights.

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Number of Shares of Common Stock Available under the Stock Option Plan

As of March 31, 1999, a total of 3,966,666 shares of common stock were authorized for issuance under the stock option plan, of which options to acquire 2,114,739 shares were issued and outstanding as of that date. As part of the May 1999 amendment and restatement of the stock option plan, the board of directors approved an increase of 1,366,666 shares reserved for issuance under the stock option plan to a total of 5,333,332. The stock option plan provides for annual increases in the number of shares available for issuance thereunder, on the first day of each new fiscal year, effective beginning with July 1, 2000, equal to the lesser of 4% of the outstanding shares of common stock on the first day of the fiscal year, 1,333,333 shares or an amount as the board may determine.

Administration of the Stock Option Plan

The stock plan administrator, which is the board of directors or a committee of the board, administers the stock option plan. In the case of options intended to qualify as "performance-based compensation" within the meaning of the United States tax code, the committee will consist of two or more "outside directors" within the meaning of the United States tax code. The administrator has the power to determine the terms of the options or stock purchase rights granted, including the exercise price, the number of shares subject to each option or stock purchase rights, the exercisability of the options and the form of consideration payable upon exercise.

Options

The administrator determines the exercise price of nonstatutory stock options granted under the stock option plan, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of the United States tax code, the exercise price must at least be equal to the fair market value of the common stock on the date of grant. The

exercise price of all incentive stock options granted under the stock option plan must be at least equal to the fair market value of the common stock on the date of grant. For any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under the stock option plan may not exceed 10 years.

An optionee generally must exercise an option granted under the stock option plan at the time set forth in the optionee's option agreement after the end of optionee's status as an employee, director or consultant of NetIQ, or within 12 months after the optionee's termination by death or disability, but in no event later than the expiration of the option's term.

Stock Purchase Rights

The administrator determines the exercise price of stock purchase rights granted under the stock option plan. In the case of stock purchase rights, unless the administrator determines otherwise, the restricted stock purchase agreement entered into in connection with the exercise of the stock purchase rights contains a repurchase option that we may exercise upon the voluntary or involuntary termination of the purchaser's service with us for any reason, including death or disability. The purchase price for shares we repurchase under restricted stock purchase agreements will be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to NetIQ. The repurchase option lapses at a rate that the administrator determines.

Outside Director Options

The stock option plan also provides for an initial automatic grant of an option to purchase 8,333 shares of common stock to a director who first becomes a non-employee director after our initial public offering, and who does not beneficially hold 1% or more of the total voting power of our voting securities on the date of

grant. After our initial public offering, each non-employee director who has served on the board for at least the six previous months will be granted an option to purchase 8,333 shares of common stock on the date of the annual meeting of our stockholders. However, if the first annual meeting following our initial public offering falls within six months of the effective date of the initial public offering no grants will be made until the following annual meeting. Each option granted to a non-employee director under this program will have a term of five years and the shares purchasable under these options are fully vested on the date of grant. The exercise price of these options will be 100% of the fair market value per share of common stock on the date of grant.

Transferability of Options and Stock Purchase Rights

An optionee generally may not transfer options and stock purchase rights granted under the stock option plan and only an optionee may exercise an option and stock purchase rights during his or her lifetime.

Adjustments upon Merger or Asset Sale

The stock option plan provides that in the event of our merger with or into another corporation or a sale of substantially all of our assets, the successor corporation will assume or substitute each option or stock purchase rights. If the outstanding options or stock purchase rights are not assumed or substituted, the administrator will provide notice to the optionee that he or she has the right to exercise the option or stock purchase rights as to all of the shares subject to the option or stock purchase rights, including shares which would not otherwise be exercisable, for a period of 15 days from the date of the notice. The option or stock purchase rights will terminate upon the

expiration of the 15-day period. If an optionee's employment with the successor corporation is terminated other than for cause or if a director's service with the successor corporation is terminated other than for voluntary resignation, which will not be considered voluntary if requested by the acquiring company, within twelve months after a change of control, the optionee will fully vest in the right to exercise all of the shares subject to the option or stock purchase rights, including shares which would not otherwise be exercisable.

Amendment and Termination of the Stock Option Plan

Unless terminated sooner, the stock option plan will terminate automatically in 2005. In addition, the administrator has the authority to amend, suspend or terminate the stock option plan, provided that no such action may affect any share of common stock previously issued and sold or any option previously granted under the stock option plan.

1999 Employee Stock Purchase Plan

The board of directors adopted our stock purchase plan in May 1999 and we anticipate our stockholders will approve the stock purchase plan prior to completion of this offering.

Number of Shares of Common Stock Available under the Stock Purchase Plan

A total of 500,000 shares of common stock has been reserved for issuance under the stock purchase plan. In addition, the stock purchase plan provides for annual increases in the number of shares available for issuance under the stock purchase plan on the first day of each fiscal year, beginning on July 1, 2000, equal to the lesser of 2% of the outstanding shares of common stock on the first day of the fiscal year, 666,666 shares or an amount as the board may determine.

Administration of the Stock Purchase Plan

The board of directors or a committee appointed by the board administers the stock purchase plan. The board or its committee has full and exclusive authority to interpret the terms of the stock purchase plan and determine eligibility.

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Eligibility to Participate

Employees are eligible to participate if they are customarily employed by NetIQ or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year. However, an employee may not be granted an option to purchase stock under the stock purchase plan if such an employee:

- . immediately after grant owns stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock, or
- . whose rights to purchase stock under all of our employee stock purchase plans accrues at a rate which exceeds \$25,000 worth of stock for each calendar year.

Offering Periods and Contributions

The stock purchase plan, which is intended to qualify under Section 423 of the United States tax code, contains consecutive, overlapping 24 month offering periods. Each offering period includes four six-month purchase periods. The offering periods generally start on the first trading day on or after May 1 and November 1 of each year, except for the first such offering period which will commence on the first trading day on or after the effective date of this offering and will end on the last trading day on or before October 30, 2001.

The stock purchase plan permits participants to purchase common stock through payroll deductions of up to 15% of the participant's "compensation."

Compensation is defined as the participant's base straight time gross earnings and commissions but excludes payments for overtime, shift premium payments, incentive compensation, incentive payments, bonuses and other compensation. The maximum number of shares a participant may purchase during a single purchase period is 3,333 shares.

Purchase of Shares

Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each purchase period. The price of stock purchased under the stock purchase plan is 85% of the lower of the fair market value of the common stock at the beginning of the offering period or end of the purchase period. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, participants will withdraw from the current offering period following the exercise and will automatically re-enroll in a new offering period. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with NetIQ.

Transferability of Rights

A participant may not transfer rights granted under the stock purchase plan other than by will, the laws of descent and distribution or as otherwise provided under the stock purchase plan.

Adjustments upon Merger or Asset Sale

The stock purchase plan provides that, in the event of our merger with or into another corporation or a sale of substantially all of our assets, a successor corporation may assume or substitute for each outstanding option an option of its own. If the successor corporation refuses to assume or substitute its own options for the outstanding options, the offering period then in progress will be shortened, and a new exercise date will be set.

Amendment and Termination of the Stock Purchase Plan

The stock purchase plan will terminate in 2009. However, the board of directors has the authority to amend or terminate the stock purchase plan at any time, except that, subject to exceptions described in the stock purchase plan, no such action may adversely affect any outstanding rights to purchase stock under the stock purchase plan.

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401(k) Plan

We have adopted a tax-qualified employee savings and retirement plan, the 401(k) plan, for all eligible employees. Eligible employees may elect to defer a percentage of their eligible compensation to the 401(k) plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) plan in an amount determined by our board of directors. We may also make additional discretionary profit-sharing contributions in such amounts as determined by the board of directors, subject to statutory limitations. Matching and profit-sharing contributions, if any, are subject to a vesting schedule; all other contributions are at all times fully vested. The 401(k) plan, and the accompanying trust, is intended to qualify under Sections 401(a) and 501(a) of the United States tax code so that contributions by employees or by NetIQ to the 401(k) plan, and income earned (if any) on plan contributions, are not taxable to employees until distributed from the 401(k) plan, and so that contributions by NetIQ, if any, will be deductible by NetIQ when made. The trustee under the 401(k) plan, at the direction of each participant, invests the assets of the 401(k) plan in any of a number of investment options.

Change in Control Agreements

We have entered into change of control severance agreements with each of our executive officers. The Agreements provide that in the event of the executive's involuntary termination without cause within 12 months after a change of control, the executive is entitled to six months of severance pay, six months of continued coverage under group health, life and other insurance arrangements, and full acceleration of all outstanding options granted to the executive. For purposes of these agreements, a "change of control" occurs if

- . our stockholders approve a merger or consolidation of NetIQ with any other corporation, other than a merger or consolidation which would result in our voting securities outstanding immediately prior thereto continuing to represent more than 50% of the total voting power of the surviving entity in the merger;
- . our stockholders approve a plan of complete liquidation or an agreement for the sale or disposition by us of all or substantially all of our assets;
- . any person becomes the "beneficial owner," directly or indirectly, of our securities representing 50% or more of the total voting power represented by our then outstanding voting securities; or
- . a change in the composition of the board that results in fewer than a majority of the directors being incumbent directors, meaning directors who either are directors as of the date of the change of control severance agreements, or are elected, or nominated for election, to the board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described above or in connection with an actual or threatened proxy contest relating to the election of directors.

See "Incentive Stock Plans--1995 Stock Plan" on page 51 of this prospectus for a description of the change of control provisions of our stock option plan.

Limitations on Directors' Liability and Indemnification

Our certificate of incorporation 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 of the following acts:

- . any breach of their duty of loyalty to the corporation or its stockholders
- . acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law
- . unlawful payments of dividends or unlawful stock repurchases or redemptions
- . any transaction from which the director derived an improper personal benefit

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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 certificate of incorporation and bylaws provide that we will indemnify our directors and executive officers and other corporate agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our 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 this capacity, regardless of whether the bylaws would permit

indemnification.

We have entered into agreements to indemnify our directors and executive officers, in addition to the indemnification provided for in our certificate of incorporation and bylaws. These agreements, among other things, provide for indemnification of our directors and executive officers for many expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of NetIQ, arising out of such person's services as a director or executive officer of ours, any subsidiary of ours or any other company or enterprise to which the person provided services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

CERTAIN TRANSACTIONS

September 1995 Series A Preferred Stock Financing. In September 1995, we sold 4,666,656 shares of Series A Preferred Stock at a per share purchase price of \$0.60. Purchasers of the Series A Preferred Stock included Sen-Tien Lee, who holds more than 5% of the outstanding common stock; Wongfratris Investment Company, which holds more than 5% of the outstanding common stock and whose representative, Ying-Hon Wong, who is a member of the board of directors; Direct International Limited, which holds more than 5% of the outstanding common stock; Ching-Fa Hwang, who is our President and Chief Executive Officer and a member of the board of directors; and Her-Daw Che, who is our Vice President, Engineering and a member of the board of directors. The following table summarizes purchases of Series A Preferred Stock by the these individuals and entities:

<TABLE>
<CAPTION>

Name of Stockholder -----	Number of Series A Shares -----
<S>	<C>
Sen-Tien Lee.....	833,333
Direct International Limited.....	500,000
Wongfratris Investment Company.....	500,000
Ching-Fa Hwang (1).....	333,333
Her-Daw Che (2).....	166,666

</TABLE>

- (1) Shares held by Mr. Hwang and his wife in joint tenancy.
(2) Represents shares purchased by the Che Family Trust.

May 1997 Series B Preferred Stock Financing. In May 1997, we sold 2,733,321 shares of Series B Preferred Stock at a per share purchase price of \$3.00. Purchasers of the Series B Preferred Stock include InveStar Burgeon Venture Capital Inc., which holds more than 5% of the outstanding common stock and whose representative, Herbert Chang, is a member of the board of directors; Sen-Tien Lee; Direct International Limited; Ching-Fa Hwang; Wongfratris Investment Company; Her-Daw Che; and Thomas R. Kemp, who is our Vice President, Marketing. The following table summarizes purchases of Series B Preferred Stock by these individuals and entities:

<TABLE>
<CAPTION>

Name of Stockholder -----	Number of Series B Shares -----
<S>	<C>
InveStar Burgeon Venture Capital.....	666,666
Sen-Tien Lee.....	166,666
Direct International Limited.....	100,000
Ching-Fa Hwang (1).....	99,998

Wongfratris Investment Company.....	96,666
Her-Daw Che (2).....	66,666
Thomas R. Kemp.....	26,666

</TABLE>

-
- (1) Includes shares purchased by Jerry Hwang and Andrew Hwang, Mr. Hwang's children and by Mr. Hwang and his wife in joint tenancy.
 - (2) Represents shares purchased by the Che Family Trust, Austin Che and Joyce Che, Mr. Che's children.

Consulting Arrangement. Ying-Hon Wong, one of our directors and a general partner of Wongfratris Investment Company, earned \$55,000, \$60,000, \$60,000 and \$45,000 in consulting fees in fiscal 1996, 1997, and 1998 and the nine months ended March 31, 1999, respectively, under a consulting arrangement under which Mr. Wong is paid \$5,000 per month that is terminable at any time. Since co-founding NetIQ, Mr. Wong has provided general business consulting services to us on a variety of issues including financial management, marketing and sales strategies, recruiting and employee development, fund raising, investor relationship management and consultation regarding the defense of legal claims.

Change of Control Severance Agreement. We have entered into change of control severance agreements with each of our executive officers. For a more detailed description of the change of control severance agreements, see "Management--Change in Control Agreements" on page 55 of this prospectus.

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Option Grants to Directors and Significant Stockholders. In November 1995, in connection with his assistance in helping us obtain the Series A Preferred Stock financing, we granted an option exercisable for 133,333 shares of common stock to C. S. Ho, the director of Direct International Limited, with an exercise price of \$0.06 per share which vests in annual installments over four years. In May 1999, after determining that our need for additional private financing was low, we accelerated the vesting on this option so that Mr. Ho could purchase all of the shares subject to this option to minimize accounting charges associated with future vesting of this option.

We also have issued options to purchase common stock to Messrs. Chang, Kaufman, Cole, Che, Hwang and Wong under our stock option plan. Because of contractual obligations involving Messrs. Chang and Wong and their affiliated investment entities, the option grant to Mr. Chang was issued in the name of InveStar Burgeon Venture Capital Inc. and the option grant to Mr. Wong was issued in the name of Wongfratris Investment Company. For a more detailed description of the options granted Messrs. Chang and Wong, see "Director Compensation" on page 49 of this prospectus.

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PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 1999 by the following individuals or groups:

- | | |
|--|---|
| . each person or entity who beneficially owns more than 5% of our outstanding common stock | . each of our directors |
| . each of the named executive officers | . all directors and executive officers as a group |

Except as otherwise noted the address for each holder of more than 5% of our common stock is c/o NetIQ Corporation, 5410 Betsy Ross Drive, Santa Clara, California 95054. Except as otherwise indicated, and subject to applicable

community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Percentage ownership is based on 11,624,274 shares of common stock outstanding as of March 31, 1999 as adjusted to reflect the conversion of all outstanding shares of preferred stock upon the closing of this offering, and 14,624,274 shares immediately following the completion of this offering. The figure for shares outstanding after completion of this offering also includes 280,025 shares issuable in connection with the exercise of a warrant held by Compuware. See "Capitalization" on page 18 of this prospectus and "Description of Capital Stock" on page 61 of this prospectus for a further discussion of the Compuware warrant. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of March 31, 1999 are treated as outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of the person and are listed below under the "Number of Shares Underlying Options" column below, but these options are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

<TABLE>
<CAPTION>

Name and Address -----	Number of Shares -----	Number of Shares Underlying Options -----	Percentage of Shares Outstanding -----	
			Before Offering	After Offering
<S>	<C>	<C>	<C>	<C>
5% Stockholders:				
Wongfratris Investment Company(1)..... 51 Jordan Place Palo Alto, CA 94303	1,083,332	--	9.3%	7.4%
Sen-Tien Lee..... 29 Alley 18, Lane 325 Chien Kung Road Taipei, Taiwan R.O.C	999,999	--	8.6%	6.8%
InveStar Burgeon Venture Capital(2)..... Leeware One Building Safe Haven Corporate Center Seven Mile Beach, Grand Canyon Cayman Islands British West Indies	666,666	122,222	6.7%	5.3%
Direct International Limited(3)..... Charlotte House, Charlotte St. P.O. Box N-341 Nassau, Bahamas	600,000	133,333	6.2%	5.0%

</TABLE>

<TABLE>
<CAPTION>

Name and Address -----	Number of Shares -----	Number of Shares Underlying Options -----	Percentage of Shares Outstanding -----	
			Before Offering	After Offering
<S>	<C>	<C>	<C>	<C>
Current Named Executive Officers and Directors:				
Ching-Fa Hwang (4).....	1,899,997	40,000	16.6%	13.2%
Stephen M. Kendall.....	31,249	--	*	*

Glenn S. Winokur (5).....	90,208	13,125	*	*
Her-Daw Che (6).....	1,073,332	33,333	9.5%	7.6%
Ying-Hon Wong (7).....	1,083,332	--	9.3%	7.4%
Thomas R. Kemp.....	163,664	--	1.4%	1.1%
Herbert Chang (8).....	666,666	122,222	6.7%	5.3%
Alan W. Kaufman.....	--	16,666	*	*
Louis C. Cole.....	--	--	--	--
All directors and executive officers as a group (10 persons).....	5,008,448	225,346	44.2%	35.2%

</TABLE>

* less than 1%

- (1) The general partners of Wongfratris Investment Company include Mr. Wong, a member of our board of directors, Y. Wood Wong and Y. Kuen Wong.
- (2) The general partners of InveStar Burgeon Capital include Mr. Chang, a member of our board of directors, and Kenneth Tai.
- (3) Includes 133,333 shares issuable upon exercise of stock options exercisable within 60 days of March 31, 1999 held by C.S. Ho, a Director of Direct International Limited and one of our consultants. Mr. Ho is the sole general partner of Direct International Limited.
- (4) Includes 33,332 shares held by Mr. Hwang's children and 399,999 shares held by Mr. Hwang and his wife in joint tenancy.
- (5) Includes 90,208 held by the Glenn S. Winokur Living Trust dated July 29, 1999, of which Mr. Winokur is the trustee.
- (6) Includes 13,333 shares held by Austin Che, Mr. Che's son, 13,333 shares held by Joyce Che, Mr. Che's daughter and 206,666 shares held by the Che Family Trust.
- (7) Includes shares held by Wongfratris Company of which Mr. Wong is a general partner. Mr. Wong disclaims beneficial ownership of the shares held by Wongfratris Company, except to the extent of his pecuniary interest as a general partner. Certain of these shares are subject to a repurchase option in favor of NetIQ should Mr. Wong's membership on the board of directors terminate. See "Management--Director Compensation" on page 49 of this prospectus for a more detailed description of the option granted Mr. Chang.
- (8) Includes shares and options held by InveStar Burgeon Venture Capital. Mr. Chang is the president of InveStar Capital, Inc., the investment manager of InveStar Burgeon Venture Capital, Inc. Mr. Chang disclaims beneficial ownership of the shares held by InveStar Burgeon Venture Capital.

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DESCRIPTION OF CAPITAL STOCK

General

After this offering, we will be authorized to issue 100,000,000 shares of common stock, \$0.001 par value, and 5,000,000 shares of undesignated preferred stock, \$0.001 par value. Immediately after this offering, we estimate there will be approximately 14,624,274 shares of common stock outstanding, 2,114,739 shares of common stock will be issuable upon exercise of outstanding options and no shares of preferred stock will be issued and outstanding based on shares and options outstanding as of March 31, 1999.

The figure for outstanding shares of common stock upon completion of this offering reflects the issuance of 280,025 shares of common stock in connection with the presumed exercise of a warrant to purchase shares of common stock issued to Compuware as part of the settlement arrangement relating to litigation involving Compuware. Under the terms of the warrant, the per share exercise price of the warrant is \$10.80, 90% of the assumed per share sale price of shares sold to investors in this offering. The purchase price for the shares of common stock Compuware can purchase under its warrant is payable in cash or by the cancellation of indebtedness. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and

Capital Resources" beginning on page 29 of this prospectus for a discussion of our outstanding indebtedness to Compuware.

Our certificate of incorporation and bylaws contain provisions that are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and which may have the effect of delaying, deferring, or preventing a future takeover or change in control of NetIQ unless such takeover or change in control is approved by the board of directors.

Common Stock

Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock do not have cumulative voting rights, and, therefore, holders of a majority of the shares voting for the election of directors can elect all of the directors. If this occurs, the holders of the remaining shares will not be able to elect any directors.

Holders of the common stock are entitled to receive such dividends as may be declared from time to time by the board of directors out of funds legally available therefor, subject to the terms of any existing or future agreements between NetIQ and our debtholders. We have never declared or paid cash dividends on our capital stock, expect to retain future earnings, if any, for use in the operation and expansion of its business, and do not anticipate paying any cash dividends in the foreseeable future. In the event of liquidation, dissolution or winding up of NetIQ, the holders of common stock are entitled to share ratably in all assets legally available for distribution after payment of all debts and other liabilities and subject to the prior rights of any holders of preferred stock then outstanding. Holders of common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

Effective upon the closing of this offering, we will be authorized to issue 5,000,000 shares of undesignated preferred stock. The board of directors has the authority to issue the preferred stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting a series or the designation of such series, without any further vote or action by our stockholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a

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change in control of NetIQ without further action by the stockholders and may adversely affect the market price of, and the voting and other rights of, the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. We have no current plans to issue any shares of preferred stock.

Registration Rights

The holders of 7,399,977 shares of common stock are entitled to rights with respect to registration of such shares under the Securities Act. These rights are provided under the terms of an agreement between NetIQ and the holders of registrable securities. Beginning six months following the completion of this offering, holders of then outstanding registrable securities may require on up to two occasions that we register their shares for public resale. We are obligated to register these shares only if the outstanding registrable securities have an anticipated public offering price of at least \$5,000,000. Also, holders of registrable securities who hold more than two percent of our

outstanding common stock on a fully diluted basis, may require on two separate occasions in any 12 month period that shares for public resale on Form S-3 or similar short-form registration if the value of the securities to be registered is at least \$1,000,000. Furthermore, in the event we determine to register any of our securities under the Securities Act, either of our own account or for the account of other security holders exercising their registration rights, the holders of registrable securities are entitled to include their shares of common stock in the registration. The registration rights are subject to conditions and limitations, among them the right of the underwriter to limit the number of shares included in the registration which may reduce the number of shares proposed to be registered in view of market conditions. These registration rights are not triggered by this offering. All expenses in connection with any registration, other than underwriting discounts and commissions, will be borne by us. All registration rights will terminate five years following the consummation of this offering.

Antitakeover Effects of Some Provisions of Certificate of Incorporation and Bylaws

Some of the provisions of our certificate of incorporation and bylaws could make the following more difficult:

- . acquisition of NetIQ by means of a tender offer;
- . acquisition of NetIQ by means of a proxy contest or otherwise; or
- . the removal of our incumbent officers and directors.

These provisions, summarized below, are generally expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of NetIQ to first negotiate with our board. We believe that the benefits of increased protection resulting from our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure NetIQ outweigh the disadvantages of discouraging these proposals because we believe that the negotiation of these proposals could result in an improvement of their terms. See "Risk Factors--Provisions in our charter documents..." on page 14 of this prospectus for a further discussion of these charter provisions.

Election and Removal of Directors. Our board of directors is divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our stockholders. See "Management--Executive Officers and Directors--Classified Board" on page 48 of this prospectus for a further discussion of the election and terms of the directors. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of NetIQ because it generally makes it more difficult for stockholders to replace a majority of the directors.

Stockholder Meetings. Under our bylaws, only the board of directors, the chairman of the board, the president and the chief executive officer may call special meetings of stockholders.

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Requirements for Advance Notification of Stockholder Nominations and Proposals. Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board.

Elimination of Stockholder Action By Written Consent. Our certificate of incorporation and bylaws eliminate the right of stockholders to act by written consent without a meeting.

Elimination of Cumulative Voting. Our certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors.

Undesignated Preferred Stock. The authorization of undesignated preferred stock makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of NetIQ. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of NetIQ.

Amendment of Charter Provisions. The amendment of the above provisions relating to the election and removal of directors, stockholder meetings and the elimination of stockholder action by written consent requires approval by holder of at least 66 2/3% of the outstanding common stock.

See "Risk Factors--Provisions in our charter documents..." on page 14 of this prospectus for a further discussion of the charter documents.

Effect of Delaware Antitakeover Statute

We are subject to Section 203 of the Delaware General Corporation Law which regulates corporate acquisitions. Section 203 generally prevents Delaware corporations, including those whose securities are listed for trading on the Nasdaq National Market, from engaging in a business combination with any interested stockholder for three years following the date that such stockholder became an interested stockholder. A business combination includes, among other things, a merger or consolidation involving NetIQ and the interested stockholder and the sale of more than 10% of our assets. Generally, an interested stockholder is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person. A Delaware corporation may "opt out" of the Section with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from amendments approved by the holders of at least a majority of the corporation's outstanding voting shares. We have not "opted out" of the Section. See "Risk Factors--Provisions in our charter documents and in Delaware law..." on page 14 of this prospectus for a further discussion of antitakeover provisions of Delaware law.

Nasdaq National Market Listing

We have been approved for listing our shares on the Nasdaq Stock Market's National Market under the symbol "NTIQ."

Transfer Agent

The transfer agent and registrar for the common stock is BankBoston, N.A. and can be contacted by phone at (781) 575-3120.

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SHARES ELIGIBLE FOR FUTURE SALE

After this offering, we will have outstanding 14,624,274 shares of common stock based upon shares outstanding at March 31, 1999, assuming no exercise of the underwriters' over-allotment option. Excluding the 3,000,000 shares of common stock offered hereby and assuming no exercise of the underwriters' over-allotment option, as of the effective date of the registration statement, there will be 11,344,249 shares of common stock outstanding, all of which are "restricted" shares under the Securities Act, excluding 280,025 shares issuable upon the exercise of the warrant held by Compuware. For more detail on the Compuware warrant see "Capitalization" on page 18 of this prospectus, and "Description of Capital Stock" on page 61 of this prospectus.

All restricted shares are subject to lock-up agreements with the underwriters under which the holders of the restricted shares have agreed not to sell, pledge or otherwise dispose of their shares for a period of 180 days after the date of this prospectus. Credit Suisse First Boston Corporation may release the shares subject to the lock-up agreements in whole or in part at any time with

or without notice. However, Credit Suisse First Boston Corporation has no current plans to do so. The following table indicates approximately when the 11,344,249 shares of our common stock that are not being sold in the offering but which will be outstanding at the time the offering is complete will be eligible for sale into the public market:

<TABLE>
<CAPTION>

Eligibility of Restricted Shares for Sale in Public Market

<S>	<C>
At effective date.....	0
180 days after effective date.....	11,344,249

</TABLE>

All shares issuable upon exercise of the Compuware warrant will be "restricted" shares under the Securities Act and will not become eligible for resale until the resale requirements of Rule 144 are met. Many of the restricted shares that will become available for sale in the public market beginning 180 days after the effective date will be subject to volume and other resale restrictions pursuant to Rule 144 because the holders are affiliates of NetIQ. In general, under Rule 144, an affiliate of NetIQ, or person who has beneficially owned restricted shares for at least one year, will be entitled to sell in any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the common stock, approximately 143,442 shares immediately after this offering, or the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC. Sales under Rule 144 are subject to requirements relating to manner of sale, notice and availability of current public information about NetIQ. A person who is not deemed to have been an affiliate of ours at any time during the 90 days immediately preceding the sale and who has beneficially owned his or her shares for at least two years is entitled to sell his or her shares under Rule 144(k) without regard to the limitations described above.

As of March 31, 1999, 3,966,666 shares were reserved for issuance under the stock plan, of which options to purchase 2,114,739 shares were then outstanding. Based on options outstanding as of March 31, 1999, beginning 180 days after the effective date approximately 566,022 shares issuable upon the exercise of vested options will become eligible for sale and 33,333 shares issued under restricted stock agreements under the stock option plan will no longer be subject to a repurchase option and will be eligible for resale. Additionally, in May 1999 our board of directors approved an increase of 1,366,666 shares in the number of shares reserved under the stock option plan and a reserve of 500,000 shares for options under the stock purchase plan.

We intend to file, within 180 days after the date of this prospectus, a Form S-8/S-3 registration statement under the Securities Act to register shares issued under restricted stock purchase agreements under the stock option plan, shares issued in connection with option exercises and shares reserved for issuance under all stock plans. Shares of common stock issued under the restricted stock agreements under the stock option plan or

upon exercise of options after the effective date of the Form S-8/S-3 will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates and lock-up agreements.

Lock-Up Agreements

All officers and directors and holders of common stock and options to purchase common stock have agreed under "lock-up" agreements that they will not offer, sell, contract to sell, pledge, grant any option to sell, or otherwise

dispose of, directly or indirectly, any shares of common stock or securities convertible or exchangeable for common stock, or warrants or other rights to purchase common stock for a period of 180 days after the transfer or date of this prospectus without the prior written consent of Credit Suisse First Boston Corporation.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement, dated _____, 1999, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, BancBoston Robertson Stephens, Inc. and Hambrecht & Quist LLC are acting as representatives, the following respective numbers of shares of common stock:

<TABLE>
<CAPTION>

Underwriter -----	Number of Shares -----
<S>	<C>
Credit Suisse First Boston Corporation.....	
BancBoston Robertson Stephens, Inc.....	
Hambrecht & Quist LLC.....	
Total.....	

</TABLE>

The underwriting agreement provides that the underwriters are obligated to purchase all of the shares of common stock offered in this offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering of common stock may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to _____ additional shares of common stock at the initial public offering price less the underwriting discounts and commissions. This option may be exercised only to cover over-allotments of common stock.

The underwriters propose to offer the common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a concession of \$ _____ per share. The underwriters and the selling group members may allow a discount of \$ _____ per share on sales to other broker/dealers. After the initial public offering, the public offering price and concession and discount to dealers may be changed by the representatives.

The following table summarizes the discounts and commissions and estimated expenses that we will pay.

<TABLE>
<CAPTION>

	Total		
	Per share	Without over-allotment	With over-allotment
<S>	<C>	<C>	<C>
Underwriting discounts and commissions paid by us.....	\$	\$	\$
Expenses payable by us.....	\$	\$	\$

</TABLE>

The underwriters have informed us that they do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

We, our executive officers, directors and our existing stockholders have agreed not to offer, sell, contract to sell, announce their intention to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus, except in our case for grants of employee stock options under the terms of a plan in effect on the date hereof, issuances of securities upon the exercise of employee stock options outstanding on the date hereof or the exercise of any other stock options outstanding on the date hereof.

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The underwriters have reserved for sale, at the initial offering price, up to shares of common stock for employees and other persons associated with NetIQ who have expressed an interest in purchasing common stock in this offering. The number of shares of common stock available for sale to the general public in this offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters against liabilities or to contribute to payments which the underwriters may be required to make in respect thereof.

We have been approved to list our shares of common stock on The Nasdaq Stock Market's National Market under the symbol "NTIQ."

Prior to the offering, there has been no public market for the common stock. The initial public offering price for the common stock will be determined by negotiation between us and the representatives, and does not reflect the market price for the common stock following the offering. Among the principal factors considered in determining the initial public offering price will be:

- . the information in this prospectus and otherwise available to the representatives; market conditions for initial public offerings;
- . the history of and prospects for the industry in which we will compete;
- . the ability of our management;
- . our prospects for future earnings; the present state of our development and our current financial condition;
- . the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies;
- . the general condition of the securities markets at the time of this offering; and other relevant factors.

We can offer no assurances that the initial public offering price will correspond to the price at which the common stock will trade in the public market subsequent to the offering or that an active trading market for the common stock will develop and continue after the offering.

The representatives may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act.

- . Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase shares of the common stock so long as the stabilizing bids do not exceed a specified maximum.

- . Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.
- . Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than it would otherwise be in the absence of these transactions. These transactions may be effected on The Nasdaq Stock Market's National Market or otherwise and, if commenced, may be discontinued at any time.

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NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are effected. Accordingly, any resale of the common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

Each purchaser of common stock in Canada who receives a purchase confirmation will be deemed to represent to us and the dealer from whom the purchase confirmation is received that (1) the purchaser is entitled under applicable provincial securities laws to purchase common stock without the benefit of a prospectus qualified under the securities laws, (2) where required by law, that the purchaser is purchasing as principal and not as agent, and (3) the purchaser has reviewed the text above the text under "Resale Restrictions."

Rights of Action (Ontario Purchasers)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

Enforcement of Legal Rights

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer and these persons. All or a substantial portion of the assets of the issuer and these persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or these persons in Canada or to enforce a judgment obtained in Canadian courts against the issuer or these persons outside of Canada.

Notice to British Columbia Residents

A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that the purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any

common stock acquired by such purchaser in this offering. This report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed in respect of common stock acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult with their own legal and tax advisors with respect to the tax consequences of an investment in our common stock in their particular circumstances and with respect to the eligibility of our common stock for investment by the purchaser under relevant Canadian legislation.

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LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for NetIQ by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Certain legal matters will be passed upon for the underwriters by Morrison & Foerster LLP, Palo Alto, California. As of the date of this prospectus, WS Investment Company 95B, an investment partnership composed of current and former members of and persons associated with Wilson Sonsini Goodrich & Rosati, Professional Corporation beneficially own a total of 41,666 shares of NetIQ's common stock.

EXPERTS

The consolidated financial statements as of June 30, 1997 and 1998, and March 31, 1999, and for each of the years in the three year period ended June 30, 1998, and for the nine months ended March 31, 1999, included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in auditing and accounting.

WHERE TO FIND OTHER NETIQ DOCUMENTS

We have filed a registration statement on Form S-1 with the SEC with respect to the common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement. For further information with respect to NetIQ and the common stock, reference is made to the registration statement and its exhibits and schedules. You may read and copy any document we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's Web site at <http://www.sec.gov>.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act and, in accordance with this law, will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference rooms, our Web site and the Web site of the SEC referred to above.

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NetIQ CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of NetIQ Corporation:

We have audited the accompanying consolidated balance sheets of NetIQ Corporation and subsidiaries (the Company) as of June 30, 1997 and 1998 and March 31, 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1996, 1997 and 1998 and the nine months ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, such consolidated financial statements present fairly, in all material respects, the financial position of NetIQ Corporation and subsidiaries as of June 30, 1997 and 1998 and March 31, 1999, and the results of their operations and their cash flows for the years ended June 30, 1996, 1997 and 1998 and the nine months ended March 31, 1999 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

San Jose, California
May 19, 1999

(July 27, 1999 as to Note 13)

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NetIQ CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

<TABLE>
<CAPTION>

June 30,		March 31,
1997	1998	1999
-----	-----	-----

<u><S></u>	<u><C></u>	<u><C></u>	<u><C></u>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 7,748	\$ 3,358	\$11,565
Accounts receivable, net of allowance for uncollectible accounts of \$307 and \$505 in 1998 and 1999 (none in 1997).....	159	4,055	4,766
Prepaid expenses.....	1	167	146
	-----	-----	-----
Total current assets.....	7,908	7,580	16,477
Property and equipment, net.....	272	527	1,036
Other assets.....	22	98	100
	-----	-----	-----
Total assets.....	\$ 8,202	\$ 8,205	\$17,613
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term debt.....	\$ --	\$ --	\$ 5,144
Accounts payable.....	227	535	1,331
Accrued compensation and related benefits.....	78	809	820
Other liabilities.....	38	375	917
Deferred revenue.....	72	1,547	3,189
	-----	-----	-----
Total current liabilities.....	415	3,266	11,401
Long-term debt.....	--	--	241
	-----	-----	-----
Total liabilities.....	415	3,266	11,642
	-----	-----	-----
Commitments and contingencies (Note 8)			
Stockholders' equity:			
Convertible preferred stock--\$0.001 (total liquidation preference of \$11,000,000); 11,100,000 shares authorized and 7,399,977 outstanding.....	10,955	10,955	10,955
Common stock--\$0.001; 30,000,000 shares authorized; shares outstanding: 1997, 3,027,583; 1998, 3,217,833; 1999, 3,944,272.....	48	1,302	4,143
Note receivable from stockholder.....	(6)	(6)	--
Deferred stock-based compensation.....	(20)	(1,011)	(2,325)
Accumulated deficit.....	(3,190)	(6,301)	(6,802)
	-----	-----	-----
Total stockholders' equity.....	7,787	4,939	5,971
	-----	-----	-----
Total liabilities and stockholders' equity...	\$ 8,202	\$ 8,205	\$17,613
	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

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NetIQ CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	Years Ended June 30,			Nine Months Ended March 31,	
	----- 1996 -----	----- 1997 -----	----- 1998 -----	----- 1998 -----	----- 1999 -----
Revenue:	<C>	<C>	<C>	<C>	<C>
				(Unaudited)	

Software license.....	\$ --	\$ 369	\$ 6,603	\$ 3,186	\$13,137
Service.....	--	19	467	234	1,972
	-----	-----	-----	-----	-----
Total revenue.....	--	388	7,070	3,420	15,109
	-----	-----	-----	-----	-----
Cost of revenue:					
Software license.....	--	9	235	159	532
Service.....	--	46	407	203	894
	-----	-----	-----	-----	-----
Total cost of revenue.....	--	55	642	362	1,426
	-----	-----	-----	-----	-----
Gross profit.....	--	333	6,428	3,058	13,683
Operating expenses:					
Sales and marketing.....	77	1,238	5,748	3,600	8,027
Research and development....	665	1,003	2,192	1,462	2,652
General and administrative...	264	479	1,611	994	2,239
Stock-based compensation.....	--	10	250	83	1,355
	-----	-----	-----	-----	-----
Total operating expenses...	1,006	2,730	9,801	6,139	14,273
	-----	-----	-----	-----	-----
Loss from operations.....	(1,006)	(2,397)	(3,373)	(3,081)	(590)
Interest income (expense):					
Interest income.....	98	119	262	215	119
Interest expense.....	(1)	(3)	--	--	(30)
	-----	-----	-----	-----	-----
Interest income, net.....	97	116	262	215	89
	-----	-----	-----	-----	-----
Net loss.....	\$ (909)	\$ (2,281)	\$ (3,111)	\$ (2,866)	\$ (501)
	=====	=====	=====	=====	=====
Basic and diluted net loss per share.....	\$ (1.55)	\$ (1.62)	\$ (1.34)	\$ (1.31)	\$ (0.15)
	=====	=====	=====	=====	=====
Shares used to compute basic and diluted net loss per share.....	587	1,411	2,325	2,192	3,294
	=====	=====	=====	=====	=====
Pro forma basic and diluted net loss per share (Note 1).....			\$ (0.32)		\$ (0.05)
			=====		=====
Shares used to compute pro forma basic and diluted net loss per share (Note 1).....			9,725		10,694
			=====		=====

</TABLE>

See notes to consolidated financial statements.

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NetIQ CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share amounts)

<TABLE>
<CAPTION>

	Convertible Preferred Stock		Common Stock		Note Receivable from Stockholder	Deferred Stock-based Compensation	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
July 1995--Issuance of common stock to								

founders at \$0.00075 per share.....	-- \$	-- 2,766,665	\$ 2	\$--	\$ --	\$ --	\$ 2
September 1995-- Issuance of Series A preferred stock at \$0.60 per share, net of issuance costs of \$14.....	4,666,656	2,786	--	--	--	--	2,786
December 1995 and April 1996--issuance of common stock at \$0.06 per share.....	--	--	116,000	7	(6)	--	1
Net loss.....	--	--	--	--	--	(909)	(909)
Balances, June 30, 1996.....	4,666,656	2,786	2,882,665	9	(6)	--	(909) 1,880
May 1997--Issuance of Series B preferred stock at \$3.00 per share, net of issuance costs of \$31.....	2,733,321	8,169	--	--	--	--	8,169
Exercise of stock options.....	--	--	144,918	9	--	--	9
Deferred stock-based compensation.....	--	--	--	30	--	(30)	--
Amortization of deferred stock compensation.....	--	--	--	--	--	10	10
Net loss.....	--	--	--	--	--	--	(2,281) (2,281)
Balances, June 30, 1997.....	7,399,977	10,955	3,027,583	48	(6)	(20)	(3,190) 7,787
Exercise of stock options.....	--	--	190,250	13	--	--	-- 13
Deferred stock-based compensation.....	--	--	--	1,241	--	(1,241)	-- --
Amortization of deferred stock compensation.....	--	--	--	--	--	250	-- 250
Net loss.....	--	--	--	--	--	--	(3,111) (3,111)
Balances, June 30, 1998.....	7,399,977	10,955	3,217,833	1,302	(6)	(1,011)	(6,301) 4,939
Exercise of stock options.....	--	--	784,772	178	--	--	-- 178
Repurchase of common stock.....	--	--	(58,333)	(4)	6	--	-- 2
Deferred stock-based compensation.....	--	--	--	2,667	--	(2,667)	-- --
Amortization of deferred stock compensation.....	--	--	--	--	--	1,353	-- 1,353
Net loss.....	--	--	--	--	--	--	(501) (501)
Balances, March 31, 1999.....	7,399,977	\$10,955	3,944,272	\$4,143	\$--	\$ (2,325)	\$ (6,802) \$5,971

</TABLE>

See notes to consolidated financial statements.

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NetIQ CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	Years Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
				(Unaudited)	
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net loss.....	\$ (909)	\$ (2,281)	\$ (3,111)	\$ (2,866)	\$ (501)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation.....	26	70	198	138	271
Stock-based compensation....	--	10	250	83	1,355
Gain on the sale of property and equipment.....	--	--	--	--	8
Changes in:					
Accounts receivable.....	--	(159)	(3,896)	(1,257)	(711)
Prepaid expenses.....	(12)	10	(166)	(29)	21
Accounts payable.....	29	199	308	235	796
Accrued compensation and related benefits.....	32	46	731	238	11
Other liabilities.....	--	38	337	131	542
Deferred revenue.....	--	72	1,475	516	1,642
	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities.....	(834)	(1,995)	(3,874)	(2,811)	3,434
	-----	-----	-----	-----	-----
Cash flows from investing activities:					
Purchases of property and equipment, net.....	(149)	(220)	(453)	(322)	(799)
Purchase/maturity of short-term investments.....	(2,085)	2,085	--	--	--
Other.....	(3)	(18)	(76)	4	(2)
Proceeds from the sale of property and equipment.....	--	--	--	--	11
	-----	-----	-----	-----	-----
Net cash provided by (used in) investing activities...	(2,237)	1,847	(529)	(318)	(790)
	-----	-----	-----	-----	-----
Cash flows from financing activities:					
Borrowings on line of credit facility.....	314	133	--	--	--
Payments on line of credit facility.....	--	(447)	--	--	--
Proceeds from borrowings.....	--	--	--	--	5,433
Payments on borrowings.....	--	--	--	--	(48)
Proceeds from sale of common stock.....	3	9	13	9	178
Proceeds from issuance of preferred stock.....	2,786	8,169	--	--	--
	-----	-----	-----	-----	-----
Net cash provided by financing activities.....	3,103	7,864	13	9	5,563
	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	32	7,716	(4,390)	(3,120)	8,207
Cash and cash equivalents, beginning of year.....	--	32	7,748	7,748	3,358
	-----	-----	-----	-----	-----

Cash and cash equivalents, end of year.....	\$	32	\$	7,748	\$	3,358	\$	4,628	\$	11,565
	=====		=====		=====		=====		=====	
Noncash investing and financing activities:										
Issuance (receipt) of common stock for stockholder's note receivable.....	\$	6	\$	--	\$	--	\$	--	\$	(6)
Supplemental disclosure of cash flow information--cash paid for:										
Interest.....	\$	1	\$	3	\$	--	\$	--	\$	12
Income taxes.....	\$	2	\$	1	\$	3	\$	3	\$	45

See notes to consolidated financial statements.

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

1. Organization and Summary of Significant Accounting Policies

Organization--NetIQ Corporation (the Company) was incorporated in California in June 1995 to develop, market and support performance and availability management software for the Microsoft Windows NT environment. The Company markets its products through its field and inside sales organization and reseller channel partners, which are focused on customers primarily located in the United States, Europe and Asia.

Basis of Presentation--The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Cash Equivalents--The Company considers all highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents.

Property and Equipment--Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives, generally three to five years.

Software Development Costs--Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized in accordance with Statement of Financial Accounting Standards(SFAS) No. 86, Computer Software To Be Sold, Leased or Otherwise Marketed. The costs to develop such software have not been capitalized as the Company believes its current software development process is essentially completed concurrent with the establishment of technological feasibility.

Revenue Recognition--Statement of Position 97-2, Software Revenue Recognition ("SOP 97-2"), was issued in October 1997 by the American Institute of Certified

Public Accountants ("AICPA") and was amended by Statement of Position 98-4 ("SOP 98-4"). The Company adopted SOP 97-2 effective July 1, 1997 and SOP 98-4 effective March 31, 1998. The Company believes its current revenue recognition policies and practices are consistent with SOP 97-2 and SOP 98-4. Additionally, the AICPA issued SOP 98-9 in December 1998, which provides certain amendments to SOP 97-2, and is effective for transactions entered into by the Company beginning July 1, 1999. The Company does not believe that adoption of these amendments will have a material impact on its financial position, results of operations or cash flows.

Software license revenue is recognized upon meeting each of the following criteria: execution of a written purchase order, license agreement or contract; delivery of software and authorization keys; the license fee is fixed and determinable; collectibility of the proceeds within six months is assessed as being probable; and vendor specific objective evidence exists to allocate the total fee to elements of the arrangement. Vendor-specific objective evidence is based on the price generally charged when an element is sold separately, or if not yet sold separately, is established by authorized management. All elements of each order are valued at the time of revenue recognition. For sales made through distributors, resellers and original equipment manufacturers the Company recognizes revenue at the time these partners report to the Company that they have sold the software to the end user and all revenue recognition criteria have been met. Service revenue includes maintenance revenue, which is deferred and recognized ratably over the maintenance period, and revenue from consulting and training services, which is recognized as services are performed.

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

Income Taxes--Deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is recorded to reduce net deferred tax assets to amounts that are more likely than not to be realized.

Stock-Based Compensation--The Company accounts for its employees stock option plan in accordance with provisions of Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees.

Net Loss per Share--Basic loss per share excludes dilution and is computed by dividing net loss by the weighted average number of common shares outstanding, less shares subject to repurchase by the Company. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (convertible preferred stock, warrants and common stock options) were exercised or converted into common stock. Common share equivalents are excluded from the computation in loss periods as their effect would be antidilutive.

Pro Forma Net Loss per Share--Pro forma basic and diluted net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period (excluding shares subject to repurchase) and the weighted average number of common shares resulting from the assumed conversion of all outstanding shares of convertible preferred stock upon the closing of the initial public offering contemplated by this Prospectus.

Unaudited Interim Financial Information--The interim financial information for the nine months ended March 31, 1998 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of

management, such unaudited financial information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim information.

Foreign Currency Transactions--The functional currency of the Company's foreign subsidiaries is the U.S. dollar. For those foreign subsidiaries whose books and records are not maintained in the functional currency, all monetary assets and liabilities are remeasured at the current exchange rate at the end of each period reported, nonmonetary assets and liabilities are remeasured at historical rates and revenues and expenses are remeasured at average exchange rates in effect during the period. Transaction gains and losses, which are included in other income (expense) in the accompanying consolidated statements of operations, have not been significant.

Concentration of Credit Risk--Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. The Company sells its products to companies in diverse industries and generally does not require its customers to provide collateral to support accounts receivable. To reduce credit risk, management performs ongoing credit evaluations of its customers' financial condition. The Company maintains allowances for potential credit losses.

Certain Significant Risks and Uncertainties--The Company operates in the software industry, and accordingly, can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a significant negative effect on the Company's future financial position, results of operations and cash flows; demand for performance availability and management software solutions, including any adverse purchasing patterns caused by Year 2000 related concerns; new product introductions by competitors; development of distribution channels; demand for Windows NT-based systems and applications; ability to implement and expand operational customer support and financial control systems to manage rapid growth, both domestically and internationally; the hiring, training and retention of key

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

employees; relationship with Microsoft; fundamental changes in technology underlying software products; litigation or other claims against the Company.

Recently Issued Accounting Standards--In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, Reporting Comprehensive Income, which requires an enterprise to report, by major components and as a single total, the change in its net assets during the period from nonowner sources; and SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, which establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. The Company's comprehensive loss was equal to its net loss for all periods presented. The Company currently operates in one reportable segment under SFAS No. 131.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedge accounting when certain conditions are met. SFAS No. 133 is effective for the Company in fiscal 2001. Although the Company has not fully assessed the implications of SFAS No. 133, the Company does not believe that adoption of this statement will have a material impact on the Company's financial position or results of operations.

2. Property and Equipment

Property and equipment consist of (in thousands):

<TABLE>
<CAPTION>

	June 30,		March 31,
	1997	1998	1999
<S>	<C>	<C>	<C>
Computer equipment and software.....	\$317	\$ 760	\$1,173
Furniture and fixtures.....	51	55	336
Construction in progress.....	--	6	72
	----	----	-----
	368	821	1,581
Less accumulated depreciation.....	(96)	(294)	(545)
	----	----	-----
Property and equipment, net.....	\$272	\$ 527	\$1,036
	====	=====	=====

</TABLE>

3. Settlement of Litigation

In September 1996, Compuware Corporation filed a complaint against the Company alleging misappropriation of certain trade secrets, copyright infringement, unfair competition and other claims. A settlement of these claims was reached in January 1999 and final documentation ("Settlement Agreement") was entered into and the charges dismissed in March 1999.

In March 1999, as a part of the Settlement Agreement, the Company received a loan of \$5,000,000 under a subordinated secured promissory note. The loan bears interest at 6% per year and principal and accrued interest are payable on the earliest of (i) an initial public offering of the Company's securities raising in excess of \$10,000,000, (ii) a change in control meeting certain criteria, (iii) in the event of the Company filing for bankruptcy or insolvency or other specified events of default or (iv) January 1, 2002. The note is secured by security agreements covering all of the Company's assets and is subordinated to any bank credit facility.

Also in March 1999, as a part of the Settlement Agreement, the Company issued a warrant to purchase up to 2% of the total of the outstanding common stock and common stock equivalents of the Company, calculated

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

immediately prior to the events described in (i) or (ii) as follows, (i) the filing of a registration statement relating to the public offering of Company's common stock or (ii) the signing of a definitive agreement regarding a change in control occurring prior to the initial public offering of the Company's common stock. The warrants are exercisable either upon (i) the effectiveness of a registration statement or (ii) the closing of a change in control transaction. The exercise price, in the case of (i), is 90% of the price to the public or, in the case of (ii), is 80% of the cash value of a share of common stock if the event takes place before December 31, 1999 or 90% of the cash value of a share of common stock if the event takes place on or after January 1, 2000. The fair value of such warrants, approximately \$336,000 based on an assumed initial public offering price of \$12.00 per share, will be charged to operating results upon the effectiveness of a registration statement or the closing of a change in control transaction. (See Note 13). The fair value of

the warrants was calculated using a risk free interest rate of 6% expected volatility of 50% and the actual length of the warrant, which was deemed to be one day.

4. Debt

The Company has a Loan and Security Agreement (the "Agreement") with a financial institution, which provides for a maximum credit facility of \$2,000,000. The credit facility is limited to the Company's eligible receivables, as defined, plus outstanding letters of credit with the bank. Borrowings bear interest at the bank's prime rate (7.75% at March 31, 1999) plus 0.25%. The Company may request a maximum of \$400,000 in letters of credit to be issued against the credit facility. At March 31, 1999, there were no obligations outstanding under this facility. This facility expired in May 1999.

Additionally, the Agreement provides for equipment advances of \$500,000 through November 15, 1998. During the nine months ended March 31, 1999, the Company obtained advances of \$433,000 for capital acquisitions. Advances bear interest at the bank's prime rate plus 0.75% which is payable monthly. Commencing December 1998, payments of principal and interest are due in equal monthly installments over a 36-month period. At March 31, 1999, the outstanding obligation was \$385,000. Borrowings on the facility are due as follows: remainder of fiscal 1999, \$36,000; fiscal 2000, \$144,000; fiscal 2001, \$144,000; and fiscal 2002, \$61,000. Borrowings under the Agreement are collateralized by a lien on all of the Company's assets.

5. Stockholders' Equity

At March 31, 1999, convertible preferred stock consists of:

<TABLE>
<CAPTION>

	Shares Designated	Shares Outstanding	Price Per Share	Amount (Net of Issuance Costs)	Aggregate Liquidation Preference
<S>	<C>	<C>	<C>	<C>	<C>
Series A.....	4,666,656	4,666,656	\$0.60	\$ 2,786,304	\$ 2,800,000
Series B.....	2,733,321	2,733,321	\$3.00	8,169,049	8,200,000
	7,399,977	7,399,977		\$10,955,353	\$11,000,000
	=====	=====		=====	=====

</TABLE>

Significant terms of the convertible preferred stock are as follows:

- . Each share is convertible, at the option of the holder, into one share of common stock (subject to adjustments for events of dilution). Shares of Series A and B will be automatically converted into common stock upon the closing of a public offering yielding proceeds in excess of \$7,500,000 and at a price of not less than \$2.40 and \$6.00 per share, respectively, or upon the approval (by vote or written consent) of at least 66 2/3% of the then outstanding shares of Series A or at least a majority of the then outstanding shares of Series B.
- . Each share has the same voting rights as the number of shares of common stock into which it is convertible.

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

- . In the event of liquidation, dissolution or winding up of the Company, the preferred shareholders of Series A and Series B shall receive an amount equal to \$0.60 and \$3.00 per share, respectively, plus an amount equal to all declared but unpaid dividends on each share. Any remaining assets will be distributed among the holders of Series A and Series B preferred stock and common stock, pro rata, based on the number of shares of common stock held by each shareholder on an as-converted basis. In total, the holders of Series A and Series B preferred stock shall not be entitled to receive more than \$1.50 and \$7.50 per share, respectively.
- . Holders of preferred stock are entitled to annual noncumulative dividends of \$0.06 and \$0.24 per share for Series A and Series B, respectively, when and if declared by the Board of Directors, prior to any dividends declared on common stock. No such dividends have been declared.

Restricted Stock--During fiscal year 1996 and the nine months ended March 31, 1999, the Company issued 2,882,667 and 53,333 shares of common stock at a total price of \$9,035 and \$80,000, respectively, to officers and employees of the Company. The shares are subject to repurchase by the Company at the original purchase price per share upon termination of employment prior to vesting of such shares. The restricted shares vest over periods ranging from one to four years in accordance with the terms of the original stock purchase agreement. At March 31, 1999, approximately 90,833 outstanding shares of such stock were subject to repurchase.

The exercise price of \$1.50 was less than the deemed fair value of the 53,333 shares issued during the nine months ended March 31, 1999. Accordingly, the Company recorded \$138,000 as deferred compensation and amortized \$65,356 to expense during the nine months ended March 31, 1999.

Stock-Based Compensation--In connection with options granted to purchase common stock, the Company recorded deferred stock compensation of \$30,000, \$1,241,000 and \$2,667,000 in fiscal years 1997 and 1998 and the nine months ended March 31, 1999, respectively. Such amounts represent, for employee stock options, the difference between the exercise price and the fair value of the Company's common stock at the date of grant, and, for non-employee options, the deemed fair value of the option at the date of vesting. The deferred charges for employee options are being amortized to expense through fiscal year 2003 and the deferred charges for non-employee options are being amortized to expense through the end of fiscal year 1999. Stock-based compensation expense for employee and non-employee options of \$10,000, \$250,000 and \$1,355,000 was recognized during fiscal years 1997 and 1998 and the nine months ended March 31, 1999, respectively.

Options granted to non-employees--The Company has granted options to non-employees for consulting and legal services performed. The vesting period for these options ranges from immediate vesting to vesting over 4 years and the option exercise period ranges from 6 months to 10 years. Stock options issued to non-employees are accounted for in accordance with provisions of Statement of Financial Accounting Standards (SFAS) 123, "Accounting for Stock-Based Compensation" and Emerging Issues Task Force Issue (EITF) No. 96-18, "Accounting for Equity Instruments That Are Issued To Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services." The fair value of stock options issued to non-employees was calculated using a risk free interest rate of 6%, expected volatility of 50% and the actual length of the option.

During fiscal year 1996, 150,667 options were granted at an exercise price of \$0.03 and no compensation related to these options was recorded for fiscal year 1996. At June 30, 1996, unvested options totaled 104,167.

During fiscal year 1997, 142,833 options were granted at an exercise price of \$0.03. In connection with these options, the Company recorded deferred stock compensation of \$30,000 and amortized \$10,000 as an expense during fiscal year 1997. At June 30, 1997, unvested options totaled 142,306 and unamortized deferred stock compensation related to unvested options totaled \$20,000.

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

During fiscal year 1998, 133,333 options were granted at an exercise price of \$0.13. In connection with these options, the Company recorded deferred stock compensation of \$285,000 and amortized \$152,000 as an expense during fiscal year 1998. At June 30, 1998, unvested options totaled 142,306 and unamortized deferred stock compensation related to unvested options totaled \$153,000.

During the nine months ended March 31, 1999, 20,333 options were granted at an exercise price of \$0.13 and 108,333 options were granted at an exercise price of \$0.67. In connection with these options, the Company recorded deferred stock compensation of \$1,039,000 and amortized \$806,000 as an expense during the nine months ended March 31, 1999. At March 31, 1999, unvested options totaled 38,284 and unamortized deferred stock compensation related to unvested options totaled \$386,000.

Common Shares Reserved for Issuance--At March 31, 1999, the Company had reserved shares of common stock for issuance as follows:

<S>	<C>
Conversion of convertible preferred stock.....	7,399,977
Issuance under stock option plan.....	2,846,744
Contingent common stock warrants outstanding.....	269,181

Total.....	10,515,902
	=====

</TABLE>

Stock Option Plan--Under the Company's 1995 Stock Option Plan (the "Plan") 3,966,666 shares are reserved for issuance to employees, consultants and directors. Incentive stock options are granted at fair market value (as determined by the Board of Directors) at the date of grant; nonstatutory options and stock sales may be offered at not less than 85% of fair market value. Generally, options become exercisable over four years and expire ten years after the date of grant.

A summary of stock option activity under the Plan is as follows:

<S>	Shares	Weighted-Average Exercise Price
	-----	-----
<C>	<C>	<C>
Outstanding, July 1, 1995.....	--	--
Granted (weighted-average fair value of \$0.01).....	767,329	\$0.06
	-----	-----
Outstanding, June 30, 1996 (53,333 shares exercisable at \$0.06).....	767,329	0.06
Granted (weighted-average fair value of \$0.03).....	951,156	0.11
Exercised.....	(144,918)	0.06
Canceled.....	(149,992)	0.06
	-----	-----
Outstanding, June 30, 1997 (249,705 shares exercisable at \$0.06).....	1,423,575	0.09

Granted (weighted-average fair value of \$1.26).....	1,005,627	0.30
Exercised.....	(190,250)	0.08
Canceled.....	(2,657)	0.30
	-----	-----
Outstanding, June 30, 1998 (631,723 shares exercisable at \$0.13).....	2,236,295	0.20
Granted (weighted-average fair value of \$3.06).....	685,714	2.00
Exercised.....	(784,772)	0.23
Canceled.....	(22,498)	0.30
	-----	-----
Outstanding, March 31, 1999.....	2,114,739	\$0.76
	=====	=====

</TABLE>

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

At March 31, 1999, 732,005 shares were available under the Plan for future grant.

The following table summarizes information concerning options outstanding as of March 31, 1999:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Vested	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Weighted Vested at March 31, 1999	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
\$0.06-\$0.30.....	1,583,295	8.30	\$0.23	400,965	\$0.18
\$1.50-\$3.00.....	486,775	9.69	1.76	173,167	1.50
\$9.00.....	44,669	9.97	9.00	2,000	9.00
	-----	----	-----	-----	-----
\$0.06-\$9.00.....	2,114,739	8.65	\$0.76	576,132	\$0.61
	=====	=====	=====	=====	=====

</TABLE>

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), requires the disclosure of pro forma net income or loss had the Company adopted the fair value method since the Company's inception. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of the Black-Scholes option pricing model, even though such model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The weighted-average fair value of the Company's stock-based awards to employees was estimated using the minimum value method and assuming no dividends will be declared and the following additional assumptions:

<TABLE>

<CAPTION>

	Year Ended June 30,			Nine Months Ended March 31,
	1996	1997	1998	1999
<S>	<C>	<C>	<C>	<C>
Estimated life (in years).....	3.97	3.67	4.0	4.0
Risk-free interest rate.....	6.0%	6.0%	5.6%	6.0%

For pro forma purposes, the estimated fair value of the Company's stock-based awards to employees is amortized, using the straight-line method over the options' vesting periods. The Company's pro forma results are as follows:

	Year Ended June 30,			Nine Months Ended March 31,
	1996	1997	1998	1999
<S>	<C>	<C>	<C>	<C>
Net Loss:				
As reported.....	\$ (909)	\$ (2,281)	\$ (3,111)	\$ (501)
Pro forma.....	(909)	(2,281)	(3,395)	(1,336)
Basic and diluted net loss per share:				
As reported.....	\$ (1.55)	\$ (1.62)	\$ (1.34)	\$ (0.15)
Pro forma.....	(1.55)	(1.62)	(1.46)	(0.41)

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

6. Net Loss per Share

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share (in thousands).

	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
<S>	<C>	<C>	<C>	<C>	<C>
Net loss (numerator), basic and diluted.....	\$ (909)	\$ (2,281)	\$ (3,111)	\$ (2,866)	\$ (501)
Shares (denominator):					
Weighted average common shares outstanding.....	2,641	2,944	3,095	3,059	3,503
Weighted average common shares outstanding subject to repurchase.....	(2,054)	(1,533)	(770)	(867)	(209)
Shares used in computation, basic and diluted.....	587	1,411	2,325	2,192	3,294
Net loss per share, basic and					

diluted..... \$ (1.55) \$ (1.62) \$ (1.34) \$ (1.31) \$ (0.15)
=====

</TABLE>

For the above mentioned periods, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded in the computation of diluted net loss per share in the periods presented, as their effect would have been antidilutive. Such outstanding securities consist of the following:

<TABLE>
<CAPTION>

	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
	(Unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>
Convertible preferred stock.....	4,667	7,400	7,400	7,400	7,400
Shares of common stock subject to repurchase.....	1,819	1,048	293	476	90
Outstanding options.....	767	1,424	2,236	1,826	2,115
Warrants.....	--	--	--	--	269
Total.....	7,253	9,872	9,929	9,702	9,874
	=====	=====	=====	=====	=====

</TABLE>

7. Income Taxes

The Company's deferred income tax assets are comprised of the following (in thousands):

<TABLE>
<CAPTION>

	June 30,		March 31,
	1997	1998	1999
<S>	<C>	<C>	<C>
Net deferred tax assets:			
Net operating loss carryforwards.....	\$ 1,212	\$ 2,897	\$ 861
Accruals deductible in different periods.....	(7)	(373)	783
Research and development and alternative minimum tax credit.....	--	140	508
Other.....	--	(173)	(75)
	1,205	2,491	2,077
Valuation allowance.....	(1,205)	(2,491)	(2,077)
Total.....	\$ --	\$ --	\$ --
	=====	=====	=====

</TABLE>

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting

purposes and the amounts used for income tax purposes, as well as net operating loss and tax credit carryforwards. Due to the uncertainty surrounding the realization of the benefits of its favorable tax attributes in future tax returns, the Company has fully reserved its net deferred tax assets.

The Company's effective tax rate differs from the expected benefit at the federal statutory rate as follows:

<TABLE>
<CAPTION>

	June 30			March 31,
	1996	1997	1998	1999
<S>	<C>	<C>	<C>	<C>
Federal statutory tax benefit.....	\$(309)	\$(776)	\$(1,057)	\$(170)
State tax benefit.....	(55)	(139)	(180)	(29)
Stock compensation expense.....		--	100	542
Valuation allowance.....	392	869	1,286	(414)
Other.....	(28)	46	(149)	71
	-----	-----	-----	-----
	\$ --	\$ --	\$ --	\$ --
	=====	=====	=====	=====

</TABLE>

Substantially all of the Company's loss operations for all periods presented are generated from domestic operations.

At March 31, 1999, the Company had net operating loss ("NOL") carryforwards of approximately \$2,251,000 for federal and \$1,050,000 for state income tax purposes. The federal NOL carryforwards expire through 2011 and the state NOL carryforwards expire through 2003. In addition, at March 31, 1999, the Company had \$249,000 of research and development tax credit carryforwards for federal and \$172,000 for state income tax purposes and \$87,000 of alternative minimum tax carryforwards. The extent to which the loss carryforwards can be used to offset future taxable income may be limited, depending on the extent of ownership changes within any three-year period as provided in the Tax Reform Act of 1986 and the California Conformity Act of 1987. Additionally, loss carryforwards generated in fiscal 1997 may expire within six years, as the Company elected to change their tax fiscal year end to June 30.

8. Commitments and Contingencies

Operating Leases--The Company leases its facility under a noncancelable operating lease which expires in July 2003, and certain equipment under an operating lease. Under the terms of the facility lease, the Company is responsible for its proportionate share of maintenance, property tax and insurance expenses. The agreement provides an option to extend the lease for two years and a second option to extend for an additional 28 months. Future minimum annual lease commitments are as follows: remainder of fiscal 1999, \$186,000; fiscal 2000, \$781,000; fiscal 2001, \$707,000; fiscal 2002, \$730,000; fiscal 2003, \$759,000; fiscal 2004, \$63,000.

Facilities rent expense was approximately \$48,000, \$79,000, \$224,000 and \$671,000 for fiscal years 1996, 1997 and 1998 and the nine months ended March 31, 1999, respectively.

Royalty Agreement--In August 1996, the Company entered into a Software License and Distribution Agreement which provides the Company a non-exclusive worldwide license to certain third-party technology. The Company is required to pay specified royalties based on a percentage of revenue from products incorporating the technology. Total royalty expense under the Agreement for fiscal year 1998 and the nine months ended March 31, 1999 was \$103,000 and \$191,000, respectively. No royalties were payable in fiscal 1997.

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

9. Employee Benefit Plan

The Company sponsors a 401(k) Savings and Retirement Plan (the Plan) for all eligible employees who meet certain eligibility requirements. Participants may contribute, on a pre-tax basis, between 1% and 15% of their annual compensation, but not to exceed a maximum contribution amount pursuant to Section 401(k) of the Internal Revenue Code. The Company is not required to contribute, nor has it contributed, to the Plan for any of the periods presented.

10. Major Customers

Five customers accounted for 33%, 28%, 15%, 14% and 10% of accounts receivable at June 30, 1997. One customer accounted for 10% of accounts receivable at June 30, 1998. No single customer accounted for 10% of accounts receivable at March 31, 1999. Two customers accounted for 45% and 12% of total revenue in fiscal 1997. No single customer accounted for greater than 10% of total revenue in fiscal 1998 or for the nine months ended March 31, 1999.

11. Segment and Geographic Information

As discussed in Note 1, the Company follows the requirements of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. As defined in SFAS No. 131, the Company operates in one reportable segment: the design, development, marketing, support and sales of performance and availability management software for the Microsoft Windows NT environment. No individual foreign country accounted for greater than 10% of total revenue or long-lived assets in any of the periods presented. The following table summarizes total net revenue and long-lived assets attributed to significant countries (in thousands).

<TABLE>

<CAPTION>

	Year Ended June			Nine Months
	30,			Ended March
	1996	1997	1998	31, 1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Total net revenue:				
United States.....	\$ --	\$388	\$6,342	\$11,775
Foreign.....	--	--	728	3,334
	-----	-----	-----	-----
Total net revenue*.....	\$ --	\$388	\$7,070	\$15,109
	=====	=====	=====	=====
Long-lived assets:				
United States.....	\$126	\$294	\$ 528	\$ 1,000
Foreign.....	--	--	97	136
	-----	-----	-----	-----
Total long-lived assets.....	\$126	\$294	\$ 625	\$ 1,136
	=====	=====	=====	=====

</TABLE>

* Net revenue are attributed to countries based on location of customer invoiced.

12. Related Party Transaction

During fiscal years 1996, 1997 and 1998 and the nine months ended March 31,

1999, a member of the Company's board of directors earned \$55,000, \$60,000, \$60,000 and \$45,000, respectively, in consulting fees.

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NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999

13. Subsequent Events

On May 19, 1999, the Board of Directors approved, subject to stockholder approval, the following:

- . adoption of the employee stock purchase plan. Under the purchase plan, eligible employees are allowed to have salary withholdings of up to 15% of their base compensation to purchase shares of common stock at a price equal to 85% of the lower of the market value of the stock at the beginning or end of defined purchase periods. The initial purchase period commences upon the effective date for the initial public offering of NetIQ's common stock. NetIQ has initially reserved 500,000 shares of common stock under this plan, plus an annual increase to be added on the first day of NetIQ's fiscal year beginning July 1, 2000 equal to the lesser of (i) 666,666 shares, (ii) 2% of the shares of common stock outstanding on the last day of the preceding fiscal year or (iii) an amount determined by the board of directors.
- . amendment of the stock option plan. The number of shares of NetIQ common stock available for issuance under the stock option plan was increased by 1,366,666 shares from 3,966,666 to 5,333,332 shares, plus an annual increase, effective on the first day of each fiscal year, beginning July 1, 2000, equal to the lesser of (i) 4% of the shares of common stock outstanding on the last day of the preceding fiscal year, (ii) 1,333,333 shares or (iii) an amount determined by NetIQ's board of directors. Additionally, the stock option plan includes an automatic nondiscretionary grant mechanism that provides that options will be granted to non-employee directors who on the date of grant do not beneficially own 1% or more of the total voting power of NetIQ's voting securities. The stock option plan specifically provides for an initial automatic grant of an option to purchase 8,333 shares of common stock to a non-employee director who first becomes a director after NetIQ's initial public offering. Each non-employee director who has served on the board for at least six months will subsequently be granted an option to purchase 8,333 shares of common stock on the date of the annual meeting of stockholders. However, if the first annual meeting following NetIQ's initial public offering falls within six months of the effective date of the initial public offering no grants will be made until the following annual meeting. Each option granted to an outside director under this program will have a term of five years and the shares subject to these options will be fully vested on the date of grant. The exercise price of these options will be 100% of the fair market value per share of common stock on the date of grant.
- . reincorporation of NetIQ in the State of Delaware and the associated exchange of one share of common stock or preferred stock of NetIQ for every share of common stock or preferred stock, as the case may be, of NetIQ's California predecessor. Such reincorporation and exchange of shares became effective on July 22, 1999, and
- . an increase of authorized shares of common stock to 100,000,000 shares and creation of newly undesignated preferred stock totaling 5,000,000 shares, contingent upon the reincorporation of the Company in Delaware and the closing of the initial public offering contemplated by NetIQ.

On June 16, 1999 Compuware executed an agreement to exercise its warrant to

purchase 280,025 shares of common stock upon the effectiveness of this registration statement. The value of such warrants, approximating \$336,000 based on an assumed initial public offering price of \$12.00 per share, will be charged to operating results upon the effectiveness of this registration statement.

On June 28, 1999, the board of directors approved, subject to stockholder approval, a two-for-three reverse split of the outstanding shares of common and preferred stock. Such reverse stock split became effective on July 27, 1999.

All share and per share amounts in these consolidated financial statements have been adjusted to give effect to the reincorporation and the two-for-three reverse stock split.

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[Descriptive text accompanying NetIQ logo]

NetIQ is a leading provider of applications management software that enables businesses to optimize the performance and availability of their Windows NT-based systems and critical business applications including Internet-based applications. The NetIQ AppManager Suite enables organizations to centrally manage the performance of their highly complex Windows NT environments, helps ensure availability through automated monitoring, correction and reporting features and helps lower the total cost of ownership.

[NetIQ LOGO APPEARS HERE]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by NetIQ in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee.

<TABLE>

<S>	<C>
SEC registration fee.....	\$ 12,778
NASD filing fee.....	5,100
Nasdaq National Market listing fee.....	95,000
Printing and engraving costs.....	200,000
Legal fees and expenses.....	400,000
Accounting fees and expenses.....	400,000
Blue Sky fees and expenses.....	5,000
Transfer Agent and Registrar fees.....	10,000
Miscellaneous expenses.....	7,122

Total.....	1,135,000
	=====

</TABLE>

ITEM 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification

beyond that specifically provided by the current law.

Article X of our Restated Certificate of Incorporation provides for the indemnification of directors to the fullest extent permissible under Delaware law.

Article VI of our Bylaws provides for the indemnification of officers, directors and third parties acting on behalf of NetIQ if such person acted in good faith and in a manner reasonably believed to be in and not opposed to the best interest of NetIQ, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful.

We have entered into indemnification agreements with its directors and executive officers, in addition to indemnification provided for in our Bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future.

ITEM 15. Recent Sales of Unregistered Securities

Since incorporation in June 1995, we have issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under such Rule 701. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationships with NetIQ, to information about NetIQ.

1. In July 1995, NetIQ issued and sold 2,766,665 shares of common stock to founders and directors at a purchase price per share of \$.00075. These transactions were exempt from the registration requirements of the Securities Act by virtue of Rule 701.

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2. In December 1995 and April 1996, NetIQ issued and sold a total of 116,000 shares of common stock to an employee and to a director at a purchase price of \$0.06. These transactions were exempt from the registration requirements of the Securities Act by virtue of Section 4(2).
3. Pursuant to NetIQ's 1995 Stock Option Plan, from inception to March 31, 1999, we issued and sold an aggregate of 1,119,995 shares of common stock to certain of its employees, officers, directors and consultants. These transactions were exempt from the registration requirements of the Securities Act by virtue of Rule 701.
4. On September 14, 1995, we issued and sold 4,666,656 shares of Series A Preferred Stock to a total of 28 investors for an aggregate purchase price of \$2,800,000. These transactions were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) and Regulation D.
5. On May 14, 1997 we issued and sold 2,733,321 shares of Series B Preferred Stock to a total of 32 investors for an aggregate purchase price of \$8,200,000. These transactions were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) and Regulation D.
6. On March 10, 1999, we issued to one party a warrant to purchase that number of shares of Common Stock equal to 2% of the outstanding voting

stock of the company on a fully diluted basis as of the date of exercise at an exercise price of 90% of the price to public in an initial public offering undertaken by us. These transactions were exempt from the registration requirements of the Securities Act by virtue of Section 4(2).

7. On May 28, 1999, we issued and sold to one party 26,666 shares of common stock in connection with a software development agreement. These transactions were exempt from the registration requirements of the Securities Act by virtue of Section 4(2).

ITEM 16. Exhibits and Financial Statement Schedules

(a) Exhibits

<TABLE>

<CAPTION>

Number	Exhibit Title
-----	-----
<C>	<C> <S>
1.1	(a) Form of Underwriting Agreement
3.1A	(b) Certificate of Incorporation of NetIQ currently in effect
3.1B	(a) Form of Restated Certificate of Incorporation of NetIQ to be in effect after the closing of the offering made under this Registration Statement
3.2	(a) Bylaws of NetIQ currently in effect
4.1	(a) Specimen Common Stock Certificate
4.2	(a) Registration Rights Agreement, dated May 14, 1997, by and among NetIQ and certain NetIQ stockholders identified therein
5.1	(b) Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation
10.1	(a) Form of Indemnification Agreement between NetIQ and each of its directors and executive officers
10.2	(a) Form of Change of Control Severance Agreements between NetIQ and each of its executive officers
10.3A	(b) Amended and Restated 1995 Stock Plan
10.3B	(a) Form of Stock Option Agreement under the Amended and Restated 1995 Stock Plan
10.3C	(a) Form of Director Option Agreement under 1995 the Amended and Restated Stock Plan
10.4A	(a) 1999 Employee Stock Purchase Plan
10.4B	(a) Form of Subscription Agreement under the 1999 Employee Stock Purchase Plan

</TABLE>

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<TABLE>

<CAPTION>

Number	Exhibit Title
-----	-----
<C>	<C> <S>
10.5A+	(b) BasicScript License Agreement, dated August 27, 1996, between NetIQ and Henneberry Hill Technologies Corporation doing business as Summit Software Company
10.5B	(a) Amendment, dated May 21, 1999, to the BasicScript License Agreement between NetIQ and Henneberry Hill Technologies Corporation doing business as Summit Software Company
10.6+	(b) Software Distribution Agreement, dated June 23, 1998, between NetIQ and Tech Data Product Management, Inc.
10.7	(a) Agreement of Sublease, dated July 31, 1998, between NetIQ and AMP Incorporated
10.8	(a) Confidential Settlement Agreement, dated March 10, 1999, by and between Compuware Corporation, NetIQ Corporation and the individuals named therein
21.1	(a) List of subsidiaries

- 23.1 (b) Independent Auditors' Consent
- 23.3 (b) Form of Consent of Counsel (included in Exhibit 5.1)
- 24.1 (a) Power of Attorney
- 27.1 (a) Financial Data Schedule

</TABLE>

- + Confidential treatment requested for portions of these agreements.
- (a) Previously filed.
- (b) Filed herewith.

(b) Financial Statement Schedules

(1) Schedule II - Valuation and Qualifying Accounts.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

ITEM 17. Undertakings

The undersigned 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.

Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this registration statement or otherwise, we have been advised that in the opinion of the SEC 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 a director, officer or controlling person in connection with the securities being registered hereunder, we 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 that:

(1) For purposes of determining any liability under the Securities Act, 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 us pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be 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, 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.

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SIGNATURES

Pursuant to the requirements of the Securities Act, NetIQ Corporation has duly caused this Amendment No. 3 to the Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on the 27th day of July, 1999.

NETIQ CORPORATION

Ching-Fa Hwang*

By: _____
Ching-Fa Hwang
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 3 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<TABLE>
<CAPTION>

Name -----	Title -----	Date -----
<S> Ching-Fa Hwang* _____ (Ching-Fa Hwang)	<C> President, Chief Executive Officer and Director (Principal Executive Officer)	<C> July 27, 1999
/s/ James A. Barth _____ (James A. Barth)	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	July 27, 1999
Kuo-Wei Chang* _____ (Kuo-Wei Chang)	Director	July 27, 1999
Her-Daw Che* _____ (Her-Daw Che)	Vice President, Engineering and Director	July 27, 1999
Louis Cole* _____ (Louis Cole)	Director	July 27, 1999
Alan W. Kaufman* _____ (Alan W. Kaufman)	Director	July 27, 1999
Ying-Hon Wong* _____ (Ying-Hon Wong)	Director	July 27, 1999
/s/ James A. Barth _____ (James A. Barth) Attorney-in-Fact		

</TABLE>

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INDEPENDENT AUDITORS' REPORT ON SCHEDULE

To the Board of Directors and Stockholders of NetIQ Corporation:

We have audited the consolidated financial statements of NetIQ Corporation (the Company) for the years ended June 30, 1996, 1997, 1998, and the nine months ended March 31, 1999, and have issued our report thereon dated May 19, 1999 (July 27, 1999 as to Note 13) (included elsewhere in this registration statement). Our audits also included the financial statement schedule of the Company, listed in Item 16(b). The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule,

when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

San Jose, California

May 19, 1999

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SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<TABLE>
<CAPTION>

	Balance at Beginning of Period	Charged to cost and expenses	Deductions/end of period	Balance at end of period
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Year ended June 30, 1996				
Allowance for doubtful accounts.....	\$ --	\$ --	\$--	\$ --
Allowance for sales returns.....	\$ --	\$ --	\$--	\$ --
	====	=====	===	====
Year ended June 30, 1997				
Allowance for doubtful accounts.....	\$ --	\$ --	\$--	\$ --
Allowance for sales returns.....	\$ --	\$ --	\$--	\$ --
	====	=====	===	====
Year ended June 30, 1998				
Allowance for doubtful accounts.....	\$ --	\$ 307	\$--	\$307
Allowance for sales returns.....	\$ --	\$ 50	\$--	\$ 50
	====	=====	===	====
Nine months ended March 31, 1999				
Allowance for doubtful accounts.....	\$307	\$ 198	\$--	\$505
Allowance for sales returns.....	\$ 50	\$ 115	\$--	\$165
	====	=====	===	====

</TABLE>

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EXHIBIT INDEX

<TABLE>
<CAPTION>

Number	Exhibit Title
-----	-----
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3.1B	(a) Form of Restated Certificate of Incorporation of NetIQ to be in effect after the closing of the offering made under this Registration Statement
3.2	(a) Bylaws of NetIQ currently in effect
4.1	(a) Specimen Common Stock Certificate
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5.1	(b) Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation
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10.2	(a) Form of Change of Control Severance Agreements between NetIQ and each of its executive officers
10.3A	(b) Amended and Restated 1995 Stock Plan

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- 27.1 (a) Financial Data Schedule

</TABLE>

-
- + Confidential treatment requested for portions of these agreements.
 - (a) Previously filed.
 - (b) Filed herewith.

SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

NETIQ CORPORATION

NetIQ Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

- A. The name of the corporation is NetIQ Corporation. The corporation was originally incorporated under the same name and the original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on May 26, 1999.
- B. The corporation's Certificate of Incorporation was initially amended and restated pursuant to an Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on June 28, 1999.
- C. This Second Amended and Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the Board of Directors and the stockholder of this corporation.
- D. Pursuant to Section 242 and 245 of the General Corporation Law of the State of Delaware, this Second Amended and Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Certificate of Incorporation of this corporation.
- E. The text of the Certificate of Incorporation is hereby amended and restated in its entirety to read as follows:

Article I.

The name of the corporation is NetIQ Corporation (the "Corporation").

Article II.

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, Delaware 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Article III.

The nature of the business or purposes to be conducted or promoted by the

Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

Article IV.

1. Authorized Capital. This Corporation is authorized to issue 41,100,000

shares of its capital stock, \$0.001 par value per share, which shall be divided into two classes known as Common Stock and Preferred Stock, respectively.

The total number of shares of Common Stock which this Corporation is authorized to issue is 30,000,000. The total number of shares of Preferred Stock which this Corporation is authorized to issue is 11,100,000. This Corporation is authorized to issue two series of its Preferred Stock which shall be known as its Series A Preferred Stock (the "Series A Preferred Stock"), consisting of 7,000,000 shares, and its Series B Preferred Stock (the "Series B Preferred Stock"), consisting of 4,100,000 shares. Except as specifically set forth herein, reference hereafter to "Preferred Stock" shall mean the Series A Preferred Stock or the Series B Preferred Stock.

2. Reverse Stock Split. Upon the filing of this Certificate of Incorporation

with the Secretary of State of the State of Delaware, each currently outstanding share of Common Stock of the Corporation shall be consolidated and combined into two-thirds (2/3) of a share of Common Stock. No fractional shares of Common Stock shall be issued upon such reverse stock split; any fractional shares that would otherwise result as to any holder shall be rounded down to the nearest whole share. The rights, preferences, privileges and restrictions of the Preferred have been amended hereinbelow as necessary to reflect the occurrence of the reverse stock split contemplated by this paragraph.

3. Authorized Capital Following Automatic Conversion Event. Upon the

automatic conversion of all outstanding shares of Preferred in accordance with the provisions of Article V, Section 5.2 of this Certificate of Incorporation (the "Automatic Conversion Event"), the Corporation shall immediately thereafter be authorized to issue two classes of stock to be designated, respectively, Common Stock and Preferred Stock. Immediately following any Automatic Conversion Event, the total number of shares of Common Stock which the Corporation shall have the authority to issue shall be 100,000,000, \$.001 par value, and the total number of shares of Preferred Stock the Corporation shall have the authority to issue shall be 5,000,000, \$.001 par value. Immediately following any Automatic Conversion Event, the Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board). The Board of Directors is further authorized to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and to fix the number of shares of any series of Preferred Stock and the designation of any

such series of Preferred Stock. The Board of Directors, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares in any such series then outstanding), the number of shares of any series subsequent to the issue of shares of that series.

4. Restatement of Certificate of Incorporation. Immediately following any

Automatic Conversion Event, the Board of Directors of the Corporation is authorized, without the further consent or approval of the stockholders of the Corporation to amend and restate this Certificate of Incorporation to show the authorized classes of capital stock as set forth in the preceding paragraph

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and to eliminate all references in this Certificate of Incorporation to the rights, preferences, privileges and restrictions of the series of Preferred Stock including those set forth in Article IV above and Article V below (and, in connection with any such amendment and restatement, to renumber the remaining Articles).

Article V.

The rights, preferences, privileges and restrictions granted to or imposed upon the respective classes of shares or the holders thereof are as follows:

1. Dividend Rights. The holders of the Series A Preferred Stock and

Series B Preferred Stock shall be entitled to receive, out of any funds legally available therefor, when and as declared by the Board of Directors, dividends at the rate of \$.04 and \$.16 per annum, respectively, on each outstanding share of Preferred Stock held by them. Such dividends shall be paid prior and in preference to any payment of any dividend on or any other distribution with respect to any shares of Common Stock. The right to such dividends on the Preferred Stock shall not be cumulative, and no right shall accrue to holders of Preferred Stock by reason of the fact that dividends on such shares are not declared or paid in any prior year. There shall be no preference to any payment of dividend as between the Series A Preferred Stock and the Series B Preferred Stock.

2. Liquidation Rights. In the event of any liquidation, dissolution or

winding up of the Corporation (a "Liquidation Event"), whether voluntary or not, the assets of the Corporation legally available for distribution to its stockholders shall be distributed as follows: (i) the holders of Preferred Stock shall be entitled to receive, before any amount shall be paid to holders of Common Stock or of any other stock ranking junior to the Preferred Stock on

liquidation, an amount equal to \$0.40 per share of Series A Preferred Stock and \$2.00 per share of Series B Preferred Stock (as adjusted for stock splits, combinations or similar events) plus all declared and unpaid dividends, if any, to which the holders of outstanding shares of Preferred Stock are entitled; provided, however, that (A) if, upon any Liquidation Event, the amounts payable -----

with respect to the Preferred Stock and any other stock ranking as to any such distribution on parity with the Preferred Stock are not paid in full, the holders of the Preferred Stock and such other stock shall share any distribution of assets at a rate proportional to the liquidation preference to which such shares of Preferred Stock or other stock are entitled; (ii) the remaining assets shall be distributed to the holders of Common Stock and Preferred Stock on a pro rata, as-converted to Common Stock basis until the Series A Preferred Stock and Series B Preferred Stock holders have received inclusive of the amount stipulated in D.2.(i) above, \$1.00 for the Series A Preferred Stock and \$5.00 for the Series B Preferred Stock; and (iii) any remaining assets thereafter shall be distributed to the holders of Common Stock and the Preferred Stock on a pro rata, as converted to Common Stock basis; provided, however, that if the -----

holders of Common Stock would receive more than holders of a series of Preferred Stock would receive under clauses (i) and (ii) herein, then holders of such Preferred Stock shall not be entitled to any distribution under clause (i) or (ii) herein and shall instead be entitled to receive their ratable share of any distribution under clause (iii) above as though the holders of such Preferred Stock were holders of shares of Common Stock into which such shares of Preferred Stock would be convertible.

A Liquidation Event shall specifically include: (i) a consolidation or merger of the Corporation with or into any other corporation, or any other entity or person, or the exchange of

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substantially all of the outstanding stock of the Corporation for shares of another entity or other property, in which, after any such transaction, the prior stockholders of the Corporation hold less than fifty percent (50%) of the voting shares of the continuing or surviving entity; or (ii) a sale of all or substantially all of the assets of the Corporation.

3. Voting Rights. Except as otherwise required by law, the holders of -----

Preferred Stock and the holders of Common Stock shall be entitled to notice of any stockholders' meeting and to vote upon any matter submitted to the stockholders for a vote, as follows: (i) the holders of Series A Preferred Stock shall have one (1) vote for each full share of Common Stock into which their respective shares of Preferred Stock are convertible on the record date for the vote, (ii) the holders of Series B Preferred Stock shall have one (1) vote for each full share of Common Stock into which their respective shares of Preferred Stock are convertible on the record date for the vote, and (iii) the holders of Common Stock shall have one (1) vote per share of Common Stock.

4. Certain Taxes. The Corporation shall pay any and all issuance and other

taxes (excluding any federal or state income taxes) that may be payable in respect of any issuance or delivery of shares of Common Stock on conversion of Preferred Stock. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Preferred Stock to which such issuance relates were registered, and no such issuance or delivery shall be made unless and until the person requesting such issuance has paid to the Corporation the amount of any such tax, or it is established to the satisfaction of the Corporation that such tax has been paid.

5. Conversion. The holders of Preferred Stock shall have conversion rights as

follows (the "Conversion Rights"):

5.1 Right to Convert. Each share of Series A Preferred Stock or Series B

Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing \$0.40 by the Series A Conversion Price or by dividing \$2.00 by the Series B Conversion Price as applicable to such series, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion. The price at which shares of Common Stock shall be deliverable upon conversion (the "Series A Conversion Price" or the "Series B Conversion Price," as applicable) shall initially be \$0.60 for the Series A Preferred Stock and \$3.00 for the Series B Preferred Stock.

5.2 Automatic Conversion. Each share of the Series A Preferred Stock shall

automatically be converted into shares of Common Stock at the then-effective Series A Conversion Price (i) upon the date specified by the affirmative vote, written consent or agreement of holders of at least 66 2/3% of the shares of the Series A Preferred Stock then outstanding, (ii) upon the closing of the sale of the Corporation's Common Stock in an underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), other than a registration relating solely to a transaction under Rule 145 under such Act (or any successor thereto) or relating to an employee benefit plan of the Corporation, at a public offering wherein the Common Stock is sold for not less than \$2.40 per share and the aggregate proceeds to the Corporation and/or any selling stockholders

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(prior to deductions for underwriters' discounts and expenses relating to the issuance, including without limitation fees of the Corporation's counsel) is not less than \$7,500,000, or (iii) if fewer than 1,666,667 shares of Series A

Preferred Stock are outstanding, as adjusted.

Each share of the Series B Preferred Stock shall automatically be converted into shares of Common Stock at the then-effective Series B Conversion Price (i) upon the date specified by an affirmative vote, written consent or agreement of holders of at least a majority of the shares of the Series B Preferred Stock then outstanding, (ii) upon the Closing of the sale of the Corporation's Common Stock in an underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), other than a registration relating solely to a transaction under Rule 145 under such Act (or any successor thereto) or to an employee benefit plan of the Corporation, where the Common Stock is sold for not less than \$6.00 per share and the aggregate proceeds to the Corporation and/or any selling stockholders (prior to deductions for underwriter's discounts and expenses relating to the issuance, including without limitation fees of the Corporation's counsel) is not less than \$7,500,000, or (iii) if fewer than 900,000 shares of Series B Preferred Stock are outstanding, as adjusted.

5.3 Mechanics of Conversion.

5.3.1 Before any holder of Preferred Stock shall be entitled voluntarily to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that he elects to convert the same and shall state therein the number of shares of Preferred Stock being converted and the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall as soon as practicable thereafter issue and deliver at such office to such holder of Preferred Stock a certificate or certificate for the number of shares of Common Stock to which he shall be entitled. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

5.3.2 If the conversion is in connection with an underwritten offering of securities pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock upon conversion of the Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities.

5.4 Adjustments to Conversion Price for Certain Diluting Issues.

5.4.1 Special Definitions. For purposes of this Section 5, the

following definitions apply:

(a) "Options" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities.

(b) "Original Issue Date" shall mean the date on which a share of Series B Preferred Stock was first issued.

(c) The term "Conversion Price" shall mean the Series A Conversion Price and the Series B Conversion Price, as applicable.

(d) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities convertible into or exchangeable for Common Stock.

(e) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 5.4.3 deemed to be issued) by the Corporation after the Original Issue Date, other than shares of Common Stock issued or issuable:

(1) upon conversion of shares of the then outstanding Preferred Stock;

(2) up to 8,000,000 shares issued to officers, directors or employees of, or consultants to, the Corporation pursuant to stock option or stock purchase plans or agreements on terms approved by the Board of Directors;

(3) as a dividend or distribution on Preferred Stock;

(4) for which adjustment of the Preferred Stock Conversion Price is made pursuant to Section 5.5;

(5) securities issued to lending or leasing institutions or individuals in connection with bank debt, equipment leases or non-equity interim financing, on terms approved by the Board of Directors;

(6) securities issued or issuable in an acquisition or merger upon terms approved by a majority of the Board of Directors; or

(7) securities issued in stock splits, recapitalizations and similar transactions.

5.4.2 No Adjustment of Conversion Price. No adjustment in the

Conversion Price of a series of Preferred Stock pursuant to this Section 5.4

shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share (determined pursuant to Section 5.4.5 hereof) for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Conversion Price for such series of Preferred Stock in effect on the date of, and immediately prior to, such issue.

5.4.3 Deemed Issue of Additional Shares of Common. Except as

otherwise provided in Section 5.4 hereof, in the event the Corporation at any time or from time to time after the

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Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock, issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(a) no further adjustments in the Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(b) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the Conversion Price shall affect Common Stock previously issued upon conversion of the Preferred Stock);

(c) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(1) in the case of Convertible Securities or Options for Common Stock the only Additional Shares of Common Stock issued were the shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange, and

(2) in the case of Options for Convertible Securities only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration

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deemed to have been received by the Corporation (determined pursuant to Section 5.4.5 upon the issuance of the Convertible Securities with respect to which such Options were actually exercised);

(d) no readjustment pursuant to clause (b) or (c) above shall have the effect of increasing a Conversion Price to an amount which exceeds the lower of (a) such Conversion Price on the original adjustment date, or (b) such Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(e) in the case of any Options which expire by their terms not more than sixty (60) days after the date of issue thereof, no adjustment of a Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided above.

5.4.4 Adjustment of Conversion Price Upon Issuance of Additional

Shares of Common Stock. In the event the Corporation, at any time after the

Original Issue Date, shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 5.4.3) without consideration or for a consideration per share less than the Conversion Price for a series of Preferred Stock in effect on the date of and immediately prior to such issue, then and in such event:

(1) the Conversion Price for such Preferred Stock shall be reduced, concurrently with such issue, to a Conversion Price (calculated to the hundredth of a cent) determined by multiplying the existing Conversion Price of

such series by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance plus the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price in effect immediately prior to such issuance, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance plus the number of such Additional Shares of Common Stock so issued.

(2) For the purpose of the above calculation, the number of shares of Common Stock outstanding immediately prior to such issuance shall be calculated as if all shares of Preferred Stock and all Convertible Securities had been fully converted into shares of Common Stock immediately prior to such issuance of Additional Shares of Common, but not including in such calculation any additional shares of Common Stock issuable with respect to shares of Preferred Stock, or Convertible Securities, solely as a result of the adjustment of the respective Conversion Prices (or other conversion ratios) resulting from the issuance of Additional Shares of Common Stock causing such adjustment.

5.4.5 Determination of Consideration. For purposes of this

Section 5.4, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property. Such consideration shall:

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(1) insofar as it consists of cash, be computed at the aggregate gross amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (a)(1) and (a)(2) above, as determined in good faith by the Board of Directors.

(b) Options and Convertible Securities. The consideration per

share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 5.4.3 relating to Options and Convertible Securities shall be determined by dividing:

(1) the total amount, if any, received or receivable by the

Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(2) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

5.5 Adjustment to Conversion Prices for Stock Dividends and for

Combinations or Subdivisions of Common Stock. In the event that the

Corporation at any time or from time to time after the Original Issue Date shall declare or pay, without consideration, any dividend on the Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Conversion Price for any series of Preferred Stock in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that the Corporation shall declare or pay, without consideration, any dividend on the Common Stock payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

5.6 Adjustments for Reclassification and Reorganization. If the

Common Stock issuable upon conversion of the Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section 5.5) the Conversion Prices then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that each series of Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject

to receipt by the holders upon conversion of the Preferred Stock immediately before that change.

5.7 No Impairment. The Corporation will not, by amendment of this

Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred Stock against impairment.

5.8 Certificates as to Adjustments. Upon the occurrence of each

adjustment or readjustment of any Conversion Price pursuant to this Section 5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price for such series of Preferred Stock at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such series of Preferred Stock.

5.9 Reservation of Stock Issuable Upon Conversion. The Corporation

shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate of Incorporation.

5.10 Fractional Shares. No fractional share shall be issued upon the

conversion of any share or shares of Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Preferred Stock by a holder thereof shall be

aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors).

5.11 Notices. Any notice required by the provisions of this Section

5 to be given to the holders of shares of the Preferred Stock shall be deemed given when personally delivered to such holder (including delivery by courier service) or five (5) business days after the same has been deposited in the United States mail, certified or registered mail, return receipt requested, postage prepaid, and addressed to each holder of record at its address appearing on the books of the Corporation.

6. Covenants. In addition to any other rights provided by law the

following covenants shall apply:

6.1 The Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of the outstanding shares of each class of Preferred Stock each voting as a separate class:

(a) amend or repeal any provision of, or add any provision to, the Corporation's Certificate of Incorporation or by-laws if such action would alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, such class of the Preferred Stock;

(b) increase or decrease the number of shares of such class of Preferred Stock authorized hereby;

(c) authorize or issue shares of any class or series of stock not authorized herein having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of such class of Preferred Stock; authorize or issue shares of stock of any class or series of any bonds, debentures, notes or other obligations convertible into or exchangeable for, or having option rights to purchase, any shares of stock of this Corporation having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of such class of Preferred Stock; or

(d) reclassify any class or series of any Common Stock into shares having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of such class of Preferred

Stock;

provided, however, that this Section 6.1 shall only be effective as to the

Series A Preferred Stock, while at least 1,666,667 share of Series A Preferred are outstanding, and as to the Series B Preferred Stock while at least 900,000 share of Series B Preferred Stock are outstanding.

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6.2 The Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of the outstanding shares of all of the Preferred Stock voting as one class:

(a) consolidate or merge the Corporation with or into any other corporation, or any entity or person, or exchange substantially all of the outstanding stock of the Corporation for shares of another entity or property, in which, after any such transaction, the prior stockholders of the Corporation hold less than fifty percent (50%) of the voting shares of the continuing or surviving entity;

(b) sell all or substantially all of the assets of the Corporation; or

(c) pay or declare any dividend on or other distribution with respect to any Common Stock (except dividends payable solely in shares of Common stock), or apply any of its assets to the redemption, retirement, purchase or acquisition, directly or indirectly, through subsidiaries or otherwise, of any Common Stock, except from employees, directors, and consultants of this corporation pursuant to the terms of restrictive stock agreements or as otherwise approved by the Board of Directors; provided, however, that this Section 6.2 shall only be effective while at least 2,566,667 share of Preferred Stock are outstanding.

7. Election of Directors. Notwithstanding provisions other than in this

section 7, upon the first issuance by the Corporation of its Series B Preferred Stock, the following provisions shall determine the election of directors of the Corporation:

7.1 Number of Directors. The authorized number of directors shall

be six (6).

7.2 Election of Directors.

(a) The holders of the Series B Preferred Stock, voting as a separate class, shall be entitled to elect two (2) of the directors of the Corporation.

(b) The holders of the Series A Preferred Stock (on an as converted to Common Stock basis) and the Common Stock, voting together as a single class, shall be entitled to elect all other directors of the Corporation.

Article VI.

The Corporation is to have perpetual existence.

Article VII.

Elections of directors need not be by written ballot unless a stockholder demands election by written ballot at the meeting and before voting begins or unless the Bylaws of the Corporation shall so provide.

Article VIII.

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1. The management of the business and the conduct of the affairs of the corporation shall be vested in its Board of Directors. The number of directors which constitute the whole Board of Directors of the corporation shall be designated in the Bylaws of the corporation.

2. At such time as the Corporation closes an underwritten public offering of the Corporation's common stock pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, the Board of Directors shall be divided into three classes designated as Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following such closing of an underwritten public offering, the term of office of the Class I directors shall expire and Class I directors shall be elected for a full term of three years. At the second annual meeting of stockholders following such closing of an underwritten public offering, the term of office of the Class II directors shall expire and Class II directors shall be elected for a full term of three years. At the third annual meeting of stockholders following such closing of an underwritten public offering, the term of office of the Class III directors shall expire and Class III directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors shall be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting.

3. Notwithstanding the foregoing provisions of this Article, each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any

incumbent director.

4. Any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other causes shall be filled by either (i) the affirmative vote of the holders of a majority of the voting power of the then-outstanding shares of voting stock of the corporation entitled to vote generally in the election of directors ("Voting Stock") voting together as a single class; or (ii) by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such newly created directorship shall be filled by the stockholders, be filled only by the affirmative vote of the directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.

5. The affirmative vote of sixty-six and two-thirds percent (66-2/3%) of the voting power of the then outstanding shares of Voting Stock, voting together as a single class, shall be required for the adoption, amendment or repeal of the following sections of the corporation's Bylaws by the stockholders of this corporation: 2.2 (Annual Meeting) and 2.3 (Special Meeting).

6. No action shall be taken by the stockholders of the corporation except in accordance with the Bylaws.

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7. Any director, or the entire Board of Directors, may be removed from office at any time (i) with cause by the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class; or (ii) without cause by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then-outstanding shares of the Voting Stock

Article IX.

Notwithstanding any other provisions of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, this Certificate of Incorporation or any Preferred Stock Designation, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to alter, amend or repeal Article VIII or this Article IX.

Article X.

The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, except as provided in Article IX of this Certificate, and all rights conferred upon the stockholders herein are granted subject to this right.

Article XI.

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation.

Article XII.

1. To the fullest extent permitted by the Delaware General Corporation Law as the same exists or as may hereafter be amended, a director of the Corporation shall be indemnified by the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

2. The Corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director, officer or employee of the Corporation or any predecessor of the Corporation or serves or served at any other enterprise as a director, officer or employee at the request of the Corporation or any predecessor to the Corporation.

3. Neither any amendment nor repeal of this Article XII, nor the adoption of any provision of this Corporation's Certificate of Incorporation inconsistent with this Article XII, shall eliminate or reduce the effect of this Article XII, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article XII, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

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Article XIII.

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

Article XIV.

Advance notice of new business and stockholder nominations for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the Corporation.

Article XV.

Until the Corporation closes an underwritten public offering of the Corporation's common stock pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, stockholders shall be entitled to cumulative voting rights as set forth in this Article XV and the Bylaws of the Corporation. At all elections of directors of the Corporation, each holder of stock or of any class or classes or of a series or series thereof shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to cumulative voting) such stockholder would be entitled to cast for the election of directors with respect to such stockholder's shares of stock multiplied by the number of directors to be elected, and such stockholder may cast all of such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as such stockholder may see fit. As of the date the Corporation closes an underwritten public offering of the Corporation's common stock pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, this Article XV shall no longer be effective and may be deleted herefrom upon any restatement of this Certificate of Incorporation.

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IN WITNESS WHEREOF, the Corporation has caused this Second Amended and Restated Certificate of Incorporation to be signed by Ching-Fa Hwang, its President and Chief Executive Officer, effective as of July 27, 1999.

NETIQ CORPORATION

/s/ Ching-Fa Hwang

Ching-Fa Hwang
President and Chief Executive Officer

Attest:

/s/ James A. Barth

James A. Barth
Vice President and Chief Financial Officer

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WILSON SONSINI GOODRICH & ROSATI
Professional Corporation
650 Page Mill Road
Palo Alto, California 94304-1050
Telephone (650) 493-9300 Facsimile (650) 493-6811

July 27, 1999

NetIQ Corporation
5410 Betsy Ross Drive
Santa Clara, CA 94054

RE: REGISTRATION STATEMENT ON FORM S-1

Ladies and Gentlemen:

We have examined Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-79373) to be filed by you with the Securities and Exchange Commission on July 27, 1999 (the "Registration Statement") in connection with the registration under the Securities Act of 1933, as amended, of 3,450,000 shares (including shares issuable upon exercise of the underwriters' over-allotment option) of Common Stock of NetIQ Corporation (the "Shares"). As your counsel in connection with this transaction, we have examined the proceedings proposed to be taken in connection with said sale and issuance of the Shares.

It is our opinion that, upon completion of the proceedings being taken or contemplated by us, as your counsel, to be taken prior to the issuance of the Shares, and upon completion of the proceedings being taken in order to permit such transactions to be carried out in accordance with the securities laws of various states, where required, the Shares when issued and sold in the manner referred to in the Registration Statement will be legally and validly issued, fully paid and nonassessable.

We consent to the use of this opinion as an exhibit to the Registration Statement, and further consent to the use of our name wherever appearing in the Registration Statement, including the prospectus constituting a part thereof, and any amendment thereto.

Very truly yours,

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

/s/ Wilson Sonsini Goodrich & Rosati

NetIQ CORPORATION

1995 STOCK PLAN
(as amended and restated May 19, 1999)

1. Purposes of the Plan. The purposes of this 1995 Stock Plan are:

- . to attract and retain the best available personnel for positions of substantial responsibility,
- . to provide additional incentive to Employees, Directors and Consultants, and
- . to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall

be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the

administration of stock option plans under U. S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Cause" means (i) any act of personal dishonesty taken by the

Optionee in connection with his responsibilities as an Employee which is intended to result in substantial personal enrichment of the Optionee, (ii) the Optionee's conviction of a felony which the Board reasonably believes has had or will have a material detrimental effect on the Company's reputation or business, (iii) a willful act by the Optionee which constitutes misconduct and is

injurious to the Company, and (iv) continued willful violations by the Optionee of the Optionee's obligations to the Company after there has been delivered to the Optionee a written demand for performance from the Company which describes the basis for the Company's belief that the Optionee has not substantially performed his duties.

(e) "Change of Control" means the occurrence of any of the following

events:

(i) the approval by shareholders of the Company of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(ii) any approval by the shareholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities; or

(iv) a change in the composition of the Board, as a result of which fewer than a majority of the Directors are Incumbent Directors. "Incumbent Directors" shall mean Directors who either (A) are Directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those Directors whose election or nomination was not in connection with any transaction described in subsections (i), (ii) or (iii) or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended.

(g) "Committee" means a committee of Directors appointed by the Board

in accordance with Section 4 of the Plan.

(h) "Common Stock" means the common stock of the Company.

(i) "Company" means NetIQ Corporation, Inc., a Delaware corporation.

(j) "Consultant" means any person, including an advisor, engaged by

the Company or a Parent or Subsidiary to render services to such entity.

(k) "Director" means a member of the Board.

(l) "Disability" means total and permanent disability as defined in

Section 22(e) (3) of the Code.

(m) "Employee" means any person, including Officers and Directors,

employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as

amended.

(o) "Fair Market Value" means, as of any date, the value of Common

Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(p) "Incentive Stock Option" means an Option intended to qualify as an

incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(q) "Inside Director" means a Director who is an Employee.

(r) "IPO Effective Date" means the date upon which the Securities and

Exchange Commission declares the initial public offering of the Company's common stock as effective.

(s) "Nonstatutory Stock Option" means an Option not intended to

qualify as an Incentive Stock Option.

(t) "Notice of Grant" means a written or electronic notice evidencing

certain times and conditions of an individual Option or Stock Purchase Right grant. The Notice of Grant is part of the Option Agreement.

(u) "Officer" means a person who is an officer of the Company within

the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(v) "Option" means a stock option granted pursuant to the Plan.

(w) "Option Agreement" means an agreement between the Company and an

Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(x) "Option Exchange Program" means a program whereby outstanding

Options are surrendered in exchange for Options with a lower exercise price.

(y) "Optioned Stock" means the Common Stock subject to an Option or

Stock Purchase Right.

(z) "Optionee" means the holder of an outstanding Option or Stock

Purchase Right granted under the Plan.

(aa) "Outside Director" means a Director who is not an Employee and

who is not the "beneficial owner" (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing 1% or more of the total voting power represented by the Company's outstanding voting securities on the date of any grant hereunder.

(bb) "Plan" means this 1995 Stock Option Plan, as amended and

restated.

(cc) "Restricted Stock" means shares of Common Stock acquired pursuant

to a grant of Stock Purchase Rights under Section 11 of the Plan.

(dd) "Restricted Stock Purchase Agreement" means a written agreement

between the Company and the Optionee evidencing the terms and restrictions applying to stock purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(ee) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any

successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ff) "Section 16(b) " means Section 16(b) of the Exchange Act.

(gg) "Service Provider" means an Employee, Director or Consultant.

(hh) "Share" means a share of the Common Stock, as adjusted in

accordance with Section 14 of the Plan.

(ii) "Stock Purchase Right" means the right to purchase Common Stock

pursuant to Section 11 of the Plan, as evidenced by a Notice of Grant.

(jj) "Subsidiary" means a "subsidiary corporation", whether now or

hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 14 of

the Plan, the maximum aggregate number of Shares which may be optioned and sold

under the Plan is 8,000,000 Shares, plus an annual increase to be added on the first day of the Company's fiscal year beginning July 1, 2000 equal to the lesser of (i) 2,000,000 shares, (ii) 4% of the outstanding shares on such date or (iii) an amount determined by the Board. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under

the Plan, whether upon exercise of an Option or Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. The Plan may be

administered by different Committees with respect to different groups of Service Providers.

(ii) Section 162(m). To the extent that the Administrator

determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify

transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the

Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the

Plan, and in the case of a Committee, subject to the specific duties delegated

by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may be granted hereunder;

(iii) to determine the number of shares of Common Stock to be covered by each Option and Stock Purchase Right granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to reduce the exercise price of any Option or Stock Purchase Right to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option or Stock Purchase Right shall have declined since the date the Option or Stock Purchase Right was granted;

(vii) to institute an Option Exchange Program;

(viii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to modify or amend each Option or Stock Purchase Right (subject to Section 16(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;

(xi) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that

the amount of tax to be withheld is to be determined. All elections by an

Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option or Stock Purchase Right previously granted by the Administrator;

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's

decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options or Stock Purchase Rights.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may

be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) Neither the Plan nor any Option or Stock Purchase Right shall confer upon an Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

(c) The following limitations shall apply to grants of Options:

(i) No Service Provider shall be granted, in any fiscal year of the Company, Options to purchase more than 500,000 Shares.

(ii) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 1,000,000 Shares which shall not count against the limit set forth in subsection (i) above.

(iii) The foregoing limitations shall be adjusted proportionately

in connection with any change in the Company's capitalization as described in Section 14.

(iv) If an Option is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 14), the cancelled Option will be counted against the limits set forth in subsections (i) and (ii) above. For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

7. Term of Plan. Subject to Section 20 of the Plan, the Plan shall become -----
effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 16 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Option -----
Agreement. In the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Option Agreement. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be -----
issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share

exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at

such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. Subject to

Section 14, if an Optionee ceases to be a Service Provider (but not in the event of an Optionee's change of status from Employee to Consultant (in which case an Employee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option on the ninety-first (91st/) day following such change of status) or from Consultant to Employee), such Optionee may, but only within such period of time as is specified in the Option Agreement (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that Optionee was entitled to exercise it at the date of such termination. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service

Provider as a result of the Optionee's Disability, the Optionee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the

Option Agreement), exercise his or her Option the extent the Option is vested on the date of termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider,

the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy

out for a payment in cash or Shares an Option previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

11. Stock Purchase Rights. -----

(a) Rights to Purchase. Stock Purchase Rights may be issued either

alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the offer, including the number of Shares that the offeree shall be entitled to purchase, the price to be paid, and the time within which the offeree must accept such offer. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise,

the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or Disability). The purchase price for Shares repurchased pursuant to the

Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Administrator.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall

contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is

exercised, the purchaser shall have the rights equivalent to those of a shareholder, and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company.

No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 14 of the Plan.

12. Non-Transferability of Options and Stock Purchase Rights. Unless

determined otherwise by the Administrator, an Option or Stock Purchase Right may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Administrator deems appropriate.

13. Formula Option Grants to Outside Directors. Outside Directors shall

be automatically granted Options each year in accordance with the following provisions:

(a) All Options granted pursuant to this Section shall be Nonstatutory Stock Options and, except as otherwise provided herein, shall be subject to the other terms and conditions of the Plan.

(b) Each person who first becomes an Outside Director on or after the IPO Effective Date, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy, and who did not hold unvested Options as of the IPO Effective Date, shall be automatically granted an Option to purchase 12,500 Shares (the "First Option") on the date he or she first becomes an Outside Director; provided, however, that an Inside Director who ceases to be an Inside Director but who remains a Director shall not receive a First Option.

(c) Each Outside Director shall be automatically granted an Option to purchase 12,500 Shares (a "Subsequent Option") following each annual

meeting of the stockholders of the Company, except in the case of the first such annual meeting after the IPO Effective Date if such annual meeting is held within six (6) months of the IPO Effective Date, if as of such date, he or she shall continue to serve on the Board and shall have served on the Board for at least the preceding six (6) months.

(d) Notwithstanding the provisions of subsections (b) and (c) hereof, any exercise of an Option granted before the Company has obtained stockholder approval of the Plan in accordance with Section 20 hereof shall be conditioned upon obtaining such stockholder approval of the Plan in accordance with Section 20 hereof.

(e) The terms of each Option granted pursuant to this Section shall be as follows:

(i) the term of the Option shall be five (5) years.

(ii) the exercise price per Share shall be 100% of the Fair Market Value per Share on the date of grant of the Option.

(iii) the Option shall be fully vested and exercisable as to 100% of the Shares subject to the Option on its date of grant.

14. Adjustments Upon Changes in Capitalization, Dissolution, Merger or

Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the

shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and Stock Purchase Right, the number of shares of Common Stock covered by First Options and Subsequent Options to be granted under the Plan, the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right and the number of shares of Common Stock which may be added to the Plan each fiscal year (pursuant to Section 3), as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class,

shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed

dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. Subject to subsection (d), in the event of

a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the

Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock

subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

(d) Termination Following a Change of Control. If, at any time within

twelve (12) months after a Change of Control, an Optionee's status as Employee is terminated for any reason other than Cause or if an Optionee's status as Director terminates other than upon a voluntary resignation by the Optionee (which shall not be deemed voluntary if requested by the acquiring company), the vesting and exercisability of each outstanding Option or Stock Purchase Right shall be automatically accelerated in full. The Option or Stock Purchase Right shall remain exercisable in accordance with Section 10 and the Option Agreement.

15. Date of Grant. The date of grant of an Option or Stock Purchase Right

shall be, for all purposes, the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

16. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter,

suspend or terminate the Plan.

(b) Shareholder Approval. The Company shall obtain shareholder

approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration,

suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

17. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the

exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares shall

comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an

Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

18. Inability to Obtain Authority. The inability of the Company to obtain

authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

19. Reservation of Shares. The Company, during the term of this Plan, will

at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

20. Shareholder Approval. The Plan shall be subject to approval by the

shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under Applicable Laws.

SUMMIT SOFTWARE COMPANY
BASICSRIPT LICENSE AGREEMENT

This Agreement ("Agreement") is made and entered into the later of the two dates on the signature page ("Effective Date") by and between Henneberry Hill Technologies Corporation, a New York corporation doing business as Summit Software Company, 4933 Jamesville Road, Jamesville, NY 13078 (hereafter "Summit") and NetIQ Corporation, a California Corporation, with offices at 275 Saratoga Ave., Suite 260, Santa Clara, CA 95050 (hereafter "COMPANY").

For good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, the parties agree as follows:

1. DEFINITIONS

For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Software" shall mean the computer software developed by Summit described in the attached Exhibit A, regardless of Summit's attaching a different name to such Software.

(b) "Product(s)" shall mean any of COMPANY's computer software product(s) that incorporate the Software, as set forth on Exhibit A, as it may be amended from time to time by Company.

(c) "Program Error" shall mean a coding defect which prevents the Software from performing to the specifications described in Exhibit A.

(d) "End User" shall mean a customer or purchaser of the Product(s) manufactured, distributed, and sublicensed by COMPANY pursuant to this Agreement.

(e) "End User Documentation" shall mean the instruction manual prepared by COMPANY for the End User describing how to use the Software.

(f) "End User Help System" shall mean the online help prepared by COMPANY for the End User describing how to use the Software.

(g) "Technical Documentation" shall mean the English language document(s) prepared by Summit, described in the attached Exhibit A, for use by COMPANY as the basis for developing the End User Documentation and End User Help System.

(h) "API Documentation" shall mean the English language document(s) prepared by Summit, described in the attached Exhibit A, for use by COMPANY in incorporating the Software into the Product(s).

(i) "Functional Specification Documents" shall mean Technical Documentation and API Documentation, all of which shall be attached to Exhibit A and delivered upon execution of the Agreement.

(j) "End User License" shall be the form of binary code license agreement which accompanies the Products when distributed to End Users.

(k) "Net Revenues" shall mean the gross selling price received by COMPANY for the Product(s), less (i) sales channel discount, (ii) returns, and (iii) sales taxes or equivalents, in each case applicable thereto, sold in each period for which royalties are due.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

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2. LICENSE

In consideration of the payments to be made by COMPANY to Summit as set forth in Section 5 and Exhibit B below:

(a) Summit grants to COMPANY a non-exclusive, worldwide, non-transferable license, during the term of this Agreement and any renewals hereof, to translate, modify, reproduce, distribute and sublicense the Software solely in conjunction with the Product(s) and not as a "stand-alone" product.

(b) COMPANY shall have the right, but not the obligation, in conjunction with COMPANY's promotion or sale of the Product(s), to make reasonable use of the trademark(s) listed in Exhibit C for product marketing purposes.

(c) Summit grants to COMPANY a non-exclusive, worldwide, non-transferable license, during the term of this Agreement, to translate, modify, reproduce and distribute the Technical Documentation, as incorporated into the End User Documentation and End User Help System, solely as part of or in connection with the Product(s) under the terms of this Agreement, subject to the provisions provided herein.

(d) All rights not expressly granted herein are reserved by Summit.

3. SUMMIT OBLIGATIONS

(a) If during the term of this Agreement and any extensions hereto, any Program Error is discovered in the then current release or the previous release of the Software, Summit will promptly correct the same in accordance with Exhibit D hereto.

(b) During the term of this Agreement and any extensions hereto, Summit will provide COMPANY with support by telephone and/or electronic mail to answer COMPANY's questions about the then current release and the previous release of the Software.

(c) Summit agrees to offer COMPANY any upgrades to the Software that it releases commercially or offers to other publishers or vendors, during the term of this Agreement and any renewals hereto. COMPANY is not obligated to accept the offered upgrades, not to include any accepted upgrades in all products that are incorporating the Software. Summit agrees, following acceptance by COMPANY of an upgrade, to extend its support obligations to COMPANY as set forth in Sections 3(a) and 3(b) of this Agreement to such upgrade. All provisions of this

Section 3(c) are subject to the payment provisions as set forth in Section 5 and Exhibit B below.

4. COMPANY OBLIGATIONS

(a) COMPANY will use commercially reasonable efforts to promote the distribution and sales of the Product(s).

(b) COMPANY shall supply Summit at no charge two (2) copies of the Product(s) in which the Software is integrated, for the sole purpose of allowing Summit to evaluate COMPANY's compliance with this Agreement, within thirty (30) days after COMPANY first offers the Product(s) for commercial release or sale.

(c) COMPANY shall be solely responsible for providing End User support for customers of the Product(s) and the Software.

(d) COMPANY shall be solely responsible for providing updates to its End User customers of the Product(s) and the Software, as Company may elect.

(e) COMPANY shall be responsible for the language translation and modification of the Software necessary for the Software to perform in foreign languages on personal computer systems designed for use in markets outside the United States, if COMPANY elects to promote the Software as a part of the Product(s) in such

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markets. Should it prove necessary to contract with outside entities to perform said translation and modification, COMPANY shall fully bear such expense.

(f) COMPANY shall include on the credits page of the End User Documentation and in at least one dialog box within each product in which the Software is included the following notice "Portions (c) 1992-1996 Summit Software Company."

(g) COMPANY will use commercially reasonable efforts to collect the names and addresses of each registered End User of the Product(s) which contain the Software (the "Mailing List") and allow Summit to mail to the list one time for each new version of the Software that COMPANY licenses from Summit; provided, however, that Company may delete from such Mailing List any user which has objected to the provision of its name to third parties. However (i) COMPANY will have the absolute right of review and approval for mailing pieces to the list, and shall have the right to approve the time period during which the mailing occurs; (ii) COMPANY will have the right to reject any mailing which includes offers for software which directly competes with COMPANY's own products; (iii) Summit will use COMPANY's designated mailing house and will be responsible for all costs associated with its mailing; (iv) Summit will not have physical access to the list at any time; (v) Summit may not transfer, sublicense, or make any other use of this list whatsoever except for mailings associated with Summit developed products; and (vi) Summit's right to use the list shall commence at shipment of the Product(s) which contain the Software that qualifies for access to the list as described herein, and shall expire 12 months from the shipment date of the same.

(h) COMPANY shall distribute and license the use of the Software to End Users only pursuant to its End User License Agreement ("EULA") which shall conform substantially to Exhibit E, except that (i) it shall be adapted as commercially reasonable for any foreign jurisdiction in which LICENSEE markets

or distributes the Software; (ii) the limitations of liability and remedies in COMPANY's EULA shall inure to the benefit of Summit; and (iii) COMPANY shall be the "Licensor" under its EULA.

(i) COMPANY shall require its distributors, dealers and others in its distribution channels to comply with the terms of this Agreement, to the extent necessary for COMPANY to comply with this Agreement.

5. PRICE AND PAYMENT

(a) During the term of this Agreement and any renewal hereof, in consideration of the license granted to COMPANY hereunder, COMPANY agrees to pay Summit any license fees, royalty fees, and advances against royalties set forth in Exhibit B, in accordance with the payment schedule therein.

(b) All payments due hereunder shall be paid in United States dollars. All royalties due Summit for each calendar quarter period computed in other currencies shall be converted into United States dollars, pursuant to the standard used by COMPANY to do such conversions in its normal business practice.

(c) Within thirty (30) days after the end of each calendar quarter period during the term hereof, COMPANY shall furnish Summit with a royalty statement, together with payment for any amount shown thereby to be due Summit. The royalty statement shall set forth the number of units of each Product incorporating the Software and the Net Revenues for each Product incorporating the Software, sold anywhere in the world during the calendar quarter then ended, and shall contain information setting forth how the royalty payment, if any, was computed.

6. ACCEPTANCE PROCEDURE AND LIMITED PRODUCT WARRANTY

(a) Summit shall deliver to COMPANY the Deliverables referred to in Exhibit B according to the schedule set forth in Exhibit B, and warrants that the Deliverables, including the Software, shall conform to the Functional Specification Documents, as defined in Exhibit A. Delivery will occur when COMPANY receives any such Deliverable from Summit with a written certification that any such Deliverable conforms to the Specifications.

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(b) If Company does not notify Summit of its rejection of a Deliverable within fifteen (15) working days of receipt, the Deliverable will be deemed accepted.

(c) Neither COMPANY nor any of its employees shall have any right to make any representation, warranty, or promise on behalf of Summit.

(d) Excepting the foregoing warranty in this Section 6 and the warranty in Section 7, and to the maximum extent permitted by applicable law: The Software is provided to COMPANY "as is" without any other warranty of any kind and the entire risk as to the results and performance of the Software is assumed by COMPANY, its distributors and the End User customers; Summit disclaims all warranties, either express or implied, including but not limited to, implied warranties of merchantability and fitness for a particular purpose; and, in no event shall Summit be liable for any direct, consequential, indirect, incidental, or special damages whatsoever, including without limitation, damages for loss of business profits, business interruption, loss of business

information, and the like, arising out of the use of or inability to use the Software, even if Summit has been advised of the possibility of such damages. Because some states/jurisdictions do not allow the exclusion or limitation of liability for consequential or incidental damages, the above limitation may not apply. In no event shall Summit's liability for damages hereunder exceed the amounts paid to Summit under this Agreement.

7. WARRANTIES AND REPRESENTATIONS

Summit represents and warrants that it owns all right, title, interest in, or under written licenses or other documents, has the right to, the intellectual property relating to the Deliverables including, without limitation, patents, copyrights, mask works, trade secrets, trade marks, and other related intellectual property, in order to grant COMPANY the rights in this Agreement.

8. INDEMNIFICATION

Summit will indemnify, hold harmless, and defend COMPANY from and against any suit or proceeding brought against COMPANY based on a claim that the Software, alone and not in combination with any other products, infringes any patent, mask work, copyright, trade secrets, or other intellectual property right of any third party, if notified promptly by COMPANY of such claim in writing and given authority, information and assistance for the defense of same. In no event shall Summit's liability for damages hereunder exceed the amounts paid to Summit under this Agreement.

9. TERM OF AGREEMENT

(a) Except as otherwise provided in any Exhibit(s) hereto, provided this Agreement has been properly executed by COMPANY and by an officer of Summit, the term of this Agreement shall begin on the Effective Date and shall terminate one (1) years after the date of First Customer Shipment of the Product(s) unless terminated earlier for breach as provided herein, subject, however, to automatic successive renewal terms of one (1) year each, unless either party to this Agreement gives written notice of its intent not to renew at least thirty (30) days prior to the expiration of the initial term or any succeeding term.

(b) Notwithstanding the terms of Section 9(a), COMPANY may distribute the Product(s) for a period of six (6) months following expiration of this Agreement in order to liquidate COMPANY's inventory of Product(s).

10. DEFAULT AND TERMINATION

(a) Either party shall have the right, at its sole option and upon written notice to the defaulting party, to terminate this Agreement if any of the following events of default occur: (i) if either party materially fails to perform or comply with this Agreement or any provision hereof; (ii) if either party fails to comply with the provisions of

Section 11 or makes or attempts to make an assignment in violation of Section 16(e); (iii) if either party becomes insolvent or makes an assignment for the benefit of creditors; (iv) if a petition under any foreign, state, or United

States bankruptcy act, receivership statute, or the like, as they now exist, or as they may be amended, is filed by either party; or (v) if such a petition is filed by any third party, or an application for a receiver of either party is made by anyone and such petition or application is not resolved favorably to the party within sixty (60) days.

(b) Termination shall be effective sixty (60) days after notice of termination to the other party if the offending party's defaults have not been cured. The rights and remedies of the non-offending party provided in this Section 10(b) shall not be exclusive and are in addition to any other rights and remedies provided by law or this Agreement.

(c) If this Agreement is terminated due to a material breach by COMPANY, COMPANY shall return to Summit or destroy all full or partial copies of the Software and Documentation in COMPANY's possession or under its control within ninety (90) days following the termination date.

(d) Subject to this Section 10, Sections 1, 5, 6, 7, 8, 9(b), 11, 15, 16(e), 16(f) and 16(j), shall survive termination of this Agreement.

11. NON-DISCLOSURE AGREEMENT

(a) COMPANY and Summit expressly undertake to retain in confidence and to require its respective distributors to retain in confidence all information and know-how transmitted to the party receiving such information (the "Disclosee") that the disclosing party has identified as being proprietary and/or confidential or that, by the nature of the circumstances surrounding the disclosure, ought in good faith to be treated as proprietary and/or confidential (the "Confidential Information"), and will make no use of the Confidential Information except under the terms and during the existence of this Agreement. The Disclosee shall have no such obligation with respect to information which (a) was rightfully in its possession before receipt from the disclosing party, (b) is or becomes a matter of public knowledge through no fault of the Disclosee, (c) is rightfully received by Disclosee from a third party without a duty of confidentiality, (d) is independently developed by the Disclosee or (e) is disclosed by the Disclosee with the prior written approval of the disclosing party. However, Disclosee may disclose Confidential Information in accordance with judicial or other government order, provided Disclosee shall give the disclosing party reasonable notice prior to such disclosure and shall comply with any applicable protective order or equivalent.

(b) The Disclosee's obligations under this Section 11 shall survive any termination or expiration of the Agreement and shall extend to the earlier of such time as the information protected hereby is in the public domain or four (4) years following termination or expiration of this Agreement.

12. AUDITS

(a) During the term of this Agreement, COMPANY agrees to keep all usual and proper records and books of account and all usual and proper entries therein relating to the manufacture and sale of the Product(s) hereunder sufficient to provide Summit with an accurate royalty statement as required in Section 5(c).

(b) Summit shall have the right to have an independent CPA of national standing to examine the books and records of the COMPANY for the sole purpose of verifying the accuracy of royalty payments hereunder. No more than two such examinations shall be made within any twelve month period. Such CPA shall

disclose to Summit only such information as is necessary to determine Company's compliance, or lack of compliance, with its royalty payment obligations.

(c) In the event an audit discloses underpayment equal to, or greater than, ten percent (10%) of the amount shown thereby to be due to Summit from COMPANY, COMPANY shall bear the expenses of the audit.

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13. FORCE MAJEURE

Neither party shall be liable for failure to perform due to unforeseen circumstances or causes beyond the Parties' reasonable control, including, but not limited to, acts of God, war, riot, embargoes, acts of civil or military authorities, fire, flood, accidents, strikes, inability to secure transportation, fuel, energy, labor or materials. Time for performance will be extended by the amount of any delay.

14. CUMULATIVE REMEDIES

Each parties' respective rights hereunder are cumulative and include, without limitation, the right to specific performance and injunctive relief.

15. NOTICES AND REQUESTS

All notices and requests in connection with this Agreement shall be deemed delivered or given three (3) days following the day they are shipped, if shipped by overnight courier, or ten (10) days following the day they are deposited in the U.S. Mail by regular and certified mail, return receipt requested, postage prepaid and addressed as designated below or to such other address as the party to receive the notice or request so designates by written notice to the other.

NOTICES TO SUMMIT:

Summit Software Company
4933 Jamesville Road
Jamesville, NY 13078
Fax: (315) 445-9567

Attn: William P. Fisher, President

Copy to: Contract Administrator

NOTICES TO COMPANY:

NeitQ Corporation
275 Saratoga Ave., Suite 260
Santa Clara, CA 95050

Attn: Mr. Hon Wong, VP

Copy to: Ms. Joyce Neubert

(a) This Agreement shall be construed and controlled by the laws of the State of New York. Summit and COMPANY consent to venue in the state and federal courts in which the defending party resides. Process may be served on either party in the manner authorized by law.

(b) Neither this Agreement, nor any terms and conditions contained herein, shall be construed as creating a partnership, joint venture, or agency relationship.

(c) This Agreement, which incorporates all exhibits hereto, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements or

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communications. It shall not be modified except by a written agreement dated subsequent to the date of this Agreement and signed on behalf of COMPANY and Summit by their respective duly authorized representatives. No waiver of any breach of any provisions of this Agreement shall constitute a waiver of an prior, concurrent or subsequent breach of the same or any provisions hereof, and no waiver shall be effective unless made in writing and signed by an authorized representative of the waiving party.

(d) If any provision of this Agreement shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable, the remaining provision shall remain in full force and effect.

(e) The rights and obligations hereunder shall inure to the benefit of the successors and assigns of the parties hereto, provided that any rights or obligations hereunder shall not be assigned or sublicensed by either party without the prior, written consent of the other party, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, either party shall have the right to assign any rights or obligations hereunder to a parent corporation, wholly owned subsidiary or a holding company.

(f) Any Product(s) which COMPANY distributes to or on behalf of the United States of America, its agencies and/or instrumentalities (the "Government"), is provided to COMPANY with RESTRICTED RIGHTS. Use, duplication or disclosure by the Government is subject to restriction as set forth in subparagraph (c)(1)(ii) of the rights in Technical Data and Computer Software clause at DFAR 252.277-7013, or as set forth in the particular department or agency regulations or rules which provide Summit protection equivalent to or greater than the above-cited clause. COMPANY shall comply with any requirements of the Government to obtain such RESTRICTED RIGHTS protection, including without limitation, the placement of any restrictive legends on the documentation for the Product(s) and any license agreement used in connection with the distribution thereof. Manufacturer is Henneberry Hill Technologies Corporation, 4933 Jamesville Road, Jamesville, New York 13078. Under no circumstances shall Summit be obligated to comply with any Governmental requirements regarding cost and pricing data and cost accounting. For any distribution or license of the Product(s) that would require compliance by Summit with Governmental requirements relating to cost and pricing data or cost accounting, COMPANY must obtain an appropriate waiver or exemption for such requirements for the benefit of Summit from the appropriate Governmental authority before the distribution and/or license of the Product(s) to the Government.

(g) COMPANY agrees that it will not, directly or indirectly, export or transmit the Product(s) and technical data (or any part thereof) or any process or service that is the direct product of the Software and Documentation, to any group S or Z country specified in Supplement No. 1 of Section 770 of the Export Administration Regulations or to any other country to which such export or transmission is restricted by such regulation or statute, without the prior written consent, if required, of the Office of Export Administration of the U.S. Department of Commerce, or such other governmental entity as may have jurisdiction over such export or transmission.

(h) COMPANY shall, at its own expense, obtain and arrange for the maintenance in full force and effect of all governmental approvals, consents, licenses, authorizations, declarations, filings, and registrations as may be necessary for the performance of all of the terms and conditions of the Agreement including, but not limited to, foreign exchange approvals, import and offer agent licenses, fair trade approvals and all approvals which may be required to realize the purposes of the Agreement.

(i) In the event taxes are required to be withheld by any foreign government on payments required hereunder, COMPANY may deduct such taxes from the amount owed Summit and pay them to the appropriate tax authority; provided, however, that COMPANY shall promptly secure and deliver to Summit an official receipt for any such taxes withheld or other documents necessary to enable Summit to claim a U.S. Foreign Tax Credit. COMPANY will make certain that any taxes withheld are minimized to the extent possible under applicable law. Prices stated are exclusive of any federal, state, municipal or other governmental taxes, duties, licenses, fees, excises or tariffs now or hereafter imposed on COMPANY's production, storage, licensing, sale, transportation, import, export or use of the Software. Such charges shall be paid by COMPANY, or in lieu thereof, COMPANY shall provide an exemption certificate acceptable to Summit and the applicable authority. Summit, however, shall be responsible for all taxes based upon its personal property ownership and gross or net income.

(j) The prevailing party in any litigation brought under this Agreement shall be entitled to recover its reasonable attorneys' fees and costs.

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(k) The parties agree to submit any dispute arising under this Agreement to non-binding mediation before a mutually agreeable mediator. (In the event such a mediator cannot be agreed upon, the parties will submit the dispute to the American Arbitration Association for appointment of a mediator in accordance with its rules.) In the event such mediation does not successfully resolve the dispute, either party may bring suit in a court of appropriate jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above. All signed copies of this Agreement shall be deemed originals.

SUMMIT SOFTWARE COMPANY

NETIQ CORPORATION

/s/ William B. Fisher

/s/ Ching-Fa Hwang

By

By

William B. Fisher

Ching-Fa Hwang

Name (Print)

Name (Print)

President

Title

August 27, 1996

Date

President

Title

August 14, 1996

Date

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EXHIBIT A

SOFTWARE, NAMED PRODUCT(S),
AND FUNCTIONAL SPECIFICATION DOCUMENTS

1. SOFTWARE

(a) The Software licensed under this Agreement, known as:

BASICSCRIPT 2.2 FOR WINDOWS

BASICSCRIPT 2.2 FOR WIN32

and consisting of the following executable object code files contained in the Summit products listed immediately above, as fully described in the attached documents, entitled "BasicScript 2.2 User's Guide", "BasicScript 2.2 Language Reference", and "BasicScript 2.2 Programmer's Guide" (the "Functional Specification Documents"):

BasicScript 2.2 for Windows

SUMWRN22.DLL	Runtime
SUMWPB22.DLL	Public Extension Manager
SUMWOL22.DLL	OLE Automation support library
SUMWTL22.DLL	Type library support library
SUMWCX22.DLL	Picture control support library
SUMWDE22.DLL	Dialog Editor (standalone version)
SUMWDD22.DLL	Debugger Dialog
SUMWDC22.DLL	Debugger Control
SUMWCM22.DLL	Compiler
SUMWDG22.DLL	Dialog Editor (embedded version)

BasicScript 2.2 for Win32

SUMNRN22.DLL	Runtime
SUMNPB22.DLL	Public Extension Manager
SUMNOL22.DLL	OLE Automation support library
SUMNTL22.DLL	Type library support library
SUMNCX22.DLL	Picture control support library
SUMNDE22.DLL	Dialog Editor (standalone version)
SUMNDD22.DLL	Debugger Dialog
SUMNDC22.DLL	Debugger Control
SUMNCM22.DLL	Compiler
SUMNDG22.DLL	Dialog Editor (embedded version)

Any upgraded, future or successor Summit software that performs substantially the same functions as the Scripting Software shall likewise be deemed Scripting Software for the purposes of this Agreement.

2. NAMED PRODUCT(S)

The Software licensed by Summit to COMPANY under the provisions of this Agreement may be translated, modified, reproduced, distributed and sublicensed in conjunction with the following Product(s):

NetIQ AppManager(TM) for Windows NT

NetIQ AppManager(TM) for Windows NT Workstation

NetIQ AppManager(TM) Super Console

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COMPANY may change the specifications of Products and may bundle the Products with other items of software or hardware. In the event a Product is bundled, the royalty shall be assessed on the portion (subject to prior written approval of Summit which shall not be unreasonably withheld) of the Net Revenues received from the bundled product which is attributable to the Product.

3. FUNCTIONAL SPECIFICATION DOCUMENTS

Summit will deliver to COMPANY, on or prior to the Effective Date, the following documents (collectively, the "Functional Specification Documents.")

(a) Technical Documentation, entitled "BasicScript 2.2 User's Guide" and "BasicScript 2.2 Language Reference" (attached)

(b) API Documentation, entitled "BasicScript 2.2 Programmer's Guide" (attached)

4. DELIVERABLES

Unless otherwise specified in the Functional Specification Documents, the Deliverables by Summit to COMPANY will consist of the following:

(a) The Software, in executable object code form, conforming to the Functional Specification Documents,

(b) The Technical Documentation and API documentation, in printed form.

(c) The Technical Documentation, diskette form (FrameMaker 5.0, Microsoft Word 6.0, and Rich Text File formats, including all files used by Summit to generate the help system for the Software).

(d) All testing materials, including but not limited to automated test scripts, used by Summit to test the Software, for use by COMPANY to verify that the Software conforms to the Functional Specification Documents.

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EXHIBIT B
DELIVERY AND PAYMENT SCHEDULES

1. DELIVERY SCHEDULE FOR DELIVERABLES

Summit agrees to deliver the Software to COMPANY according to the following schedule:

SOFTWARE VERSION	FINAL DELIVERABLE
BasicScript 2.2 for Windows	Within five (5) days of Effective Date
BasicScript 2.2 for Win32	Within five (5) days of Effective Date

2. PAYMENT SCHEDULE

(a) COMPANY will pay Summit royalties of [*] percent ([*]%) of the Net Revenues received by COMPANY for the sale of Products, exclusive of the [*****]. Company will pay Summit royalties of \$[*] for the sale of each [*****]. Company will be allowed to distribute a reasonable number of promotional and demonstration copies without any royalty obligation.

(b) Payments and shipment reports are due thirty (30) days following the end of each calendar quarter and shall be sent to Summit at the address listed in Section 15.

(c) COMPANY shall not be liable for payment of earned royalties for promotional or complementary units of the Product(s), provided that no more than Ten Percent (10%) of all units of the Product(s) are distributed by COMPANY as promotional or complementary units.

(d) In connection with any renewal of the Agreement in accordance with Section 9(a), the parties will renegotiate the applicable royalty rate, taking into account the Company's forecasted volumes, the marketability and value of the Software and other relevant factors; provided, however that in no event shall the royalty rates increase from that charged in the prior annual period. The parties will use reasonable efforts to complete such renegotiation at least thirty (30) days prior to the commencement of the renewal term.

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

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EXHIBIT C
TRADEMARK(S) LICENSED TO COMPANY

Registered Trademark

BasicScript

EXHIBIT D
MAINTENANCE AND SUPPORT

1. SUMMIT MAINTENANCE AND SUPPORT

(a) For the term of this Agreement, for the Software and Redistributables (Question: What is Redistributables?) developed by Summit and marketed and distributed by COMPANY in Products, Summit will provide reasonable maintenance and support and will resolve problem reports received from COMPANY as described below to COMPANY at no cost.

(b) If COMPANY, in its sole judgment and discretion, determines it cannot efficiently or effectively remedy a problem in supporting its customers, COMPANY shall furnish Summit a problem report.

(c) Upon receiving a problem report from COMPANY and unless the parties otherwise agree in writing, Summit shall respond and use its best efforts to correct the problem in accordance with the following:

<TABLE>

<CAPTION>

PRIORITY	WRITTEN ACKNOWLEDGMENT OF PROBLEM REPORT DELIVERED TO COMPANY	PATCH, WORKAROUND, TEMPORARY FIX, PERMANENT FIX OR UPDATE	OFFICIAL FIX, UPDATE, UPGRADE, OR ENHANCEMENT
<S> Fatal	<C> Following Business Day	<C> Within 3 business days	<C> Within 60 days
Severe	Following Business Day	Within 7 business days	Within 60 days
Degradation	5 Business Days	30 days	Within 60 days
Minimal Impact	5 Business Days	60 days	Within 90 days

</TABLE>

Fatal: condition which precludes all useful work from being done.

Severe Impact: condition which precludes one or more major functions from

being performed.

Degradation: condition which disables one or more non-essential functions.

Minimal Impact: any other condition which requires rectification.

(d) If Summit creates a bug fix other than in response to a problem reported by COMPANY, whether to the Software or Redistributable, Summit agrees to notify COMPANY and make the same available to COMPANY under the license grant in Section 2 of this Agreement within seven (7) days of its initial distribution and at no charge.

(e) Summit assumes all the same maintenance and support obligations in this

EXHIBIT E
SOFTWARE LICENSE AGREEMENT

This Software License Agreement ("Agreement") is made by and between NetIQ Corporation, a California corporation with its principal place of business at 275 Saratoga Avenue, Suite 260, Santa Clara, CA 95050 ("NetIQ"), and _____ with its principal place of business at _____ ("Licensee"), and is effective as of _____.

This Agreement and the terms and conditions hereof shall govern all licenses of the computer software products identified on Exhibit A, and any upgrades, modifications or enhancements to such products which have been developed by, or on behalf of, and provided to Licensee by NetIQ (collectively, "Software"). All Software will be governed by the terms of this Agreement.

1. GRANT OF LICENSE. Subject to the terms and conditions hereof, NetIQ hereby grants to Licensee, and Licensee hereby accepts from NetIQ, a personal, nonexclusive license to install, use and execute Software in machine readable object code form and to use related documentation provided to Licensee by NetIQ, on a single computer or, in the case of a multi-user or networked system which permits access by more than one user at the same time, at a single work station. Licensee shall have the right to make one additional copy of the Software for backup purposes.

2. LICENSE FEE. In consideration of the license granted hereunder, and the other covenants of NetIQ hereunder, Licensee agrees to pay NetIQ the license fee set forth on Exhibit B in the manner and at the times set forth therein.

3. PROPRIETARY RIGHTS NOTICES. Licensee agrees (a) to respect all confidentiality notices or legends placed upon the Software; (b) not to conceal from view any copyright, trademark or confidentiality notices placed on the Software media or on any output generated by the Software; and (c) to reproduce all copyright, trademark or confidentiality notices (i) on all copies of the Software, or any portion thereof, made by Licensee as permitted hereunder and (ii) on all portions of the Software contained in or merged into other programs.

4. PROPRIETARY RIGHTS. Licensee acknowledges that NetIQ retains exclusive right, title and interest in and to the Software and all copies or portions thereof, including all intellectual property rights. By accepting this license, Licensee does not become the owner of the Software, but has the right to use the Software as outlined and limited in this Agreement. Licensee further acknowledges and agrees that the Software contains confidential information and trade secrets developed and acquired by NetIQ through the expenditure of a great deal of time and money. Accordingly, Licensee agrees to treat the Software as confidential and not to disclose all or any portion of the Software to any third party or entity, except as such disclosure may be necessary to Licensee's

employees in the course of their employment. Licensee agrees not to modify, decompile, disassemble or otherwise reverse engineer the Software. Licensee further agrees not to lend, rent, lease, sublicense or otherwise transfer any copies of the Software or any portion thereof in any form to any person without prior written consent of NetIQ, as provided in Section 9. Licensee will use its best efforts and take all reasonable steps to protect the Software and to prevent any unauthorized reproduction, publication, disclosure, or distribution of the Software or any portion thereof.

5. TERM AND TERMINATION. This Agreement is effective upon written

acceptance by Licensee or upon acceptance of delivery of any Software by Licensee, and shall continue unless and until terminated in

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accordance with the provisions of this Section 5. This Agreement shall automatically terminate and Licensee shall lose its license rights hereunder if (a) Licensee transfers possession of the Software, any copy of the Software, or any portion or merged portion of the Software to another party, except as provided in Section 8, or (b) violates the provisions of Section 4, Additionally, NetIQ shall be entitled to terminate this Agreement upon written notice to Licensee in the event that Licensee breaches any material obligation under this Agreement. Licensee shall be entitled to terminate this Agreement upon written notice given by Licensee to NetIQ. Within ten (10) days after termination of this Agreement, Licensee shall return all copies of the affected Software and related documentation, or any portion thereof, in any form, to NetIQ at the above address.

6. LIMITED WARRANTY AND DISCLAIMER OF WARRANTIES. The media upon which any

Software is contained is warranted to be free from defects in material and workmanship for a period of ninety (90) days from the date of delivery to Licensee (the "Warranty Period"). NetIQ's entire liability and Licensee's exclusive remedy for breach of the foregoing limited warranty shall be for NetIQ to replace any defective media which is returned to NetIQ during the Warranty Period. NETIQ DOES NOT WARRANT THAT ANY SOFTWARE IS FREE OF ERRORS OR "BUGS." EXCEPT AS PROVIDED HEREIN, THE SOFTWARE IS PROVIDED "AS IS" AND NETIQ MAKES NO WARRANTY, EXPRESS, IMPLIED, OR STATUTORY, WITH RESPECT TO THE SOFTWARE AND SPECIFICALLY DISCLAIMS THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND ANY WARRANTY OF NON-INFRINGEMENT.

7. INDEMNIFICATION: INFRINGEMENT OF THIRD-PARTY RIGHTS. NetIQ shall defend

any suit or proceeding brought against Licensee arising out of or based on any claim, demand, or action alleging that the Software or any portion thereof, as used within the scope of this Agreement, infringes or misappropriates any thirdparty rights in copyrights, patents, or trade secrets in the United States. Additionally, NetIQ shall pay any costs, damages, or awards of settlement, including court costs, arising out of any such claim, demand, or action; provided, that Licensee shall give prompt written notice of any such claim, demand, or action to NetIQ and provide NetIQ with control of the defense and settlement thereof and, further, shall reasonably consent to any settlement of such claim, demand, or action. In the event that any Software is held in such suit or proceeding to infringe such proprietary right, and the use of the Software, or portion thereof, is enjoined, NetIQ shall, at its sole option and expense (i) procure for Licensee the right to continue using the Software, or portion thereof; (ii) replace the same with noninfringing programs of equivalent

functions; or (iii) remove the Software, or portion thereof. In the event that NetIQ so removes the Software, or portion thereof, Licensee shall receive a refund of that portion of the fees paid in connection with the license for such Software.

8. LIMITATION OF LIABILITY. IN NO EVENT WILL NETIQ BE LIABLE TO LICENSEE

OR ANY OTHER PARTY FOR ANY CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES ARISING OUT OF THIS AGREEMENT OR THE USE OR INABILITY TO USE THE SOFTWARE, INCLUDING, BUT NOT LIMITED TO, ANY LOST PROFITS OR COST SAVINGS, EVEN IF NETIQ HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

IN NO EVENT SHALL NETIQ'S LIABILITY TO LICENSEE, WHETHER BASED ON AN ACTION OR CLAIM IN CONTRACT OR TORT (INCLUDING, WITHOUT LIMITATION, NEGLIGENCE AND, TO THE EXTENT PERMITTED BY LAW, STRICT LIABILITY) OR OTHERWISE, ARISING OUT OF OR RELATED TO THIS AGREEMENT EXCEED THE AGGREGATE FEES PAID BY LICENSEE FOR THE SOFTWARE AS OF THE DATE SUCH ACTION OR CLAIM WAS FILED.

9. TRANSFER AND ASSIGNMENT. Neither the license granted hereunder nor this

Agreement (nor any portion of the Software) may be assigned or transferred by Licensee without the prior written consent of NetIQ.

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Such consent may be conditioned upon (i) transfer of the entire Software and all copies thereof, including merged portions, along with all copies of related documentation, to the assignee or transferee; (ii) payment of an administrative fee at NetIQ's then prevailing rates; and (iii) entry by the assignee or transferee into a License Agreement substantially similar to this Agreement with respect to the Software.

10. U.S. GOVERNMENT RESTRICTED RIGHTS. The following terms shall apply

where Licensee is an agency or unit of the U.S. government.

(a) Units of the DoD. Use, duplication or disclosure by the government is subject to restrictions as set forth in paragraph (c)(1)(ii) of the Rights in technical Data and Computer Software clause at DFARS 252.227-7013. NetIQ Corporation, 275 Saratoga Avenue, Suite 260, Santa Clara, CA 95050.

(b) Civilian agencies. Use, reproduction or disclosure is subject to restrictions as set forth in subparagraphs (a) through (d) of the Commercial Computer Software-Restricted Rights clause at FARS 52.227-19 and the limitations set forth in NetIQ's standard commercial agreement for this Software. Unpublished-rights reserved under the copyright laws of the United States.

11. EXPORT. Licensee acknowledges that the laws and regulations of the

United States restrict in the export and re-export of the Software, and agree that it will not export or re-export the Software in violation of those law sand regulations.

12. MISCELLANEOUS. In the event that any provision of this Agreement is

found invalid or unenforceable pursuant to judicial decree or decision, the remainder of this Agreement shall remain valid and enforceable according to its terms. This Agreement shall be construed and enforced in accordance with the

laws of the State of California. Any action or proceeding arising out of or related to this Agreement shall be brought in a state or federal court of competent jurisdiction located in the County of Santa Clara, California and both parties hereby submit to the in personam jurisdiction of such courts for purposes of any such action or proceeding. This Agreement may not be modified, amended or altered except by a writing signed by a duly authorized representative of NetIQ and Licensee. No waiver of any provision of this Agreement or any right or obligation of either party shall be effective except pursuant to a writing signed by a duly authorized representative of NetIQ and Licensee. This Agreement, including its Exhibits, constitutes the entire agreement between NetIQ and Licensee with respect to the transactions contemplated herein and supersedes any and all prior or contemporaneous oral or written communications with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized representative as of the date first set forth above.

Licensee:	NetIQ Corporation
_____	_____
Name: _____	Name: _____
Title: _____	Title: _____

SOFTWARE DISTRIBUTION
AGREEMENT

BETWEEN

TECH DATA PRODUCT MANAGEMENT, INC.

AND

NETIQ CORPORATION

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

SOFTWARE DISTRIBUTION AGREEMENT

THIS AGREEMENT, DATED AS OF THIS 23RD DAY OF JUNE, 1998, IS BETWEEN TECH DATA PRODUCT MANAGEMENT, INC., a Florida corporation ("Tech Data"), with its principal corporate address at 5350 Tech Data Drive, Clearwater, Florida 33760 and NETIQ CORPORATION, a California corporation ("NetIQ"), with its principal corporate address at: 275 Saratoga Avenue, Santa Clara, California 95050.

RECITALS

A. Tech Data desires to purchase certain Products from NetIQ from time to time and NetIQ desires to sell certain Products to Tech Data in accordance with the terms and conditions set forth in this Agreement.

B. NetIQ desires to appoint Tech Data as its non-exclusive distributor to market Products within the Territory (as hereinafter defined) and Tech Data accepts such appointment on the terms set forth in this Agreement.

NOW, THEREFORE, in consideration of the Recitals, the mutual covenants contained in this Agreement and other good and valuable consideration, Tech Data and NetIQ hereby agree as follows:

ARTICLE I.

DEFINITIONS, APPOINTMENT AND TERM OF AGREEMENT

1.1. Definitions. The following definitions shall apply to this Agreement.

(a) "Customers" of Tech Data shall include dealers, resellers, value added resellers, direct resellers and other entities that acquire the Products from Tech Data.

(b) "DOA" shall mean Product, or any portion thereof, which fails to operate properly on initial installation, boot, or use, as applicable.

(c) "Documentation" shall mean user manuals, training materials, Product descriptions and specifications, brochures, technical manuals, license agreements, supporting materials and other printed information relating to the Products, whether distributed in print, electronic, or video format.

(d) "Effective Date" shall mean the date on which this Agreement is signed and dated by a duly authorized representative of Tech Data.

(e) "End Users" shall mean the final purchasers or licensees who have acquired Products for their own use and not for resale, remarketing or redistribution.

(f) "Non-Saleable Products" shall mean any Product that has been returned to Tech Data by its Customers that has had the outside shrink wrapping or other packaging seal broken; any components of the original package are missing, damaged or modified; or is otherwise not fit for resale.

(g) "Products" shall mean, individually or collectively, the software licenses, electronic products, the sealed software packages comprised of the computer programs encoded on media together with manuals, materials and other contents of the packages associated therewith, if any, as more fully

described in Schedule 1.1(g) attached hereto.

(h) "Return Credit" shall mean a credit to Tech Data in an amount equal to the price paid by Tech Data for Products less any price protection credits but not including any early payment, prepayment or other discounts.

(i) "Services" means any warranty, maintenance, advertising, marketing or technical support and any other services performed or to be performed by NetIQ.

(j) "Territory" shall mean the United States, its territories and possessions, Canada, Central America, South America, Mexico and the Caribbean.

1.2 Term of Agreement. The term of this Agreement shall commence on the -----

Effective Date and, unless terminated by either party as set forth in this Agreement, shall remain in full force and effect for a term of one (1) year, and will be automatically renewed for successive one (1) year terms unless prior written notification of termination or non-renewal is delivered by one of the parties in accordance with the notice provision of this Agreement.

1.3 Appointment as Distributor. NetIQ hereby grants to Tech Data the non-----

exclusive right and license to distribute Products during the term of this Agreement within the Territory, together with any updates or enhancements to the Products and any new releases related to the Products. This license includes the right to order, possess and distribute the Products to Customers and to provide the Products to Customers for use on demonstration units. NetIQ and Tech Data acknowledge and agree that the license to use the Product is solely between NetIQ and the End User and is governed by the terms of the Vendor's standard use license enclosed with the Product. This Agreement does not grant NetIQ or Tech Data an exclusive right to purchase or sell Products and shall not prevent either party from developing or acquiring other vendors or customers or competing Products. Tech Data will use commercially reasonable efforts to promote distribution of the

Products. NetIQ agrees that Tech Data may obtain Products in accordance with this Agreement for the benefit of its parent, affiliates and subsidiaries. Said parent, affiliates and subsidiaries of Tech Data shall be entitled to order Products directly from NetIQ pursuant to this Agreement.

ARTICLE II. PURCHASE ORDERS

2.1 Issuance and Acceptance of Purchase Order.

(a) This Agreement shall not obligate Tech Data to purchase any Products or Services except as specifically set forth in a written purchase order.

(b) Tech Data may issue to NetIQ one or more purchase orders identifying the Products Tech Data desires to purchase from NetIQ. The terms and conditions of this Agreement shall govern all purchase orders, except that purchase orders may include other terms and conditions which are consistent with the terms and conditions of this Agreement, or which are mutually agreed to in writing by Tech Data and NetIQ. Purchase orders will be placed by Tech Data by fax or electronically transferred.

(c) A purchase order shall be deemed accepted by NetIQ unless NetIQ notifies Tech Data in writing within five (5) days of the date of the purchase order that NetIQ does not accept the purchase order.

2.2 Purchase Order Alterations or Cancellations. Prior to shipment of Products,

NetIQ shall accept alterations or cancellation to a purchase order in order to: (i) change a location for delivery, (ii) modify the quantity or type of Products to be delivered or (iii) correct typographical or clerical errors.

2.3 Evaluation or Demonstration Purchase Orders. NetIQ shall provide to Tech

Data a mutually agreed upon number of demonstration or evaluation Products at no charge.

2.4 Product Shortages. If for any reason NetIQ's production is not on schedule,

NetIQ may allocate available inventory to Tech Data and make shipments based upon a fair and reasonable percentage allocation among NetIQ's customers. Such allocations shall not impact the calculation of performance rebates.

2.5 Proof of Delivery ("POD"). Vendor shall provide to Tech Data, at no charge,

a hard copy Proof of Delivery for any drop shipment requested by Tech Data. The POD shall be faxed to Tech Data within 5 business days of the initial request. If the POD is not received within the specified time, the invoice will be considered disputed and no payment shall be made to vendor on that invoice.

ARTICLE III. DELIVERY

AND ACCEPTANCE OF PRODUCTS

3.1 Acceptance of Products. Tech Data shall, after a reasonable time to inspect

each shipment, accept Products (the "Acceptance Date") if the Products and all necessary documentation delivered to Tech Data are in accordance with the purchase order. Any Products not ordered or not otherwise in accordance with the purchase order (e.g. mis-shipments, overshipments) may be returned to NetIQ at NetIQ's expense (including without limitation to costs of shipment or storage). NetIQ shall refund to Tech Data within ten (10) business days following notice thereof, all monies paid in respect to such rejected Products. Tech Data shall not be required to accept partial shipment unless Tech Data agrees prior to shipment.

3.2 Title and Risk of Loss. FOB Destination. Title and risk of loss or damage

to Products shall pass to Tech Data at the time the Products are delivered to Tech Data's warehouse. NetIQ and Tech Data agree that no title or ownership of the proprietary rights to any software code is transferred by virtue of this Agreement notwithstanding the use of terms such as "purchase", "sale" or the like within this Agreement. NetIQ retains all ownership rights and title to any software code within the Products.

3.3 Transportation of Products. NetIQ shall deliver the Products clearly marked

on the Products' package with serial number, product description and machine readable bar code (employing UPC or other industry standard bar code) to Tech Data at the location shown and on the delivery date set forth in the applicable purchase order or as otherwise agreed upon by the parties. Charges for transportation of the Products shall be paid by NetIQ. NetIQ shall use only those common carriers preapproved by Tech Data or listed in Tech Data's published routing instructions, unless prior written approval of Tech Data is received.

ARTICLE IV. RETURNS

4.1 Inventory Adjustment. NetIQ agrees to accept return of overstocked Products

as determined by Tech Data, in Tech Data's reasonable discretion. Shipments of Products being returned shall be new, unused and in sealed cartons. Vendor shall credit Tech Data's account in the amount of the Return Credit.

4.2 Defective Products/Dead on Arrival (DOA). Tech Data shall have the right to

return to NetIQ for Return Credit any DOA Product that is returned to Tech Data within ninety (90) days after the initial delivery date to the End User and any Product that fails to perform in accordance with NetIQ's Product warranty. NetIQ

shall bear all costs of shipping and risk of loss of DOA and in-warranty Products to NetIQ's location and back to Tech Data or Tech Data's Customer.

4.3 Obsolete or Outdated Product. Tech Data shall have the right to return for

Return Credit, without limitation as to the dollar amount, all Products that become obsolete or NetIQ discontinues, updates, revises or are removed from NetIQ's current price list provided Tech Data returns such Products within one hundred fifty (150) days after Tech Data receives written notice from NetIQ that such Products are obsolete, superseded by a newer version, discontinued or are removed from NetIQ's price list. NetIQ shall bear all costs of shipping and risk of loss of Obsolete or Outdated Products to NetIQ's location.

4.4 Non-Saleable. Tech Data shall have the right to return to NetIQ for Return

Credit Non-Saleable Products.

4.5 Condition Precedent to Returns. As a condition precedent to returning

Products, Tech Data shall request and NetIQ shall issue a Return Material

ARTICLE V. PAYMENT TO VENDOR

- 5.1 Charges, Prices and Fees for Products. Charges, prices, quantities and -----
discounts, if any, for Products shall be determined as set forth in Schedule 1.1(g), or as otherwise mutually agreed upon by the parties in writing, and may be confirmed at the time of order. In no event shall charges exceed NetIQ's then current established charges. Tech Data shall not be bound by any of NetIQ's suggested prices.
- 5.2 Payment. Except as otherwise set forth in this Agreement, any undisputed -----
sum due to NetIQ pursuant to this Agreement shall be payable as follows: 5% prepay (upon prior written agreement of the parties). 2%-15, net forty-five (45) days after the invoice date. NetIQ shall invoice Tech Data no earlier than the applicable shipping date for the Products covered by such invoice. Products which are shipped from outside the United States, shall not be invoiced to Tech Data prior to the Products being placed on a common carrier within the United States for final delivery to Tech Data. The due date for payment shall be extended during any time the parties have a bona fide dispute concerning such payment. Notwithstanding anything herein to the contrary, for the initial order only, payment shall be made by Tech Data upon resale of the Products and expiration of the Customer return period and Tech Data may return any of the Products delivered under the initial order for Return Credit.

Notwithstanding anything contained in the Agreement or in any other agreements between Tech Data and NetIQ, including NetIQ's invoices, Tech Data has the right to delay payment for any Products ordered or received by Tech Data until Tech Data's sale of the Products and expiration of the Customer returns period.

- 5.3 Invoices. A "correct" invoice shall contain (i) Vendor's name and invoice -----
date, (ii) a reference to the purchase order or other authorizing document, (iii) separate descriptions, unit prices and quantities of the Products actually delivered, (iv) credits (if applicable), (v) shipping charges (if applicable) (vi) name (where applicable), title, phone number and complete mailing address as to where payment is to be sent, and (vii) other substantiating documentation or information as may reasonably be required by Tech Data from time to time. Notwithstanding any pre-printed terms or conditions on NetIQ's invoices, the terms and conditions of this Agreement shall apply to and govern all invoices issued by NetIQ hereunder, except that invoices may include other terms and conditions which are consistent with the terms and conditions of this Agreement, or which are mutually agreed to in writing by Tech Data and NetIQ.
- 5.4 Taxes. Tech Data shall be responsible for franchise taxes, sales or use -----
taxes or shall provide NetIQ with an appropriate exemption certificate. NetIQ shall be responsible for all other taxes, assessments, permits and fees, however designated which are levied upon this Agreement or the Products, except for taxes based upon Tech Data's income. No taxes of any type shall be added to invoices without the prior written approval of Tech Data.
- 5.5 Fair Pricing and Terms. NetIQ represents that the prices charged and the -----
terms offered to Tech Data are and will be at least as beneficial to Tech Data as those charged or offered by NetIQ to any of its other like distributors, aggregators, resellers or customers. If NetIQ offers price discounts, payment discounts, promotional discounts or other special prices to its other like distributors, aggregators, resellers or customers, Tech Data shall also be entitled to participate and receive notice of the same no later than other like distributors, aggregators, resellers or customers.
- 5.6 Price Adjustments.

- (a) Price Increases. NetIQ shall have the right to increase prices from -----
time to time, upon written notice to Tech Data not less than thirty (30) days prior to the effective date of such increase. All orders placed prior to the effective date of the increase, for shipment within thirty (30) days after the effective date, shall be invoiced by NetIQ at the lower price.
- (b) Price Decreases. NetIQ shall have the right to decrease prices from -----

time to time, upon written notice to Tech Data. NetIQ shall grant to Tech Data, its parent, affiliates and subsidiaries and Tech Data's Customers a price credit for the full amount of any NetIQ price decrease on all Products on order, in transit and in their inventory on the effective date of such price decrease. Tech Data and its Customers shall, after receiving written notice of the effective date of the price decrease, provide a list of all Products for which they claim a credit. NetIQ shall have the right to a reasonable audit at NetIQ's expense.

5.7 Advertising.

(a) Cooperative Advertising. NetIQ offers a two percent (2%) co-op program

and may offer additional advertising credits, or other promotional programs or incentives to Tech Data as it offers to its other distributors or customers. Tech Data shall have the right, at Tech Data's option, to participate in such programs. Attached as Schedule 5.7 is a copy of NetIQ's co-op policy.

(b) Advertising Support. NetIQ shall provide at no charge to Tech Data and

the Customers of Tech Data, marketing support, and advertising materials in connection with the resale of Products as are currently offered or that may be offered by NetIQ. Tech Data reserves the right to charge NetIQ for advertising, marketing and training services which are preapproved by the vendor and at NetIQ's discretion.

(c) Launch Funds. Prior to receipt of the initial purchase order, NetIQ

shall pay Tech Data for all launch funds expenditures to which NetIQ and Tech Data have agreed.

ARTICLE VI. WARRANTIES,
INDEMNITIES AND OTHER OBLIGATIONS OF NETIQ

6.1 Warranty. NetIQ hereby represents and warrants that NetIQ has all right,

title, ownership interest and marketing rights necessary to provide the Products to Tech Data. NetIQ further represents and warrants that it has not entered into any agreements or commitments which are inconsistent with or in conflict with the rights granted to Tech Data in this Agreement; the Products are new and shall be free and clear of all liens and encumbrances; Tech Data and its Customers and End Users shall be entitled to use the Products without disturbance; the Products have been listed with Underwriters' Laboratories or other nationally recognized testing laboratory whenever such listing is required; the Products meet all FCC requirements; the Products do and will conform to all codes, laws or regulations; and the Products conform in all respects to the Product warranties. NetIQ agrees that Tech Data shall be entitled to pass through to Customers of Tech Data and

End Users of the Products all Product warranties granted by NetIQ. Tech Data shall have no authority to alter or extend any of the warranties of NetIQ expressly contained or referred to in this Agreement without prior approval of NetIQ. NetIQ has made express warranties in this Agreement and in Documentation, promotional and advertising materials. EXCEPT AS SET FORTH HEREIN OR THEREIN, NetIQ DISCLAIMS ALL WARRANTIES WITH REGARD TO THE PRODUCTS, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. THIS SECTION SHALL SURVIVE TERMINATION OR EXPIRATION OF THIS AGREEMENT.

6.2 Proprietary Rights Indemnification. NetIQ hereby represents and warrants

that the Products and the sale and use of the Products do not infringe upon any copyright, patent, trademark, trade secret or other proprietary or intellectual property right of any third party, and that there are no suits or proceedings, pending or threatened alleging any such infringement that have not been disclosed to Tech Data. Regarding any suits or proceedings which have been disclosed to Tech Data, then NetIQ will either (a) not supply Tech Data with any of the Products which are the subject of a disclosed suit or proceeding, or (b) if NetIQ supplies Tech Data with said Products, then NetIQ will be liable to Tech Data for those items in Section 6.5 below in addition to its indemnification obligations stated herein. NetIQ shall indemnify and hold Tech Data, Tech Data's parent, affiliates and subsidiaries and their respective, officers, directors, employees and agents harmless from and against any and all actions, claims, losses, damages, liabilities, awards, costs and expenses, which they or any of them incur or become obligated to pay resulting from or arising out of any breach or claimed breach of the foregoing warranty. Tech Data shall inform NetIQ of any such suit or proceeding filed against Tech Data and shall have

the right, but not the obligation, to participate in the defense of any such suit or proceeding at Tech Data's expense. NetIQ shall, at its option and expense, either (i) procure for Tech Data, its Customers and End Users the right to continue to use the Product as set forth in this Agreement, or (ii) replace, to the extent Products are available, or modify the Product to make its use non-infringing while being capable of performing the same function without degradation of performance. If neither of the foregoing alternatives (i) or (ii) is reasonably available, NetIQ shall accept a return of the Products from Tech Data, at NetIQ's sole cost and expense, and shall refund to Tech Data the full amount of the price paid by Tech Data for said returned Products, less any price protection credits, but not including any early payment or prepayment discounts. NetIQ shall have no liability under this Section 6.2 for any infringement based on the use of any Product, if the Product is used in a manner or with equipment for which it was not reasonably intended. NetIQ's obligations under this Section 6.2 shall survive termination or expiration of this Agreement.

6.3 Indemnification.

(a) Vendor. NetIQ shall be solely responsible for the design, development, supply, production and performance of the Products. NetIQ agrees to indemnify and hold Tech Data, its parent, affiliates and subsidiaries and their officers, directors and employees harmless from and against any and all claims, damages, costs, expenses (including, but not limited to, reasonable attorney's fees and costs) or liabilities that may result, in whole or in part, from any warranty or Product liability claim, or any claim for infringement, or for claims for violation of any of the warranties contained in this Agreement.

(b) Tech Data. Tech Data agrees to indemnify and hold NetIQ, its officers, directors and employees harmless from and against any and all claims, damages, costs, expenses (including, but not limited to, reasonable attorney's fees and costs) or liabilities that may result, in whole or in part, from Tech Data's gross negligence or willful misconduct in the distribution of the Products pursuant to this Agreement, or for representations or warranties made by Tech Data related to the Products in excess of the warranties of NetIQ.

6.4 Insurance.

(a) The parties shall be responsible for providing Worker's Compensation insurance in the statutory amounts required by the applicable state laws.

(b) Without in any way limiting NetIQ's indemnification obligation as set forth in this Agreement, NetIQ shall maintain Commercial General Liability or Comprehensive General Liability Insurance in such amounts as is reasonable and standard for the industry. Either policy form should contain the following coverages: Personal and Advertising Injury, Broad Form Property Damage, Products and Completed Operations, Contractual Liability, employees as Insured and Fire Legal Liability.

(c) NetIQ will provide evidence of the existence of insurance coverages referred to in this Section 6.4 by certificates of insurance which should also provide for at least thirty (30) days notice of cancellation, non-renewal or material change of coverage to Tech Data. The certificates of insurance shall name Tech Data Product Management, Inc., its parent, affiliates and subsidiaries as Additional Insureds for the limited purpose of claims arising pursuant to this Agreement.

6.5 Limitation of Liability. NEITHER PARTY SHALL BE LIABLE TO THE OTHER

PURSUANT TO THIS AGREEMENT FOR AMOUNTS REPRESENTING INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR PUNITIVE DAMAGES OF THE OTHER PARTY ARISING FROM THE PERFORMANCE OR BREACH OF ANY TERMS OF THIS AGREEMENT.

6.6 ECCN/Export. NetIQ agrees to provide Tech Data, upon signing this

Agreement and at any time thereafter that NetIQ modifies or adds Products distributed or to be distributed by Tech Data, with the Export Control Classification Number (ECCN) for each of NetIQ's Products, and information as to whether or not any of such Products are classified under the U.S. Munitions List.

6.7 This section was intentionally deleted.

6.8 Vendor Reports. NetIQ shall, if requested, render monthly reports to Tech

Data setting forth the separate Products, dollars invoiced for each

Product, and total dollars invoiced to Tech Data for the month, and such other information as Tech Data may reasonably request.

6.9 Tech Data Reports. Tech Data shall, if requested, render monthly sales out -----
reports on Tech Data's BBS system. Information provided will include: month and year sales activity occurred, internal product number (assigned by Tech Data), written description, state and zip-code of Customers location, unit cost (distributor's cost at quantity 1), quantity and extended cost (cost times quantity). NetIQ agrees that any such information provided by Tech Data shall be received and held by NetIQ in strict confidence and shall be used solely for sell through or compensation reporting information and shall not be used for purposes related to NetIQ's sales activities.

6.10 Trademark Usage. Tech Data is hereby authorized to use trademarks and -----
tradenames of NetIQ and third parties licensing NetIQ, if any, used in connection with advertising, promoting or distributing the Products. Tech Data recognizes NetIQ or other third parties may have rights or ownership of certain trademarks, trade names and patents associated with the Products. Tech Data will act consistent with such rights, and Tech Data shall comply with any reasonable written guidelines when provided by NetIQ or third parties licensing NetIQ related to such trademark or trade name usage. Tech Data will notify NetIQ of any infringement of which Tech Data has actual knowledge. Tech Data shall discontinue use of NetIQ's trademarks or trade names upon termination of this Agreement, except as may be necessary to sell or liquidate any Product remaining in Tech Data's inventory.

ARTICLE VII. TERMINATION OR EXPIRATION

7.1 Termination.

(a) Termination With or Without Cause. Either party may terminate this -----
Agreement, with or without cause, upon giving the other party thirty (30) days prior written notice. In the event that either party materially or repeatedly defaults in the performance of any of its duties or obligations set forth in this Agreement, and

such default is not substantially cured within thirty (30) days after written notice is given to the defaulting party specifying the default, then the party not in default may, by giving written notice thereof to the defaulting party, terminate this Agreement or the applicable purchase order relating to such default as of the date specified in such notice of termination.

(b) Termination for Insolvency or Bankruptcy. Either party may immediately -----
terminate this Agreement and any purchase orders by giving written notice to the other party in the event of (i) the liquidation or insolvency of the other party, (ii) the appointment of a receiver or similar officer for the other party, (iii) an assignment by the other party for the benefit of all or substantially all of its creditors, (iv) entry by the other party into an agreement for the composition, extension, or readjustment of all or substantially all of its obligations, or (v) the filing of a petition in bankruptcy by or against a party under any bankruptcy or debtors' law for its relief or reorganization which is not dismissed within ninety (90) days.

7.2 Rights Upon Termination or Expiration.

(a) Termination or expiration of this Agreement shall not affect NetIQ's right to be paid for undisputed invoices for Products already shipped and accepted by Tech Data or Tech Data's rights to any credits or payments owed or accrued to the date of termination or expiration. Tech Data's rights to credits upon termination or expiration shall include credits against which Tech Data would, but for termination or expiration, be required under this Agreement to apply to future purchases.

(b) NetIQ shall accept purchase orders from Tech Data for additional Products which Tech Data is contractually obligated to furnish to its Customers and does not have in its inventory upon the termination or expiration of this Agreement; provided Tech Data notifies NetIQ of any and all such transactions within sixty (60) days following the termination or expiration date.

(c) Upon termination or expiration of this Agreement, Tech Data shall discontinue holding itself out as a distributor of the Products.

7.3 Repurchase of Products Upon Termination or Expiration. Upon the effective

date of termination or expiration of this Agreement for any reason, NetIQ agrees to repurchase all Products in Tech Data's inventory and Products which are returned to Tech Data by its Customers within one-hundred-eighty (180) days following the effective date of termination or expiration. NetIQ will repurchase such Products at the original purchase price, less any deductions for price protection. The repurchase price shall not be reduced by any deductions or offsets for early pay or prepay discounts. Such returns shall not reduce or offset any co-op payments or obligations owed to Tech Data. Within sixty (60) days following the effective date of termination or expiration, Tech Data shall return to NetIQ for repurchase all

Product held in Tech Data's inventory as of the effective date of termination or expiration. Additional returns shall be sent at reasonable intervals thereafter, provided all returns of Product by Tech Data under this Section 7.3 shall be shipped within one-hundred-eighty-five (185) days following the effective date of termination or expiration. NetIQ will issue an RMA to Tech Data for all such Products; provided, however, that NetIQ shall accept returned Products in accordance with this Section absent an RMA if NetIQ fails to issue said RMA within five (5) business days of Tech Data's request. NetIQ shall credit any outstanding balances owed to Tech Data. If such credit exceeds amounts due from Tech Data, NetIQ shall remit in the form of a check to Tech Data the excess within ten (10) business days of receipt of the Product. Customized Products shall not be eligible for repurchase pursuant to this Section.

7.4 Survival of Terms. Termination or expiration of this Agreement for any

reason shall not release either party from any liabilities or obligations set forth in this Agreement which (i) the parties have expressly agreed shall survive any such termination or expiration, or (ii) remain to be performed or by their nature would be intended to be applicable following any such termination or expiration. The termination or expiration of this Agreement shall not affect any of NetIQ's warranties, indemnification or obligations relating to returns, co-op advertising payments, credits or any other matters set forth in this Agreement that should survive termination or expiration in order to carry out their intended purpose, all of which shall survive the termination or expiration of this Agreement.

ARTICLE VIII. MISCELLANEOUS

8.1 Binding Nature, Assignment, and Subcontracting. This Agreement shall be

binding on the parties and their respective successors and assigns. Neither party shall have the power to assign this Agreement without the prior written consent of the other party.

8.2 Counterparts. This Agreement may be executed in several counterparts, all

of which taken together shall constitute one single agreement between the parties.

8.3 Headings. The Article and Section headings used in this Agreement are for

reference and convenience only and shall not affect the interpretation of this Agreement.

8.4 Relationship of Parties. Tech Data is performing pursuant to this Agreement

only as an independent contractor. Nothing set forth in this Agreement shall be construed to create the relationship of principal and agent between Tech Data and NetIQ. Neither party shall act or represent itself, directly or by implication, as an agent of the other party.

8.5 Confidentiality. Each party acknowledges that in the course of performance

of its obligations pursuant to this Agreement, it may obtain certain information specifically marked as confidential or proprietary. Each party hereby agrees that all such information communicated to it by the other party, its parent, affiliates, subsidiaries, or Customers, whether before or after the Effective Date, shall be and was received in strict confidence, shall be used only for purposes of this Agreement, and shall not be disclosed without the prior written consent of the other party, except as may be necessary by reason of legal, accounting or regulatory requirements beyond either party's reasonable control. The provisions of this Section shall survive termination or expiration of this Agreement for any reason for a period of one (1) year after said termination or expiration.

8.6 Arbitration. Any disputes arising under this Agreement shall be submitted

to arbitration in accordance with such rules as the parties jointly agree. If the parties are unable to agree on arbitration procedures, arbitration shall be conducted in the city and state of the respondent party, in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Any such award shall be final and binding upon both parties.

8.7 Notices. Wherever one party is required or permitted to give notice to the

other party pursuant to this Agreement, such notice shall be deemed given when actually delivered by hand, by telecopier (if and when immediately confirmed in writing by any of the other means provided herein ensuring acknowledgment of receipt thereof for purposes of providing notice of default or termination), via overnight courier, or when mailed by registered or certified mail, return receipt requested, postage prepaid, and addressed as follows:

In the Case of NetIQ:

NetIQ Corporation
275 Saratoga Avenue
Santa Clara, CA 95050
Attn: John Mannion, Director,
North American Channel Sales
cc: Legal Counsel

In the Case of Tech Data:

Tech Data Product Management, Inc.
5350 Tech Data Drive
Clearwater, FL 33760
Attn: Vice President-Marketing Operations
cc: Contracts Administration

Either party may from time to time change its address for notification purposes by giving the other party written notice of the new address and the date upon which it will become effective.

8.8 Force Majeure. The term "Force Majeure" shall be defined to include fires

or other casualties or accidents, acts of God, severe weather conditions, strikes or labor disputes, war or other violence, or any law, order, proclamation, regulation, ordinance, demand or requirement of any governmental agency.

(a) If a Force Majeure prevents a party from performance, such performance is excused so long as the excused party provides prompt written notice describing the Force Majeure and immediately continues performance once the Force Majeure condition is removed.

(b) If, due to a Force Majeure condition, the scheduled time of delivery or performance is or will be delayed for more than ninety (90) days after the scheduled date, the party not relying upon the Force Majeure condition may terminate, without liability to the other party, any purchase order or portion thereof covering the delayed Products.

8.9 Return Material Authorization Numbers. NetIQ is required to issue an RMA

to Tech Data within five (5) business days of Tech Data's request; however, if the RMA is not received by Tech Data within five (5) business days, NetIQ shall accept returned Products absent an RMA.

8.10 Credits to Tech Data. In the event any provision of this Agreement or any

other agreement between Tech Data and NetIQ requires that NetIQ grant credits to Tech Data's account, and such credits are not received within thirty (30) days, all such credits shall become effective immediately upon notice to NetIQ. In such event, Tech Data shall be entitled to deduct any such credits from the next monies owed to NetIQ. In the event credits exceed any balances owed by Tech Data to NetIQ, NetIQ shall, upon request from Tech Data, issue a check payable to Tech Data within ten (10) days of such notice. Credits owed to Tech Data shall not be reduced by early payment or prepayment discounts. Tech Data shall have the right to set off against any amounts due to NetIQ under this Agreement or any invoices issued by NetIQ related to this Agreement any and all amounts due to Tech Data from NetIQ, whether or not arising under this Agreement.

8.11 Severability. If, but only to the extent that, any provision of this

Agreement is declared or found to be illegal, unenforceable or void, then both parties shall be relieved of all obligations arising under such provision, it being the intent and agreement of the parties that this Agreement shall be deemed amended by modifying such provision to the extent necessary to make it legal and enforceable while preserving its intent.

8.12 Waiver. A waiver by either of the parties of any covenants, conditions or

agreements to be performed by the other party or any breach thereof shall not be construed to be a waiver of any succeeding breach thereof or of any other covenant, condition or agreement herein contained.

8.13 Remedies. All remedies set forth in this Agreement shall be cumulative and -----
in addition to and not in lieu of any other remedies available to either party at law, in equity or otherwise, and may be enforced concurrently or from time to time.

8.14 Entire Agreement. This Agreement, including any Exhibits and documents -----
referred to in this Agreement or attached hereto, constitutes the entire and exclusive statement of Agreement between the parties with respect to its subject matter and there are no oral or written representations, understandings or agreements relating to this Agreement which are not fully expressed herein. The parties agree that unless otherwise agreed to in writing by the party intended to be bound, the terms and conditions of this Agreement shall prevail over any contrary terms in any purchase order, sales acknowledgment, confirmation or any other document issued by either party affecting the purchase or sale of Products hereunder.

8.15 Governing Law. This Agreement shall have Florida as its situs and shall be -----
governed by and construed in accordance with the laws of the State of Florida, without reference to choice of laws. The parties agree that this Agreement excludes the application of the 1980 United Nations Convention on Contracts for the International Sale of Goods, if otherwise applicable.

8.16 Time of Performance. Time is hereby expressly made of the essence with -----
respect to each and every term and condition of this Agreement.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be signed and delivered by its duly authorized officer or representative as of the Effective Date.

NETIQ CORPORATION

TECH DATA PRODUCT MANAGEMENT, INC.

By: /s/ GLENN S. WINOKUR
Printed Name: GLENN S. WINOKUR

By: /s/ PEGGY K. CALDWELL
Printed Name: PEGGY K. CALDWELL

Title: VP, SALES

Title: Senior Vice President, Marketing

Date: June 11, 1998

Date: 6/23/98

SCHEDULE 5.7

CO-OP GUIDELINES

To increase the effectiveness of advertising and sales promotions Tech Data has developed the following advertising requirements:

HOW CO-OP IS EARNED:

- Co-op dollars will be at least 2% of the purchases made by Tech Data, net of returns.
- Co-op dollars will be accrued on a monthly basis.

HOW CO-OP IS SPENT:

- Tech Data will obtain Vendor's prior approval for all co-op expenditures.
- Tech Data will be reimbursed for 100% of the cost for ads or promotions that feature Vendor products.
- Co-op dollars will be used within the 12 months immediately following the month in which they are earned.

HOW CO-OP IS CLAIMED:

- Claims for co-op will be submitted to vendor within 60 days of the event date.
- Claims for co-op will be submitted with a copy of vendor prior approval and proof of performance.
- Payment must be remitted within 30 days of the claim date, or Tech Data reserves the right to deduct from the next invoice.

CO-OP REPORTING:

- Vendor will submit a monthly co-op statement outlining (i) co-op earned, (ii) co-op used and (iii) co-op claims paid.

Accepted:
NETIQ CORPORATION

/s/ GLENN S. WINOKUR
Name: GLENN S. WINOKUR

NETIQ TM APPMANAGER R SUITE VERSION 2.0
Tech Data Pricing Schedule
June 1998

APPMANAGER PRODUCTS FOR INTEL R COMPATIBLE PLATFORMS

<TABLE> <CAPTION>	<C> NetIQ Part Number	US List Price <C> (USD)	Tech Data Price <C> (USD)
<S> Product Description MANAGEMENT CONSOLES			
APPMANAGER OPERATOR CONSOLE 2.0 For use with Windows NT Workstation or Server, Per-Seat license only. CD-ROM media, Documentation included.	108-1V200-I-US	\$2,500	[*]
APPMANAGER DEVELOPER CONSOLE 2.0 For use with Windows NT Workstation or Server, Includes Operator Console. Per-Seat license only. CD-ROM media. Documentation included.	109-1V200-I-US	\$5,000	[*]
APPMANAGER WEB ACCESS CONSOLE 2.0 License for 5 Web clients to NetIQ Web Management Server. Requires Operator Console or Developer Console. License only.	120-1V200-I-US	\$2,500	[*]
APPLICATION MODULES			
APPMANAGER FOR MICROSOFT R WINDOWS NT R SERVER 2.0 License only. For use with Operator Console or Developer Console. Can be used alone, but is required for use with other AppManager application modules.	102-1V200-I-US	\$600	[*]
APPMANAGER FOR MICROSOFT EXCHANGE SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	103-1V200-I-US	\$1,200	[*]
APPMANAGER FOR MICROSOFT SQL TM SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	104-1V200-I-US	\$1,200	[*]
APPMANAGER FOR MICROSOFT SYSTEMS MANAGEMENT SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	105-1V200-I-US	\$1,200	[*]
APPMANAGER FOR MICROSOFT INTERNET INFORMATION SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	107-1V200-I-US	\$600	[*]
APPMANAGER FOR MICROSOFT MESSAGE QUEUE SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	116-1V200-I-US	\$600	[*]
APPMANAGER FOR MICROSOFT CLUSTER SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT. License required for each clustered server.	117-1V200-I-US	\$600	[*]
APPMANAGER FOR MICROSOFT TRANSACTION SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires Requires AppManager for Microsoft Windows NT.	118-1V200-I-US	\$600	[*]
APPMANAGER FOR MICROSOFT PROXY SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	119-1V200-I-US	\$1,200	[*]
APPMANAGER FOR LOTUS DOMINO SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	115-1V200-I-US	\$1,200	[*]
APPMANAGER FOR COMPAQ INSIGHT MANAGER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	121-1V200-I-US	\$150	[*]
APPMANAGER FOR MICROSOFT WINDOWS NT WORKSTATION 2.0 License only. For use with Operator Console or Developer Console.	101-1V200-I-US	\$150	[*]

</TABLE>

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

APPMANAGER PRODUCTS FOR DIGITAL R ALPHA COMPATIBLE PLATFORMS

<TABLE> <CAPTION>	<C> NetIQ Part Number	US List Price <C> [*]	Tech Data Price <C> [*]
<S> Product Description			
MANAGEMENT CONSOLES See AppManager Products for Intel Compatible Platforms			
APPLICATION MODULES			
APPMANAGER FOR MICROSOFT WINDOWS NT SERVER 2.0 License only. For use with Operator Console or Developer Console. Can be used alone, but is required for use with other AppManager application modules.	102-1V200-A-US	[*]	[*]
APPMANAGER FOR MICROSOFT EXCHANGE SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	103-1V200-A-US	[*]	[*]
APPMANAGER FOR MICROSOFT SQL SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	104-1V200-A-US	[*]	[*]
APPMANAGER FOR MICROSOFT SYSTEMS MANAGEMENT SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	105-1V200-A-US	[*]	[*]
APPMANAGER FOR MICROSOFT INTERNET INFORMATION SERVER 2.0 License only. For use with Operator Console or Developer Console. Requires AppManager for Microsoft Windows NT.	107-1V200-A-US	[*]	[*]
APPMANAGER FOR MICROSOFT WINDOWS NT WORKSTATION 2.0 License only. For use with Operator Console or Developer Console.	101-1V200-A-US	[*]	[*]
<CAPTION> APPMANAGER ACCESSORIES			
<S> Product Description	<C> NatIQ Part Number	US List Price <C> (USD)	Tech Data Price <C> (USD)
APPMANAGER OPERATOR CONSOLE DOCUMENTATION SET 2.0 Consists of Installation Guide, User's Guide, and Knowledge Script Reference Guide. Sold to licensed AppManager users only.	801-1V200-D-US	[*]	[*]
APPMANAGER DEVELOPER DOCUMENTATION 2.0 AppManager Developer's Guide. Sold to licensed AppManager users only.	802-1V200-D-US	[*]	[*]
APPMANAGER CD-ROM 2.0 One CD-ROM. Sold to licensed AppManager users only.	803-1V200-X-US	[*]	[*]

Prices may vary. All prices are in U.S. Dollars.
US English versions of software and documentation are listed.

All installations require at least one copy of the NetIQ AppManager Operator Console 2.0 or Developer Console 2.0, and one copy of Microsoft SQL Serve (purchased separately).

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INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 3 to Registration Statement No. 333-79373 of NetIQ Corporation on Form S-1 of our report dated May 19, 1999 (July 27, 1999 as to Note 13), appearing in the Prospectus, which is part of this Registration Statement, and of our report dated May 19, 1999 relating to the financial statement schedule appearing elsewhere in this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

San Jose, California

July 27, 1999