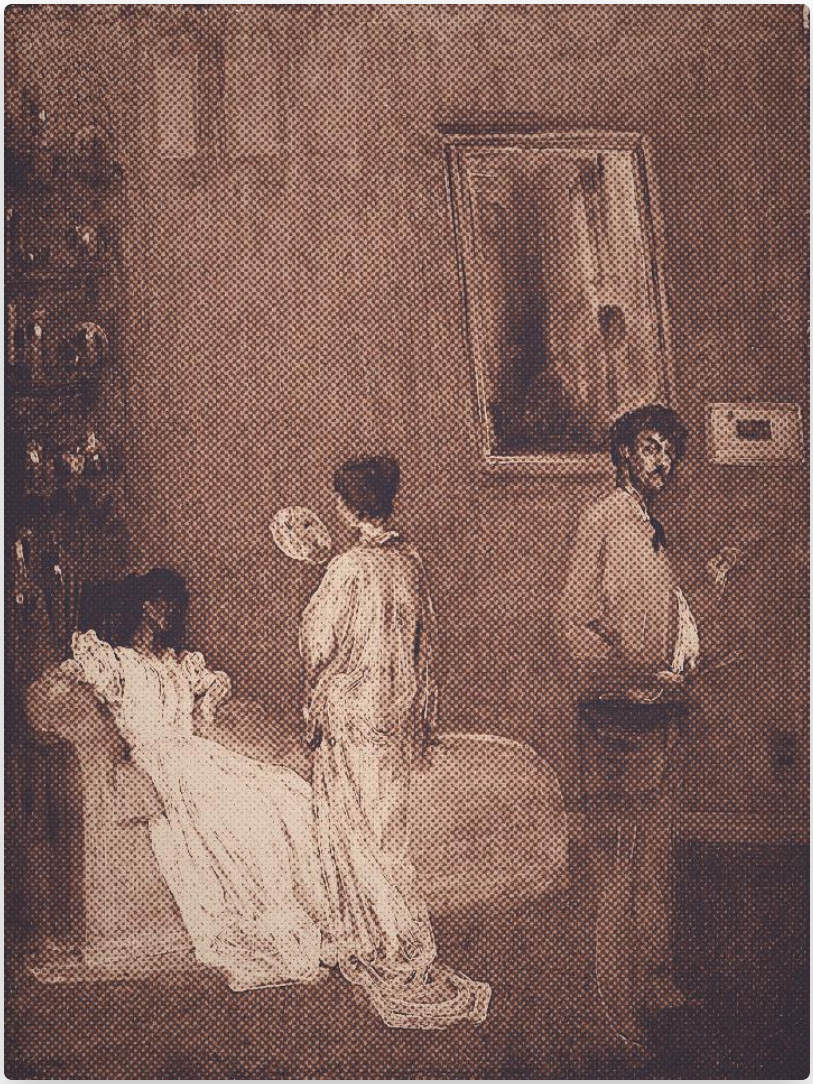
FORM S-1 · REGISTRATION STATEMENT

Art Technology Group Inc

IPO priced 1999-07-20 · $12.00 a share · ARTG



From S1 Directory · www.s1directory.com/s1/art-technology-group-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1086195/0000912057-99-001934.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 22, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 ART TECHNOLOGY GROUP, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7372	04-3141918
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

25 FIRST STREET CAMBRIDGE, MASSACHUSETTS 02141 (617) 386-1000 (ADDRESS, INCLUDING ZIP CODE, TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) JEET SINGH PRESIDENT AND CHIEF EXECUTIVE OFFICER ART TECHNOLOGY GROUP, INC. 25 FIRST STREET CAMBRIDGE, MASSACHUSETTS 02141 (617) 386-1000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE HEREOF.

IF ANY OF THE SECURITIES BEING REGISTERED ON THE 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, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX: / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
COMMON STOCK, $.01 PAR VALUE PER SHARE.....	5,175,000	$39.19	$202,808,250	$56,381

(1) INCLUDES 675,000 SHARES WHICH THE UNDERWRITERS HAVE THE OPTION TO PURCHASE SOLELY TO COVER OVER-ALLOTMENTS, IF ANY.

(2) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(C) UNDER THE SECURITIES ACT OF 1933. BASED ON THE AVERAGE OF HIGH AND LOW SALES PRICES ON OCTOBER 18, 1999.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER

BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL 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. UNDERWRITERS MAY NOT CONFIRM SALES OF THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BECOMES EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED OCTOBER 22, 1999

PROSPECTUS

4,500,000 SHARES

[LOGO]

COMMON STOCK

ART TECHNOLOGY GROUP, INC. IS SELLING 1,425,000 SHARES OF COMMON STOCK. OUR STOCKHOLDERS LISTED ON PAGES 58-60 ARE SELLING A TOTAL OF 3,075,000 SHARES. WE WILL NOT RECEIVE ANY PROCEEDS FROM THE SALE OF SHARES BY THE SELLING STOCKHOLDERS. OUR COMMON STOCK IS TRADED ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "ARTG." ON OCTOBER 21, 1999, THE LAST REPORTED SALES PRICE FOR THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET WAS $67 7/16 PER SHARE.

PER SHARE TOTAL

PUBLIC OFFERING PRICE..... $ $ UNDERWRITING DISCOUNTS..... PROCEEDS TO ART TECHNOLOGY GROUP, BEFORE EXPENSES..... PROCEEDS TO SELLING STOCKHOLDERS.....

WE AND THE SELLING STOCKHOLDERS HAVE GRANTED THE UNDERWRITERS AN OPTION FOR A PERIOD OF 30 DAYS TO PURCHASE UP TO 675,000 ADDITIONAL SHARES OF COMMON STOCK.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 4.

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

HAMBRECHT & QUIST

U.S. BANCORP PIPER JAFFRAY

THOMAS WEISEL PARTNERS LLC

DAIN RAUSCHER WESSELS A DIVISION OF DAIN RAUSCHER INCORPORATED , 1999 THE INSIDE COVER DIAGRAM FOLDS OUT.

THE OUTSIDE PAGE SHOWS OUR NAME AND THE DYNAMO PRODUCT LOGO: A LARGE CAPITAL LETTER D. THE PAGE FOLDS OUT TO A DIAGRAM ENTITLED "DYNAMO ARCHITECTURE FOR INTERNET CUSTOMER RELATIONSHIP MANAGEMENT." THE DIAGRAM DEPICTS THE RELATIONSHIP OF OUR PRODUCTS TO OTHER PRODUCTS AND INTERFACES SUCH AS ENTERPRISE SYSTEMS, INCLUDING CONTENT MANAGEMENT, SALES MANAGEMENT, TRANSACTION FULFILLMENT AND CUSTOMER SERVICE, DEPICTED AT THE BOTTOM OF THE DIAGRAM. ARROWS SHOW HOW DATA GETS FROM THESE SYSTEMS TO FRONT END SYSTEMS SUCH AS MARKETING, SALES, TRANSACTIONS AND SUPPORT, DEPICTED AT THE TOP OF THE DIAGRAM.

THE MIDDLE OF THE DIAGRAM SHOWS OUR PRODUCTS IN LAYERS.

TO THE LEFT OF THE DIAGRAM, BUSINESS NEEDS ARE LISTED: "DEVELOP EFFECTIVE E-COMMERCE WEB SITES THAT PROVIDE USERS WITH A UNIFIED CUSTOMER EXPERIENCE." ARROWS POINT FROM THIS SENTENCE TO THE FRONT END SYSTEMS AND OUR DYNAMO PRODUCTS. "ALLOW BUSINESS MANAGERS TO TARGET CONTENT TO SELECTED GROUPS OF USERS OR MARKET SEGMENTS." AN ARROW POINTS FROM THIS SENTENCE TO OUR DYNAMO PERSONALIZATION SERVER. "BUILD NEW APPLICATIONS AND FUNCTIONALITY ON AN OPEN AND EXPANDABLE PLATFORM." AN ARROW POINTS FROM THIS SENTENCE TO OUR DYNAMO APPLICATION SERVER. "INTEGRATE WEB APPLICATIONS WITH SYSTEMS

INCLUDING CONTENT MANAGEMENT, SALES AND MARKETING, TRANSACTION FULFILLMENT AND CUSTOMER SUPPORT." AN ARROW POINTS FROM THIS SENTENCE TO OUR CONTENT ADAPTERS. AT THE BOTTOM IS THE SENTENCE, "ART TECHNOLOGY GROUP'S DYNAMO IS AN INTEGRATED SUITE OF SOFTWARE APPLICATIONS THAT ALLOWS BUSINESSES TO DEVELOP AND DEPLOY HIGH PERFORMANCE WEB SITES FOR CONDUCTING E-COMMERCE."

THE RIGHT SIDE OF THE DIAGRAM DESCRIBES OUR PARTNERS: "WEB DEVELOPERS PROVIDE CUSTOMERS WITH PROFESSIONAL SERVICES INCLUDING STRATEGY, DESIGN, AND CUSTOM APPLICATION DEVELOPMENT BASED ON OUR DYNAMO APPLICATION SUITE." AN ARROW POINTS FROM THIS SENTENCE TO THE FRONT END SYSTEMS AND OUR DYNAMO PRODUCTS. "SYSTEMS INTEGRATORS PROVIDE CUSTOMERS WITH PROFESSIONAL SERVICES TO ENABLE THEM TO INTEGRATE OUR DYNAMO PRODUCTS WITH EXISTING INFORMATION SYSTEMS." AN ARROW POINTS FROM THIS SENTENCE TO DYNAMO PRODUCTS AND OPEN ADAPTERS. "ORIGINAL EQUIPMENT MANUFACTURERS AND TECHNOLOGY PARTNERS CO-MARKET OR RESELL OUR DYNAMO PRODUCTS OR EMBED DYNAMO INTO THEIR PRODUCTS FOR SALE TO THEIR EXISTING CLIENTS AND NEW MARKETS." AN ARROW POINTS FROM THIS SENTENCE TO THE ENTERPRISE SYSTEMS.

THE BOTTOM OF EACH PAGE HAS THREE CUSTOMER WEB SITE SCREEN SHOTS.

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Prospectus Summary

THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT IS IMPORTANT TO YOU. YOU SHOULD READ THE ENTIRE PROSPECTUS, INCLUDING THE FINANCIAL STATEMENTS AND RELATED NOTES, BEFORE MAKING AN INVESTMENT DECISION. AS USED IN THIS PROSPECTUS, THE TERMS "WE," "US," "OUR" AND SIMILAR TERMS REFER TO ART TECHNOLOGY GROUP, INC. AND NOT TO ITS MANAGEMENT OR STOCKHOLDERS.

Art Technology Group

We offer an integrated suite of Internet customer relationship management and electronic commerce software applications, as well as related application development, integration and support services. Our solution enables businesses to understand, manage and build online customer relationships and to market, sell and support products and services over the Internet more effectively. Our Dynamo product suite is designed to provide businesses with the core application platform and software tools required to develop and deploy personalized, reliable, large-scale Web sites for conducting electronic commerce, also called e-commerce.

As the growth and acceptance of online marketing and e-commerce have increased, the Web has become a highly competitive business environment, resulting in increased investment in Internet commerce applications such as:

- online marketing and selling systems to target, attract and retain customers - transaction and distribution management systems to reduce the costs of delivering products and services to customers and distribution partners - customer support and relationship management systems to better understand and serve the needs of customers International Data Corporation estimates that the market for Internet commerce software applications was $444 million in 1998 and projects that the market will grow to $1.7 billion in 1999 and reach $13.1 billion in 2003.

Our solution provides a comprehensive application suite and complementary professional services capabilities. Our Dynamo application suite includes:

- Dynamo Application Server--an open and expandable platform to enable Internet customer relationship management and e-commerce applications - Dynamo Personalization Server--allows businesses to develop, deploy and manage multiple Web applications that share a common set of business rules and are personalized based on common user profiles - Dynamo Commerce--enables the creation of personalized e-commerce storefronts that can be customized and integrated with existing information systems - Dynamo Ad Station--allows businesses to serve targeted advertisements to Web site visitors and to manage their online advertising inventory more effectively We have licensed products to over 100 customers. Our customers include BabyCenter, BellSouth, BMG Direct, Eastman Kodak, Hilton Hotels, Informix, J.Crew, John Hancock Funds, Inc., Network Solutions, Newbridge Networks, Scudder Kemper Investments, Sony Online Entertainment, Sun Microsystems, TheStreet.com and Women.com. We target Fortune 1000 companies as well as new businesses using the Internet as their primary business channel. We sell our products directly through our sales force and indirectly through arrangements with systems integrators, original equipment manufacturers and other technology partners.

Our principal executive office is located at 25 First Street, Cambridge, Massachusetts 02141, and our telephone number is (617) 386-1000. Our Web site is located at WWW.ATG.COM. The information contained in our Web site is not a part of this prospectus. We were incorporated in Massachusetts in December 1991 and reincorporated in Delaware in October 1997.

The Offering

Common stock offered by Art Technology Group..... 1,425,000 shares Common stock offered by the selling stockholders..... 3,075,000 shares Common stock to be outstanding after this offering..... 32,542,737 shares Use of proceeds..... Working capital and other general corporate purposes, including possible acquisitions Nasdaq National Market symbol..... ARTG The number of shares of our common stock that will be outstanding after this offering, unless otherwise indicated, is based on the number outstanding on October 15, 1999. It excludes 4,009,947 shares subject to outstanding options at a weighted-average exercise price of $5.09 per share. There are 1,402,767 additional shares available for issuance under our stock plans.

Unless otherwise indicated, all information in this prospectus assumes that the underwriters do not exercise their option to purchase additional shares in this offering.

Summary Consolidated Financial Data (In Thousands, Except Share and Per Share Data)

The following tables summarize the consolidated financial data of our business. The pro forma basic and diluted net loss per share is described in note 1(f) of the notes to consolidated financial statements included elsewhere in this prospectus. The as adjusted column reflects the sale of 1,425,000 shares of common stock offered by us at an assumed public offering price of $67.44 after deducting the estimated underwriting discounts and estimated offering expenses.

	YEAR ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1998	1998	1999
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:							
Revenues	$ 753	$ 798	$ 3,902	$ 6,457	$ 12,137	$ 8,300	$ 18,793
Gross profit	235	204	1,917	3,261	7,087	4,825	12,124
Loss from operations	(209)	(430)	(1,412)	(4,105)	(2,740)	(1,654)	(4,216)
Net loss	(234)	(467)	(1,442)	(4,228)	(2,850)	(1,778)	(3,655)
Net loss available for common stockholders	(234)	(469)	(1,648)	(4,442)	(4,444)	(3,120)	(8,050)
Basic and diluted net loss per share	$ (0.03)	$ (0.06)	$ (0.19)	$ (0.50)	$ (0.50)	$ (0.35)	$ (0.53)
Basic and diluted weighted average common shares outstanding	7,763,013	8,131,028	8,848,866	8,872,202	8,967,066	8,941,046	15,176,953
Pro forma basic and diluted net loss per share					$ (0.16)		

```
$     (0.14)
  Pro forma basic and diluted
    weighted average common
    shares outstanding.....                                                    18,246,484
25,707,287
```

September 30, 1999 Actual as Adjusted

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CONSOLIDATED BALANCE SHEET DATA:
  Cash and cash equivalents.............................  $57,399     $147,716
  Working capital.......................................   53,677      143,994
  Total assets..........................................   68,648      158,964
  Stockholders' equity (deficit)........................   58,038      148,354
```

Risk Factors

YOU SHOULD CONSIDER CAREFULLY 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 HARM OUR BUSINESS AND COULD RESULT IN A COMPLETE LOSS OF YOUR INVESTMENT.

Risks Related to Our Business

WE EXPECT OUR LOSSES TO CONTINUE AND WE DO NOT BELIEVE WE WILL BE ABLE TO SUSTAIN OUR CURRENT REVENUE GROWTH RATE Since inception, we have not been profitable in any fiscal period. We have incurred substantial costs to develop and enhance our technology and products, to recruit and train a marketing and sales group, and to establish an administrative organization. As of September 30, 1999, we had an accumulated deficit of $19.4 million. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to develop our technology, increase our sales and marketing activities, create and expand our distribution channels, expand our services capabilities and improve our operational and financial systems. Accordingly, we expect to incur additional losses. Although our revenues have grown significantly in recent quarters, they have grown from a relatively small base and, as a result, we do not believe that we will be able to sustain the growth rates we have achieved in recent quarters. Because we have a limited operating history, particularly as a company that sells software products, the prediction of future operating results is difficult and we cannot be certain that our revenues will grow at a rate that will allow us to achieve profitability. In addition, if we do achieve profitability, we cannot be certain that we will be able to sustain or increase profitability on a quarterly or annual basis.

WE EXPECT OUR OPERATING RESULTS TO FLUCTUATE AND THE PRICE OF OUR COMMON STOCK COULD FALL IF QUARTERLY RESULTS ARE LOWER THAN THE EXPECTATIONS OF SECURITIES ANALYSTS Our revenues and operating results are likely to vary significantly from

quarter to quarter. If our quarterly results fall below the expectations of securities analysts, the price of our common stock could fall. A number of factors are likely to cause variations in our operating results, including:

- demand for our products and services - the timing of sales of our products and services - the timing of customer orders and product implementations - the timing of hiring new personnel, particularly in services and sales and marketing - unexpected delays in introducing new products and services - increased expenses, whether related to sales and marketing, product development or administration - changes in the rapidly evolving market for Internet customer relationship management solutions - the mix of revenues derived from products and services - the utilization of our services personnel - cost overruns related to fixed-price services projects - the mix of domestic and international sales - costs related to possible acquisitions of technologies or businesses Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. You should not rely on the results of one quarter as an indication of our future performance.

We plan to increase our operating expenses to expand our sales and marketing operations, develop new distribution channels, fund greater levels of research and development, broaden professional services and support and improve our operational and financial systems. If our revenues do not increase as quickly as these expenses, our operating results may suffer and our stock price may decline.

OUR QUARTERLY RESULTS OFTEN DEPEND ON A SMALL NUMBER OF LARGE, NONRECURRING ORDERS AND OUR REVENUES AND OPERATING RESULTS COULD BE LOWER THAN EXPECTED IF WE ARE UNABLE TO COMPLETE ONE OR MORE SUBSTANTIAL SALES IN ANY GIVEN QUARTER We derive a significant portion of our revenues in each quarter from a small number of relatively large, nonrecurring orders. Our operating results could suffer if we were unable to complete one or more substantial sales in any future period. Our three largest customers accounted for 80% of our total revenues in 1996, 56% of our total revenues in 1997, and 37% of our total revenues in 1998. Two customers accounted for 22% of our total revenues in the nine months ended September 30, 1999. The customers which provide the greatest revenues typically change from year to year. We derive only a small percentage of our revenues from repeat business, and must always search for new sales opportunities.

Our Lengthy Sales Cycle Makes It Difficult to Predict Our Quarterly Results

We have a long sales cycle because we generally need to educate potential customers regarding the use and benefits of our solution. Our sales cycle varies depending on the size and type of customer contemplating a purchase and whether we have conducted business with a potential customer in the past. These potential customers frequently need to obtain approvals from multiple decision makers prior to making purchase decisions. Our long sales cycle, which can range from several weeks to several months or more, makes it difficult to predict the quarter in which sales may occur. Delays in sales could cause significant variability in our revenues and operating results for any particular period.

THE MARKET FOR INTERNET CUSTOMER RELATIONSHIP MANAGEMENT SOLUTIONS IS NEW AND RAPIDLY EVOLVING AND WE CANNOT BE CERTAIN THAT A VIABLE MARKET FOR OUR PRODUCTS WILL EMERGE OR BE SUBSTANTIAL The market for Internet customer relationship management solutions is new and rapidly evolving. We expect that we will continue to need intensive marketing and sales efforts to educate prospective customers and partners about the uses and benefits of our products and services. Accordingly, we cannot be certain that a viable market for our products will emerge or be sustainable. Organizations that have already invested substantial resources in other methods of conducting business may be reluctant or slow to adopt a new approach that may replace, limit or compete with their existing systems. Similarly, individuals have established patterns of purchasing goods and services and may be reluctant to make purchases online. These factors could inhibit the growth of electronic commerce generally and the market's acceptance of our products and services in particular.

THE MARKET FOR INTERNET CUSTOMER RELATIONSHIP MANAGEMENT SOLUTIONS IS INTENSELY COMPETITIVE AND WE EXPECT COMPETITION TO INTENSIFY IN THE FUTURE The market for Internet customer relationship management solutions is intensely competitive and we expect competition to intensify in the future as revenues generated from Internet commerce increase. Our primary competition currently comes from in-house development efforts by potential customers or partners, as well as from other vendors of Web-based application software. We currently encounter competition from Internet application software vendors such as BroadVision, InterWorld, Open Market and Vignette. We also compete with platform application server products and vendors such as BEA Systems, IBM's Websphere products, Microsoft, Netscape, and Sun Microsystems' NetDynamics products, among others. Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do, and may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. Also, many current and potential competitors have greater name recognition and more extensive customer bases they can leverage to gain market share. These competitors may be able to undertake more extensive promotional activities, adopt more aggressive pricing policies and offer more attractive terms to purchasers than we can. Moreover, our current and potential competitors, such as Microsoft, Netscape and Oracle, may bundle their products in a manner that may discourage users from purchasing our products. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and expand their markets. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. This level of competition could reduce our revenues and result in increased losses or reduced profits.

COMPETITION WITH OUR RESELLER PARTNERS COULD LIMIT OUR SALES OPPORTUNITIES AND JEOPARDIZE THESE RELATIONSHIPS We sell products through agreements with resellers and original equipment manufacturers. We target markets that are also served by some of these partners. This competition may limit our ability to sell our products and services directly in these markets and may jeopardize, or result in the termination of, these relationships.

OUR BUSINESS MAY BE HARMED IF WE LOSE THE SERVICES OF EITHER JEET SINGH OR JOSEPH CHUNG, OUR CO-FOUNDERS, OR IF WE ARE UNABLE TO ATTRACT AND RETAIN OTHER KEY PERSONNEL Our success depends largely on the skills, experience and performance of some key members of our management, particularly our co-founders Jeet Singh and Joseph Chung. If we lose one or more of our key employees, our business could be harmed. We have purchased, and are the beneficiaries of, insurance policies on the lives of Mr. Singh and Mr. Chung, each in the amount of $1,000,000. In addition, our future success will depend in large part on our ability to continue attracting and retaining highly skilled personnel. Like other software companies, we face intense competition for qualified personnel. We cannot be certain that we will be successful in attracting, assimilating and retaining qualified personnel in the future.

WE NEED TO EXPAND OUR SALES AND DISTRIBUTION CAPABILITIES IN ORDER TO INCREASE MARKET AWARENESS OF OUR PRODUCTS AND INCREASE OUR REVENUES We must expand our direct and indirect sales operations to increase market awareness of our products and generate increased revenues. We cannot be certain that we will be successful in these efforts. We have recently expanded our direct sales force and plan to aggressively recruit additional sales personnel for the foreseeable future. Our products and services require a sophisticated sales effort targeted at the senior management of our prospective customers. Newly-hired employees will require training and it will take time for them to achieve full productivity. We cannot be certain that we will be able to hire enough qualified individuals in the future or that newly-hired employees will achieve necessary levels of productivity.

We Depend on Our Relationships with Systems Integrators

Since our potential customers often rely on third-party systems integrators to develop, deploy and manage Web sites for conducting commerce on the Internet, we cultivate relationships with systems integrators in order to encourage them to support our products. If we do not adequately train a sufficient number of systems integrators or if systems integrators were to devote their efforts to integrating or co-selling different products, our revenues could be reduced and our operating results could be harmed.

WE WILL NEED TO IMPLEMENT AND IMPROVE OUR OPERATIONAL SYSTEMS AND HIRE ADDITIONAL SERVICE PROFESSIONALS ON A TIMELY BASIS IN ORDER TO MANAGE GROWTH We have expanded our operations rapidly in recent years. We intend to continue to expand in the foreseeable future to pursue existing and potential market opportunities and to support our growing customer base. Rapid growth would place a significant demand on our management and operational resources. In order to manage growth effectively, we must implement and improve our operational systems, procedures and controls on a timely basis. We also plan to continue to add professional services personnel for the foreseeable future. However, we cannot be certain that we will be able to attract a sufficient number of highly qualified service personnel. In addition, new service personnel will require training and it will take time for them to become productive. If we fail to

improve our operational systems or to expand our professional service capabilities in a timely manner, we could experience customer dissatisfaction, cost inefficiencies and lost revenue opportunities, which could harm our operating results.

We May Lose Money on Fixed-price Contracts

A majority of our revenues from Innovation Solutions services are derived from fixed-price contracts. We work with complex technologies in compressed time frames and it can be difficult to judge the time and resources necessary to complete a project. If we miscalculate the resources or time we need to complete work under fixed-price contracts, our operating results could be materially harmed.

WE COULD INCUR SUBSTANTIAL COSTS DEFENDING OUR INTELLECTUAL PROPERTY FROM INFRINGEMENT OR A CLAIM OF INFRINGEMENT Our Innovation Solutions services often involve the development of custom software applications for specific customers. In some cases, customers retain ownership or impose restrictions on our ability to use the technologies developed from these projects. Issues relating to the ownership of software can be complicated, and disputes could arise that affect our ability to resell or reuse applications we develop for customers.

We seek to protect the source code for our proprietary software both as a trade secret and as a copyrighted work. However, because we make the source code available to some customers, third parties may be more likely to misappropriate it. Our policy is to enter into confidentiality agreements with our employees, consultants, vendors and customers and to control access to our software, documentation and other proprietary information. Despite these precautions, it may be possible for someone to copy our software or other proprietary information without authorization or to develop similar software independently.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We could incur substantial costs to prosecute or defend any intellectual property litigation. If we litigated to enforce our rights, it would be expensive, would divert management resources and may not be adequate to prevent the use of our intellectual property by third parties.

In addition, we are obligated to indemnify customers against claims that we infringe the intellectual property rights of third parties. The results of any intellectual property litigation to which we might become a party may force us to do one or more of the following:

- cease selling or using products or services that incorporate the challenged intellectual property - obtain a license, which may not be available on reasonable terms, to sell or use the relevant technology - redesign those products or services to avoid infringement

Broadvision Has Claimed That We Infringe Its Intellectual Property

On December 11, 1998, BroadVision, one of our competitors, filed a complaint against us in the United States District Court for the Northern District of California, alleging infringement by us of a patent held by BroadVision (U.S. Patent No. 5,710,887). BroadVision alleges that our infringement relates to methods for conducting e-commerce. BroadVision is seeking a permanent injunction of the sale of our Dynamo products in their current forms as well as unspecified damages. On February 4, 1999, we filed our answer denying BroadVision's complaint and a counterclaim against BroadVision seeking a judgment that we are not infringing BroadVision's patent and that its patent is unenforceable and invalid.

After BroadVision brought its claim against us, we entered into an original equipment manufacturer agreement with Informix under which we received $5.0 million of prepaid royalties. The agreement with Informix provides Informix with the right to terminate the agreement in the event that BroadVision brings a claim against Informix for patent or other intellectual property infringement of BroadVision's products by our products or products or services offered under the terms of the agreement. If BroadVision were to bring such a suit against Informix and Informix were to terminate the agreement, we would be required to refund the amount of the prepaid royalty less the greater of $530,000 per quarter, commencing with the fiscal quarter ended March 31, 1999, and all uncredited prepaid royalties as of the termination date. The amount refundable at September 30, 1999 was $3.4 million.

Litigation is subject to inherent uncertainties. In addition, cases like this generally involve issues of law that are evolving, presenting further uncertainty. Our defense of this litigation, regardless of the merits of the complaint, has been, and will likely continue to be, time-consuming and a diversion for our personnel. A failure to prevail in this litigation could result in:

- our paying monetary damages - the issuance of a preliminary or permanent injunction requiring us to stop selling our Dynamo products in their current form - our having to redesign Dynamo, which could be costly and time-consuming and could substantially delay Dynamo shipments, assuming that a redesign is feasible - our having to reimburse BroadVision for some or all of its attorneys' fees - our having to obtain from BroadVision a license to its patent, which license might not be made available to us on reasonable terms, particularly because BroadVision is a competitor - our having to reimburse our customers for any expenses and losses they incur due to the alleged infringement Any of these results would seriously harm our business, financial condition and operating results. Furthermore, we expect to continue to incur substantial costs in defending against this litigation and these costs could increase significantly if our dispute goes to trial. It is possible that these costs could substantially exceed our expectations in future periods.

IF WE FAIL TO ADAPT TO RAPID CHANGES IN THE INTERNET CUSTOMER RELATIONSHIP MANAGEMENT SOFTWARE MARKET, OUR EXISTING PRODUCTS COULD BECOME OBSOLETE The market for our products is marked by rapid technological change, frequent new

product introductions and Internet-related technology enhancements, uncertain product life cycles, changes in customer demands and evolving industry standards. We cannot be certain that we will successfully develop and market new products or product enhancements that comply with present or emerging Internet technology standards. New products based on new technologies or new industry standards could render our existing products obsolete and unmarketable. To succeed, we will need to enhance our current products and develop new products on a timely basis to keep pace with developments related to Internet technology and to satisfy the increasingly sophisticated requirements of customers. E-commerce technology is complex and new products and product enhancements can require long development and testing periods. Any delays in developing and releasing enhanced or new products could cause us to lose revenue opportunities and customers.

WE RELY ON JAVA AS THE PROGRAMMING LANGUAGE IN WHICH WE DEVELOP OUR PRODUCTS AND OUR BUSINESS COULD BE HARMED IF JAVA LOSES MARKET ACCEPTANCE OR IF WE ARE NOT ABLE TO CONTINUE USING JAVA OR JAVA RELATED TECHNOLOGIES Our software is written in the Java computer programming language developed by Sun Microsystems. While a number of companies have introduced Web applications based on Java, Java could fall out of favor and support by Sun Microsystems or other companies could decline. If Java support decreased or we could not continue to use Java or related Java technologies, we might have to rewrite the source code for our entire product line to enable our products to run on other computer platforms. Also, changes to Java could require us to change our products. If we were unable to develop or implement appropriate modifications to our products on a timely basis, we could lose revenue opportunities and our business could be harmed.

OUR SOFTWARE PRODUCTS MAY CONTAIN ERRORS OR DEFECTS THAT COULD RESULT IN LOST REVENUES, DELAYED OR LIMITED MARKET ACCEPTANCE, OR PRODUCT LIABILITY CLAIMS WITH SUBSTANTIAL LITIGATION COSTS Complex software products such as ours often contain errors or defects, particularly when first introduced or when new versions or enhancements are released. Despite internal testing and testing by customers, our current and future products may contain serious defects, including Year 2000 errors. Serious defects or errors could result in lost revenues or a delay in market acceptance.

Since our customers use our products for critical business applications such as e-commerce, errors, defects or other performance problems could result in damage to our customers. They could seek significant compensation for losses from us. Although our license agreements typically contain provisions designed to limit our exposure to product liability claims, existing or future laws or unfavorable judicial decisions could negate these limitations. Even if not successful, a product liability claim brought against us would likely be time-consuming and costly.

WE MAY BE ADVERSELY IMPACTED BY THE YEAR 2000 ISSUE AND OTHER INFORMATION TECHNOLOGY ISSUES The "Year 2000 Issue" refers generally to the problems that software may have in determining the correct century for the year. For example, software with date-sensitive functions that are not Year 2000 compliant may not be able to distinguish whether "00" means 1900 or

2000, which may result in failures or the creation of erroneous results. We are subject to potential Year 2000 problems affecting our products, our internal systems and the systems of our suppliers and customers, any of which could disrupt our business and hurt our operating results.

We have tested the current versions of our commercially available products, and we are working with our customers who have purchased customized software to test their product installations. The commercially available products we have tested are Year 2000 compliant, either alone or after installation of software patches that we offer on our Web site when configured and used in accordance with the related documentation, so long as the underlying operating system of the host machine and any other software used with or in the host machine or our products are also Year 2000 compliant. In June 1999, we completed testing of the versions of our commercial products first released in December 1997 and all subsequent maintenance releases, which represent approximately 80% of our installed base, and we plan to offer remedial software patches to customers. However, we have not tested our products on all platforms or all versions of operating systems that we currently support, nor have we tested versions of our commercially available products introduced prior to December 1997. These earlier versions, which represent approximately 20% of our installed Dynamo product base, may not be Year 2000 compliant. If we fail to provide patches necessary to make earlier versions of Dynamo products Year 2000 compliant, we may be subject to claims against us. To the extent that unidentified Year 2000 problems exist in versions of our products introduced prior to December 1997, we may be subject to claims against us from customers still using those products. Claims against us by customers alleging that our products are not Year 2000 compliant could harm our business, financial condition and operating results.

We have contacted the vendors of software and hardware that are either included in our products or that are critical to the operation of our internal systems to evaluate their Year 2000 compliance. Some of the third-party products that we use, or that are included in our products, are not Year 2000 compliant, and could cause our internal systems or our products to experience Year 2000 problems. To address these issues, we plan to upgrade or replace some third-party products before the end of 1999.

Despite testing by us and by customers, and assurances from developers of products incorporated into our products, current versions of our products may contain undetected errors or defects associated with Year 2000 date functions. Known or unknown errors or defects in our products could result in delay or loss of revenues, diversion of development resources, damage to our reputation or increased service and warranty costs, any of which could disrupt our business and hurt our financial condition and operating results.

Although we are not currently aware of any material operational issues or costs associated with preparing our internal systems for the Year 2000, we may experience material unanticipated problems and costs caused by undetected errors or defects in the technology used in our internal systems. This could harm our business, financial condition and operating results.

OUR EXISTING STOCKHOLDERS WILL BE ABLE TO CONTROL ALL MATTERS REQUIRING STOCKHOLDER APPROVAL AND COULD DELAY OR PREVENT SOMEONE FROM ACQUIRING OR MERGING WITH US ON TERMS FAVORED BY A MAJORITY OF OUR INDEPENDENT

STOCKHOLDERS On completion of this offering, our executive officers and directors and their affiliates will beneficially own approximately 54% of our outstanding common stock. As a result, these stockholders will be able to exercise control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent someone from acquiring or merging with us.

Our Management Will Have Discretion Over Using Our Net Proceeds from This Offering

Our board of directors and management will have significant flexibility in applying our net proceeds from this offering. As of the date of this prospectus, we do not have plans for the use of our proceeds from this offering other than for working capital and general corporate purposes. However, we could use some of our proceeds to acquire or invest in businesses that we believe offer products, services or technologies that complement ours. See "Use of Proceeds."

IF WE ACQUIRE OTHER COMPANIES OR BUSINESSES, WE WILL BE SUBJECT TO RISKS THAT COULD HURT OUR BUSINESS In the future, we may pursue acquisitions to obtain complementary businesses, products, services or technologies. An acquisition may not produce the revenues, earnings or business synergies that we anticipated, and an acquired business, product, service or technology might not perform as we expected. If we pursue an acquisition, our management could spend a significant amount of time and effort in identifying and completing the acquisition. If we complete an acquisition, we may encounter significant difficulties and incur substantial expenses in integrating the operations and personnel of the acquired company into our operations while preserving the goodwill of the acquired company. In particular, we may lose the services of key employees of the acquired company and we may make changes in management that impair the acquired company's relationships with employees and customers.

Any of the above risks could prevent us from realizing the anticipated benefits of our acquisitions. To pay for an acquisition, we might use stock or cash. Alternatively, we might borrow money from a bank or other lender. If we use our stock, our stockholders would experience dilution of their ownership interests. If we use cash or debt financing, our financial liquidity would be reduced. Finally, if we are unable to account for our acquisitions under the "pooling of interests" method of accounting which is scheduled to be eliminated effective January 1, 2001, we may be required to capitalize a significant amount of intangibles, including goodwill, which may lead to significant amounts of amortization charges. In addition, we may incur significant, one-time write-offs and amortization charges. These amortization charges and write-offs could decrease our future earnings or increase our future losses.

Risks Related to the Internet Industry

Our Performance Will Depend on the Growth of E-commerce

Our future success depends heavily on the acceptance and wide use of the Internet for e-commerce. If e-commerce does not continue to grow or grows more slowly than expected, demand for our products and services will be reduced. Consumers and businesses may reject the Internet as a viable commercial medium for a number of reasons, including potentially inadequate network infrastructure, slow development of enabling technologies, insufficient commercial support or privacy concerns. The Internet's infrastructure may not be able to support the demands placed on it by increased usage. In addition, delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity, or increased government regulation, could cause the Internet to lose its viability as a commercial medium. Even if the required infrastructure, standards, protocols and complementary products, services or facilities are developed, we may incur substantial expenses adapting our solutions to changing or emerging technologies.

FUTURE REGULATIONS COULD BE ENACTED THAT EITHER DIRECTLY RESTRICT OUR BUSINESS OR INDIRECTLY IMPACT OUR BUSINESS BY LIMITING THE GROWTH OF E-COMMERCE As e-commerce evolves, federal, state and foreign agencies could adopt regulations covering issues such as user privacy, content and taxation of products and services. If enacted, government regulations could limit the market for our products and services. Although many regulations might not apply to our business directly, we expect that laws regulating the solicitation, collection or processing of personal and consumer information could indirectly affect our business. The Telecommunications Act of 1996 prohibits certain types of information and content from being transmitted over the Internet. The prohibition's scope and the liability associated with a violation are currently unsettled. In addition, although substantial portions of the Communications Decency Act were held to be unconstitutional, we cannot be certain that similar legislation will not be enacted and upheld in the future. It is possible that legislation could expose companies involved in e-commerce to liability, which could limit the growth of e-commerce generally. Legislation like the Telecommunications Act and the Communications Decency Act could dampen the growth in Web usage and decrease its acceptance as a medium of communications and commerce.

THE INTERNET IS GENERATING PRIVACY CONCERNS WHICH COULD RESULT IN LEGISLATION OR MARKET PERCEPTIONS WHICH COULD HARM OUR BUSINESS OR RESULT IN REDUCED SALES OF OUR PRODUCTS, OR BOTH Businesses use our Dynamo Personalization Server product to develop and maintain profiles to tailor the content to be provided to Web site visitors. When a visitor first arrives at a Web site, our software creates a profile for that visitor. If the visitor registers or logs in, the visitor's identity is added to the profile, preserving any profile information that was gathered up to that point. Dynamo Personalization Server tracks both explicit user profile data supplied by the user as well as implicit profile attributes derived from the user's behavior on the Web site. Privacy concerns may cause visitors to resist providing the personal data or avoid Web sites tracking the Web behavioral information necessary to support this profiling capability.

More importantly, even the perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our products. In addition, legislative or regulatory requirements may heighten these concerns if businesses must notify Web site users that the data captured after visiting Web sites may be used to direct product promotion and advertising to that user. Other countries and political entities, such as the European Economic Community, have adopted such legislation or regulatory requirements. The United States may adopt similar legislation or regulatory requirements. If privacy legislation is enacted or consumer privacy concerns are not adequately addressed, our business, financial condition and operating results could be harmed.

Our Dynamo products use "cookies" to track demographic information and user preferences. A "cookie" is information keyed to a specific user that is stored on a computer's hard drive, typically without the user's knowledge. Cookies are generally removable by the user, although removal could affect the content available on a particular site. Germany has imposed laws limiting the use of cookies, and a number of Internet commentators and governmental bodies in the United States and other countries have urged passage of laws limiting or abolishing the use of cookies. If such laws are passed or if users begin to delete or refuse cookies as a common practice, demand for our personalization products could be reduced.

PROJECTIONS INCLUDED IN THIS PROSPECTUS RELATING TO THE GROWTH OF E-COMMERCE AND THE INTERNET ARE BASED ON ASSUMPTIONS THAT COULD TURN OUT TO BE INCORRECT AND ACTUAL RESULTS COULD BE MATERIALLY DIFFERENT FROM THE PROJECTIONS This prospectus contains various data and projections related to revenues generated by electronic commerce and the size of the worldwide Internet commerce application software market. These data and projections have been included in studies prepared by International Data Corporation, an independent market research firm, and the projections are based on surveys, financial reports and models used by IDC to measure license revenues and associated maintenance fees derived from sales to e-commerce sites. These projections include assumptions regarding U.S. business and home use of the Internet; growth in the number of non-personal computer Web access devices; the amount of time people will spend shopping on the Web; the absence of any catastrophic failure of the Internet; the continued expansion of regional economies; and the continued improvement of security on the Internet, as well as consumer confidence. Actual results or circumstances may be materially different from the projections. This could reduce our revenues and harm our operating results. These data and projections are inherently imprecise and investors are cautioned not to place undue reliance on them.

Risks Related to the Securities Markets

Our Stock Price May Be Volatile

The market price of our common stock has fluctuated in the past and is likely to continue to be highly volatile. Fluctuations in market price and volume are particularly common among securities of Internet and software companies. The market price of our common stock may fluctuate significantly in response

to the following factors, some of which are beyond our control:

- variations in quarterly operating results - changes in market valuations of Internet and software companies - our announcements of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments - failure to complete significant sales - additions or departures of key personnel - future sales of common stock - changes in financial estimates by securities analysts

We May Incur Significant Costs from Class Action Litigation

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its stock. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

Substantial Sales of Our Common Stock Could Cause Our Stock Price to Decline

Sales of a substantial number of shares of common stock after this offering could adversely affect the market price of the common stock. On completion of this offering, we will have 32,542,737 shares of common stock outstanding and 4,009,947 shares subject to outstanding options. The 5,750,000 shares sold in our initial public offering in July 1999 are, and the shares sold in this offering will be, freely tradable without restriction or further registration under the federal securities laws unless purchased by our "affiliates" as that term is defined in Rule 144. The remaining shares of common stock outstanding on completion of the offering will be "restricted securities" as that term is defined in Rule 144. Our directors and executive officers and the selling stockholders have executed lock-up agreements that limit their ability to sell common stock. These stockholders have agreed not to sell or otherwise dispose of any shares of common stock for a period of 90 days after the date of this prospectus without the prior written approval of Hambrecht & Quist LLC. When the lock-up agreements expire, most of the restricted securities will become eligible for sale.

ANTI-TAKEOVER PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW COULD PREVENT OR DELAY A CHANGE IN CONTROL OF OUR COMPANY Certain provisions of our certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable, which could reduce the market price of our common stock. Such provisions include:

- authorizing the issuance of "blank check" preferred stock - providing for a classified board of directors with staggered, three-year terms - providing that directors may only be removed for cause by a two-thirds vote of stockholders - limiting the persons who may call special meetings of stockholders - prohibiting stockholder action by written consent - establishing advance notice requirements for

nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

Investors Will Experience Immediate Dilution

The public offering price is substantially higher than the book value per share of the outstanding common stock immediately after this offering. Accordingly, if you purchase common stock in the offering, you will incur immediate dilution of approximately $62.88 in the book value per share of the common stock from the price you pay for the common stock.

THE FORWARD-LOOKING STATEMENTS WE MAKE IN THIS PROSPECTUS MIGHT PROVE INACCURATE. AS A RESULT, OUR ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS.

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or other comparable terminology. These statements involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, among other things, those listed under "Risk Factors" and elsewhere in this prospectus.

We cannot guarantee any future results, levels of activity, performance or achievements. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of these statements. We undertake no obligation to update any of the forward-looking statements after the date of this prospectus.

Use of Proceeds

We estimate that the net proceeds from our sale of 1,425,000 shares of common stock, after deducting estimated underwriting discounts and estimated offering expenses, will be approximately $90.3 million. Our estimated net proceeds will be $95.9 million if the underwriters fully exercise their over-allotment option. These estimates assume a public offering price of $67.44 per share. We will not receive any proceeds from the sales of common stock by the selling stockholders.

We intend to use our net proceeds of this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds for possible acquisitions of businesses, products and technologies. From time to time we engage in discussions with potential acquisition

candidates. However, we have no current plans, commitments or agreements with respect to any acquisitions, and we may not make any acquisitions.

We have not identified specific uses for our net proceeds of this offering, and we will have discretion over their use and investment. Pending use of our proceeds, we intend to invest these proceeds in short-term, investment grade, interest-bearing securities.

Dividend Policy

We currently intend to retain future earnings, if any, to finance our growth. We do not anticipate paying cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, restrictions in financing agreements and plans for expansion.

Price Range of Our Common Stock

Our common stock began trading on the Nasdaq National Market under the symbol "ARTG" on July 21, 1999. Prior to that, there was no established public trading market for our common stock. The following table sets forth the high and low prices of our common stock for the periods indicated as quoted on the Nasdaq National Market.

Period High Low

Year ending December 31, 1999 Third quarter (commencing July 21, 1999)..... $38.13 $10.25 Fourth quarter (through October 21, 1999)..... $68.50 $35.13 On October 21, 1999 the last reported sale price on the Nasdaq National Market for our common stock was $67.44 per share. On October 20, 1999, there were 243 holders of record of our common stock.

Capitalization

The following table sets forth our capitalization as of September 30, 1999:

- on an actual basis

- on an as adjusted basis to reflect our receipt from our sale of 1,425,000 shares of common stock in this offering at an assumed public offering price of $67.44 per share after deducting the estimated underwriting discounts and estimated offering expenses SEPTEMBER 30, 1999 AS ACTUAL ADJUSTED (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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Stockholders' equity:
  Preferred stock, $0.01 par value, 10,000,000 shares
    authorized and no shares issued or outstanding actual
    and as adjusted.....................................    $     --            --
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Common stock, $0.01 par value, 100,000,000 shares authorized: 31,115,113 shares issued and outstanding actual and 32,540,113 shares issued and outstanding as adjusted	311	325
Additional paid-in capital	81,043	171,345
Deferred compensation	(3,932)	(3,932)
Accumulated deficit	(19,384)	(19,384)
Total stockholders' equity	58,038	148,354
Total capitalization	$ 58,038	$148,354

See "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes included in this prospectus.

Dilution

The net tangible book value of our common stock as of September 30, 1999 was $58,038,000, or $1.87 per share. After giving effect to the sale of common stock pursuant to this offering at an assumed public offering price of $67.44 per share, assuming the underwriters' option to purchase additional shares in this offering is not exercised, and after deducting estimated underwriting discounts and estimated offering expenses, the as adjusted net tangible book value at September 30, 1999 would have been $148,354,000, or $4.56 per share.

Net tangible book value per share before the offering has been determined by dividing net tangible book value (total tangible assets less total liabilities) by the number of shares of common stock outstanding as of September 30, 1999. This offering will result in an increase in net tangible book value per share of $2.69 to existing stockholders and dilution in net tangible book value per share of $62.88 to new investors who purchase shares in this offering. Dilution is determined by subtracting net tangible book value per share after this offering from the assumed public offering price of $67.44 per share.

The following table illustrates this dilution:

Assumed public offering price per share		$67.44
Net tangible book value per share at September 30, 1999	$ 1.87	
Increase attributable to sale of common stock in this offering	2.69	
Net tangible book value per share after this offering		4.56
Dilution of net tangible book value per share to new investors who purchase shares in this offering		$62.88

Selected Consolidated Financial Data

The selected consolidated financial data set forth below as of December 31, 1997 and 1998 and for each of the years ended December 31, 1996, 1997 and 1998 are derived from financial statements audited by Arthur Andersen LLP, independent public accountants, which are included in this prospectus. The selected consolidated financial data as of December 31, 1995 and 1996 and the year ended December 31, 1995 are derived from audited financial statements not included in this prospectus. The selected consolidated financial data as of December 31, 1994 and for the year ended

December 31, 1994 are derived from unaudited financial statements not included in this prospectus. The selected consolidated financial data as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 are derived from unaudited financial statements which are included in this prospectus and which include, in our opinion, all adjustments, consisting of only normal recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations for those periods. Operating results for the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 1999. The pro forma basic and diluted net loss per share is described in note 1(f) to the consolidated financial statements included elsewhere in this prospectus. The data should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus and with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Nine Months Year Ended December 31, Ended September 30,

1994 1995 1996 1997 1998 1998 1999

(In Thousands, Except Share and Per Share Data)

CONSOLIDATED STATEMENTS OF OPERATIONS DATA:							
Revenues:							
Services	$ 753	$ 798	$ 3,849	$ 4,591	$ 8,078	$ 5,849	$ 9,421
Product license	--	--	53	1,866	4,059	2,451	9,372
Total revenues	753	798	3,902	6,457	12,137	8,300	18,793
Cost of revenues	518	594	1,985	3,196	5,050	3,475	6,669
Gross Profit	235	204	1,917	3,261	7,087	4,825	12,124
Operating expenses:							
Research and development	11	217	1,117	3,661	3,355	2,306	4,234
Sales and marketing	76	133	1,152	2,287	4,074	2,630	8,134
General and administrative	357	284	1,060	1,418	2,291	1,543	3,149
Amortization of deferred compensation	--	--	--	--	107	--	823
Total operating expenses	444	634	3,329	7,366	9,827	6,479	16,340
Loss from operations	(209)	(430)	(1,412)	(4,105)	(2,740)	(1,654)	(4,216)
Interest income	--	--	--	6	54	8	681
Interest expense	(25)	(37)	(30)	(129)	(164)	(132)	(120)
Net loss	(234)	(467)	(1,442)	(4,228)	(2,850)	(1,778)	(3,655)
Accretion of discount, dividends and offering costs on preferred							

stock	--	(2)	(206)	(214)	(1,594)	(1,342)	(4,395)					
Net loss available for common stockholders	$ (234)	$ (469)	$ (1,648)	$ (4,442)	$ (4,444)	$ (3,120)	$ (8,050)					
Basic and diluted net loss per share	$ (0.03)	$ (0.06)	$ (0.19)	$ (0.50)	$ (0.50)	$ (0.35)	$ (0.53)					
Basic and diluted weighted average common shares outstanding	7,763,013	8,131,028	8,848,866	8,872,202	8,967,066	8,941,046	15,176,953					
Pro forma basic and diluted net loss per share					$ (0.16)	$ (0.14)						
Pro forma basic and diluted weighted average common shares outstanding					18,246,484	25,707,287						

	DECEMBER 31,				SEPTEMBER 30,	
	1994	1995	1996	1997	1998	1999
	(IN THOUSANDS)					
CONSOLIDATED BALANCE SHEET DATA:						
Cash and cash equivalents	$ --	$ 6	$ 2,358	$ 187	$ 4,093	$57,399
Working capital (deficit)	(349)	(341)	902	(1,328)	3,649	53,677
Total assets	144	137	3,038	1,672	7,766	68,648
Long-term obligations, less current portion	--	--	24	122	322	--
Redeemable convertible preferred stock	--	--	3,000	3,153	8,313	--
Stockholders' equity (deficit)	(240)	(211)	(1,648)	(4,060)	(4,034)	58,038

Management's Discussion and Analysis of Financial Condition and Results of Operations

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN THE FORWARD-LOOKING STATEMENTS.

Overview

We were founded in December 1991. From 1991 through 1995, we devoted our efforts principally to building, marketing and selling our professional services capabilities and to research and development activities related to our software products. Beginning in 1996, we began to focus on selling our software products. To date, we have enhanced and released several versions of our Dynamo Application

Server product, and have completed development of our current product suite. We market and sell our products worldwide through our direct sales force, systems integrators, technology partners and original equipment manufacturers.

We derive our revenues from the sale of software product licenses and related services. Product license revenues are derived from the sale of perpetual software licenses of our Dynamo products. Our software licenses are priced based on either the size of the customer implementation or site license terms. Services revenues are derived from fees for professional services, training, and software maintenance and support. Professional services include software installation, custom application development and project and technical consulting. We bill professional services fees either on a time and materials basis or on a fixed-price schedule. Software maintenance and support arrangements are priced based on the level of services provided. In general, customers are entitled to receive software updates, maintenance releases and technical support for an annual maintenance fee of 20% to 30% of the list price of the licensed product. Customers that purchase maintenance and support generally receive all product updates and upgrades of software modules purchased as well as Web-based and telephone technical support. Training is billed when services are provided.

We recognize revenues in accordance with Statement of Position (SOP) 97-2, SOFTWARE REVENUE RECOGNITION and SOP 98-4, DEFERRAL OF THE EFFECTIVE DATE OF A PROVISION OF SOP 97-2, SOFTWARE REVENUE RECOGNITION. Revenues from software product licenses are recognized upon execution of a license agreement and delivery of the software, provided that the fee is fixed and determinable and deemed by management to be collectible. If conditions for acceptance are required subsequent to delivery, revenues are recognized upon customer acceptance if such acceptance is not deemed to be perfunctory. Revenues under reseller arrangements are generally recognized as earned which is generally ratably over the life of the reseller agreement for guaranteed minimum royalties or based upon unit sales by the resellers. Revenues for professional services are recognized on either a time and materials or percentage of completion basis as the services are performed, provided that amounts due from customers are fixed and determinable and deemed collectible by management. Revenues for software maintenance and support are recognized ratably over the term of the maintenance period, which is typically one year. We record cash receipts from customers and billed amounts due from customers in excess of revenues recognized as deferred revenues. We record revenues recognized on a contract prior to billing as unbilled services. The timing and amount of cash receipts from customers can vary significantly depending on specific contract terms and can therefore have a significant impact on the amount of deferred revenues and unbilled services in any given period.

Services revenues have increased each quarter during our history primarily due to the expansion of our service capabilities by hiring additional service personnel and to the increase in the number of customers using our Dynamo products. Sales of Dynamo products often lead to sales of consulting services and software maintenance and support. To date, substantially all of our Dynamo customers have entered into 12-month software maintenance and support agreements at the time of purchase. Because we only began selling Dynamo in 1996, we have a limited history upon which to evaluate whether Dynamo customers will renew their maintenance and support agreements from year to year. We believe that growth in our product license sales depends on our ability to provide customers with

support, training, consulting and implementation services and to educate systems integrators and resellers on how to use and install our products. We have invested significantly, and expect to continue to invest, in expanding our services organization.

Until 1996, we were focused primarily on our professional services business. Since 1996, sales of software licenses and related software and maintenance services have represented an increasing percentage of our total revenues. We anticipate that software product licenses and software maintenance revenues will continue to increase as a percentage of total revenues. As software product licenses have nearly no costs associated with them, this trend may contribute to higher gross margins. Gross margins will also be affected by the mix of services provided and the utilization of our services personnel. As a result, our gross margins could vary significantly from quarter to quarter.

Since our inception, we have incurred substantial costs to develop our technology and products, to recruit, hire and train personnel for our engineering, sales and marketing and professional services departments, and to establish an administrative organization. These costs have exceeded the revenues generated by our products and services. As a result, we have incurred net losses in each year since inception and for the nine months ended September 30, 1999. As of September 30, 1999, we had an accumulated deficit of $19.4 million. We anticipate that our operating expenses will increase substantially in future quarters as we increase sales and marketing operations, develop new distribution channels, fund greater levels of research and development, broaden professional services and support, and improve operational and financial systems. Accordingly, we expect to incur additional losses for the foreseeable future. In addition, our limited operating history makes it difficult for us to predict future operating results and, therefore, there can be no assurance that we will achieve or sustain revenue growth or profitability.

We had 245 full-time employees at September 30, 1999, up from 119 at September 30, 1998. This rapid growth places a significant demand on our management and operational resources. In order to manage growth effectively, we must implement and improve our operational systems, procedures and controls on a timely basis. We expect that future expansion will continue to challenge our ability to hire, train, motivate and manage our employees. Competition is intense for highly qualified technical, sales and marketing and management personnel.

Results of Operations

The following table sets forth statement of operations data as percentages of total revenues for the periods indicated:

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,
	1996	1997	1998	1998	1999

Revenues:					
Services	99%	71%	67%	70%	50%
Product licenses	1	29	33	30	50
Total revenues	100	100	100	100	100
Cost of revenues	51	49	42	42	35
Gross profit	49	51	58	58	65
Operating expenses:					
Research and development	29	57	27	28	23
Sales and marketing	29	35	34	32	43
General and administrative	27	22	19	18	17
Amortization of deferred compensation	--	--	1	--	4
Total operating expenses	85	114	81	78	87
Loss from operations	(36)	(63)	(23)	(20)	(22)
Interest income	--	--	--	--	4
Interest expense	(1)	(2)	(1)	(1)	(1)
Net loss	(37)%	(65)%	(24)%	(21)%	(19)%

Nine Months Ended September 30, 1998 and 1999

REVENUES. Total revenues increased 127% from $8.3 million for the nine months ended September 30, 1998 to $18.8 million for the nine months ended September 30, 1999. The increase was attributable to growth in the number of customers and average sales per customer, as we expanded our sales force and introduced a new release of our Dynamo product in December 1998. Two customers accounted for 22% and 32% of total revenues during the nine months ended September 30, 1999 and 1998, respectively.

The following customers accounted for more than 10% of our total revenues in the periods indicated:

NINE MONTHS ENDED SEPTEMBER 30,	1998	1999
Sun Microsystems	20%	11%
Informix	--	11
Universal Learning Technologies	12	--

SERVICES REVENUES. Services revenues increased 62% from $5.8 million for the nine months ended September 30, 1998 to $9.4 million for the nine months ended September 30, 1999. Services revenues from professional services consulting fees increased from $5.6 million for the nine months ended September 30, 1998 to $7.7 million for the nine months ended September 30, 1999. Services revenues from software maintenance and support agreements increased from $208,000 for the nine

months ended September 30, 1998 to $1.7 million for the nine months ended September 30, 1999. The increase in services revenues was primarily due to an increase in the number of customers and sales of product licenses.

PRODUCT LICENSE REVENUES. Product license revenues increased from $2.5 million for the nine months ended September 30, 1998 to $9.4 million for the nine months ended September 30, 1999. This increase was primarily due to growing market acceptance of our Dynamo product suite following the release of Dynamo 4.0 in December 1998. In addition, we entered into an original equipment manufacturer agreement with Informix in December 1998 under which we received $5.0 million of prepaid royalties, of which $1.6 million was recognized as revenues for the nine months ended September 30, 1999. In the event Informix is named in a patent or other intellectual property infringement claim related to the agreement with BroadVision, Informix has the right to terminate the agreement and receive a refund of the $5.0 million less the greater of $530,000 per quarter, commencing with the fiscal quarter ended March 31, 1999, and all uncredited prepaid royalties as of the termination date. The amount refundable at September 30, 1999 was $3.4 million. The initial term of our agreement with Informix is two years and it is automatically renewed for successive one year terms unless one of the parties elects not to renew the agreement. In addition, if we are acquired by a competitor of Informix, Informix could require that the agreement remain in effect for up to one renewal period.

Product license revenues increased as a percentage of total revenues from 30% for the nine months ended September 30, 1998 to 50% for the nine months ended September 30, 1999. This increase was a result of our ongoing strategy to increase product license revenues as a percentage of total revenues.

COST OF REVENUES. Cost of revenues includes salary and other related costs for our professional services and support staff, as well as third-party contractor expenses. Cost of revenues also includes product license costs which include royalties to third parties for software embedded in our Dynamo product suite, as well as documentation and other informational media associated with our products. To date, these product license costs have not been significant. Cost of revenues increased 81% from $3.5 million for the nine months ended September 30, 1998 to $6.7 million for the nine months ended September 30, 1999. The increase was primarily due to the expansion of our services organization. Approximately 88% of the increase was attributable to an increase in salaries and related benefits and the remainder was primarily due to an increase in travel and related expenses.

Cost of revenues as a percentage of services revenues increased from 59% for the nine months ended September 30, 1998 to 71% for the nine months ended September 30, 1999. This increase resulted primarily from a significant increase in the number of employees in our professional services group in the first three quarters of 1999. We incur recruiting and training expenses when we hire additional employees and generally experience lower utilization of newly-hired services personnel.

Cost of revenues, in absolute dollars and as a percentage of services revenues, will vary significantly depending on the level of professional services staffing, their effective utilization rates and the mix of services performed, including product license support services, and whether these services are

performed by us or by third-party contractors. In addition, cost of revenues will increase if any product license related cost of revenues materialize. Cost of revenues as a percentage of total revenues may vary significantly depending on the mix of revenues between product licenses and services.

GROSS PROFIT. Gross profit increased 152% from $4.8 million for the nine months ended September 30, 1998 to $12.1 million for the nine months ended September 30, 1999. The increase in gross profit was primarily due to the significant increase in product license revenues, which have no significant cost of revenues, as a percentage of total revenues for the nine months ended September 30, 1999.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses consist primarily of salary and related costs to support product development. Research and development expenses increased 83% from $2.3 million for the nine months ended September 30, 1998 to $4.2 million for the nine months ended September 30, 1999. Approximately 78% of the increase was due to increases in engineering salaries, and the remainder of the increase was primarily due to related recruiting and facilities costs.

Research and development expenses as a percentage of total revenues were 28% for the nine months ended September 30, 1998 and 23% for the nine months ended September 30, 1999. We believe that continued investment in research and development is critical to attaining our strategic objectives, and, as a result, we expect research and development expenses to increase significantly in absolute dollars in future periods. To date, all software development costs have been expensed in the period incurred.

SALES AND MARKETING EXPENSES. Sales and marketing expenses consist primarily of salaries, commissions and other related costs for sales and marketing personnel, travel, public relations and marketing programs and events. Sales and marketing expenses increased 212% from $2.6 million for the nine months ended September 30, 1998 to $8.1 million for the nine months ended September 30, 1999. Approximately 47% of the increase was related to new and increased marketing program expenditures, approximately 35% of the increase was due to a significant increase in the number of sales and marketing personnel and related expenses, approximately 10% of the increase was due to travel and entertainment expenses and the remainder of the increase was due to new facility expenses.

Sales and marketing expenses as a percentage of total revenues were 32% for the nine months ended September 30, 1998 and 43% for the nine months ended September 30, 1999. We believe that sales and marketing expenses in absolute dollars will increase in future periods as we expect to continue to expand our sales and marketing efforts. In particular, we expect to hire and train new sales personnel, increase marketing and promotional spending and open additional sales offices both in the United States and abroad. We also anticipate that sales and marketing expenses may fluctuate as a percentage of total revenues from period to period depending on the level and timing of such expenditures and the rate at which newly-hired sales personnel become productive.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees, legal and accounting fees and facilities-related expenses. General and administrative expenses increased 107% from $1.5 million for the nine months ended September 30, 1998 to $3.2 million for the nine months ended September 30, 1999. Approximately 39% of the increase was due to an increase in personnel and

related costs and approximately 11% of the increase related to increases in legal and accounting fees. We increased our general and administrative personnel to build the infrastructure to support the growth of the company.

General and administrative expenses as a percentage of total revenues were 18% for the nine months ended September 30, 1998 and 17% for the nine months ended September 30, 1999. We believe general and administrative expenses will increase in absolute dollars as we expect to hire additional personnel and incur additional costs to build the infrastructure to support the growth of our business. We also expect to incur increased legal expenses for the duration of the BroadVision litigation, as well as increased facilities costs as we expand our employee base.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. In the fourth quarter of 1998 through May 1999, we recorded total deferred stock compensation of $4.9 million in connection with stock option grants. This amount represents the difference between the exercise price of certain stock option grants and the deemed fair value for accounting purposes of our common stock at the time of such grants. We are amortizing this amount over the vesting periods of the applicable options, resulting in amortization expense of $823,000 for the nine months ended September 30, 1999. We did not have amortization expense relating to deferred stock compensation for the nine months ended September 30, 1998.

INTEREST INCOME (EXPENSE). Interest income increased from $8,000 for the nine months ended September 30, 1998 to $681,000 for the nine months ended September 30, 1999. Interest income for the nine months ended September 30, 1999 was generated from cash and cash equivalents available for investment primarily from the receipt of $56.2 million from our initial public offering. Interest expense decreased from $132,000 for the nine months ended September 30, 1998 to $120,000 for the nine months ended September 30, 1999. The decrease was primarily due to our repayment of outstanding indebtedness with proceeds of our initial public offering.

PROVISION FOR INCOME TAXES AND TAX CREDIT CARRYFORWARDS. We incurred losses for the nine months ended September 30, 1998 and 1999. Accordingly, there were no provisions for income taxes.

Years Ended December 31, 1996, 1997 and 1998

REVENUES. Total revenues increased 65% from $3.9 million in 1996 to $6.5 million in 1997 and 88% to $12.1 million in 1998. The increase was attributable to increases in the number of our customers and average sales per customer primarily due to the commencement of product license sales in 1996 and a new release of Dynamo in December 1997. We also experienced substantial growth in services revenues from our expanded customer base. Three customers accounted for 80%, 56% and 37% of total revenues in 1996, 1997 and 1998, respectively. The following customers accounted for more than 10% of our total revenues in the periods indicated.

YEAR ENDED DECEMBER 31, CUSTOMER 1996 1997 1998

Harvard Business School	35%	--%	--%
Sony Online Entertainment	31	29	--
Sun Microsystems	--	--	17
BMG Direct	--	16	--
Stream International	14	--	--
R.R. Donnelley	--	11	--
Universal Learning Technology	--	--	10
John Hancock Funds, Inc	--	--	10

SERVICES REVENUES. Services revenues increased 19% from $3.8 million in 1996 to $4.6 million in 1997 and 76% to $8.1 million in 1998. Services revenues from professional consulting service fees increased 18% from $3.8 million in 1996 to $4.5 million in 1997 and 71% to $7.7 million in 1998. Services revenues from maintenance and support agreements increased from $44,000 in 1997 to $372,000 in 1998. Revenues from maintenance and support agreements were immaterial in 1996. The increase in services revenues was primarily due to an increase in the number of customers, increased sales of product licenses and increased billing rates.

PRODUCT LICENSE REVENUES. Product license revenues increased from $53,000 in 1996 to $1.9 million in 1997 and 118% to $4.1 million in 1998. The increase in product license revenues was primarily due to the commencement of product shipments in December 1996 and from growing market acceptance of our Dynamo product suite following the release of Dynamo 3.0 in December 1997 and Dynamo 4.0 in December 1998.

COST OF REVENUES. Cost of revenues increased 61% from $2.0 million in 1996 to $3.2 million in 1997 and 58% to $5.1 million in 1998. Approximately 94% of the increase in 1997 and 73% of the increase in 1998 were due to the expansion of our professional services organization, consisting primarily of payroll and related benefits. Additionally, the increase in the number of software product license customers required increased investment in support and management personnel. Service costs related to maintenance and support agreements increased from an immaterial amount in 1996 to $133,000 in 1997 and to $206,000 in 1998. Product license costs were immaterial in all three years.

Cost of revenues as a percentage of services revenues increased from 52% in 1996 to 70% in 1997 and decreased to 63% in 1998. The increase in 1997 reflected the significant increase in the number of employees in our professional services group. The decrease in 1998 resulted from improved utilization of service personnel.

GROSS PROFIT. Gross profit increased 70% from $1.9 million in 1996 to $3.3 million in 1997 and by 117% to $7.1 million in 1998. The increase in gross profit was primarily due to the increase in total revenues. The gross margin increased from 49% in 1996 to 51% in 1997 and to 58% in 1998. The gross margin increase was primarily due to the significant increase in product license revenues, which have no significant cost of revenues.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased 228% from $1.1 million in 1996 to $3.7 million in 1997 and decreased 8% to $3.4 million in 1998. Approximately 76% of the increase in 1997 was due to an increase in the number of engineering personnel, with the remainder attributable to recruiting fees and overhead costs associated with

product development. Approximately 36% of the decrease in 1998 was due to the temporary reallocation of research and development personnel to support the professional services organization and the remainder of the decrease primarily was due to overhead and related expenses.

SALES AND MARKETING EXPENSES. Sales and marketing expenses increased 99% from $1.2 million in 1996 to $2.3 million in 1997 and 78% to $4.1 million in 1998. Approximately 87% of the increase in 1997 and 67% of the increase in 1998 were due to an increase in the number of sales and marketing personnel and related expenses. The remainder in each year primarily related to increases in our marketing expenditures.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased 34% from $1.1 million in 1996 to $1.4 million in 1997 and increased 62% to $2.3 million in 1998. Approximately 69% of the increase in 1997 and 50% of the increase in 1998 were due to the hiring of additional personnel with the remainder in each year primarily due to the increase in facility expenses necessary to support our expanding operations.

INTEREST INCOME (EXPENSE). Interest income increased from $6,000 in 1997 to $54,000 in 1998. We did not have interest income in 1996. The increases reflect interest earned on higher balances of cash and cash equivalents resulting from the proceeds from the private sale of equity securities. Interest expense increased from $30,000 in 1996 to $129,000 in 1997 and to $164,000 in 1998. The increase reflected additional borrowings under various financing arrangements entered into during 1997 and 1998, as well as a non-cash interest expense related to warrants issued in connection with our credit facility in 1998.

PROVISION FOR INCOME TAXES. We incurred losses for the years ended December 31, 1996, 1997 and 1998. Accordingly, there were no provisions for income taxes in these periods.

Quarterly Results

The following tables set forth unaudited statement of operations data for each quarter of 1998 and the three first quarters of 1999. This information has been presented on the same basis as the audited financial statements appearing elsewhere in this prospectus and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary to present fairly the unaudited quarterly results. This information should be read in conjunction with our audited financial statements and related notes appearing elsewhere in this prospectus. The operating results for any quarter are not necessarily indicative of results for any future period.

	THREE MONTHS ENDED						
	MARCH 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MARCH 31, 1999	JUNE 30, 1999	SEPT. 30, 1999
	(IN THOUSANDS)						
Revenues:							
Services	$ 1,692	$ 1,944	$ 2,213	$ 2,229	$ 2,614	$ 3,128	$ 3,679
Product license	209	1,003	1,239	1,608	1,806		

3,105	4,461									
Total revenues		1,901		2,947		3,452		3,837		4,420
6,233	8,140									
Cost of revenues		1,066		1,234		1,175		1,575		1,813
2,248	2,608									
Gross Profit		835		1,713		2,277		2,262		2,607
3,985	5,532									
Operating expenses:										
Research and development		627		685		994		1,049		1,131
1,392	1,710									
Sales and marketing		680		923		1,027		1,444		1,420
2,617	4,097									
General and administrative		436		450		657		748		743
1,115	1,292									
Amortization of deferred stock compensation		--		--		--		107		216
303	304									
Total operating expenses		1,743		2,058		2,678		3,348		3,510
5,427	7,403									
Loss from operations		(908)		(345)		(401)		(1,086)		(903)
(1,442)	(1,871)									
Interest income		--		--		8		46		50
71	561									
Interest expense		(41)		(43)		(48)		(32)		(24)
(25)	(72)									
Net loss		$ (949)		$ (388)		$ (441)		$(1,072)		$ (877)
$	(1,396)	$ (1,382)								

PERCENTAGE OF TOTAL REVENUES Revenues:

Services		89%		66%		64%		58%		59%
50%	45%									
Product license		11		34		36		42		41
50	55									
Total revenues		100		100		100		100		100
100	100									
Cost of revenues		56		42		34		41		41
36	32									
Gross Profit		44		58		66		59		59
64	68									
Operating expenses:										
Research and development		33		23		29		27		25
22	21									
Sales and marketing		36		31		30		38		32
42	50									
General and administrative		23		16		19		19		17
18	16									
Amortization of deferred stock compensation		--		--		--		3		5
5	4									
Total operating expenses		92		70		78		87		79
87	91									
Loss from operations		(48)		(12)		(12)		(28)		(20)
(23)	(23)									
Interest income		--		--		--		1		1
1	7									
Interest expense		(2)		(1)		(1)		(1)		(1)
--	(1)									
Net loss		(50)%		(13)%		(13)%		(28)%		(20)%
(22)%	(17)%									

The increase in product license revenues from the three months ended March 31, 1998 to the three months ended September 30, 1999 was primarily due to the growing market acceptance of our product suite following the release of Dynamo Application Server 3.0 in December 1997 and Dynamo Application Server 4.0 in December 1998. The decline in gross margins for the three months ended December 31, 1998 and March 31, 1999 from the three months ended September 30, 1998 was primarily due to the expansion of our services organization. Sales and marketing expenses increased each quarter, primarily due to increases in sales personnel and the achievement of sales quotas resulting in increased commissions. In particular, sales and marketing expenses increased significantly during the quarter ended September 30, 1999 due to increased headcount and an extensive marketing campaign.

As a result of our limited operating history, we cannot forecast operating expenses based on historical results. Most of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if revenues are lower than we project. Our ability to forecast accurately our quarterly revenues is limited due to the long sales cycle of our software products, which makes it difficult to predict the quarter in which product license revenues will occur, and the variability of customer demand for professional services. Our operating results will be materially adversely affected if revenues do not meet projections.

Deferred Compensation

In the fourth quarter of 1998 through May 1999, we recorded total deferred stock compensation of $4.9 million in connection with stock option grants. This amount represents the difference between the exercise price of stock option grants and the deemed fair value for accounting purposes of our common stock at the time of such grants. We are amortizing this amount over the vesting periods of the stock options, which will result in amortization expense of $1.1 million in 1999, $1.2 million in 2000, $1.2 million in 2001, $1.2 million in 2002 and $100,000 in 2003.

Net Operating Losses and Tax Credit Carryforwards

As of December 31, 1998, we had net operating loss carryforwards of $8.9 million and research and development tax credit carryforwards of $235,000. The net operating loss and tax credit carryforwards will expire at various dates beginning 2011, if not utilized. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an "ownership change" of a corporation. Our ability to utilize net operating loss and tax credit carryforwards on an annual basis would be limited as a result of an "ownership change" as defined by Section 382 of the Internal Revenue Code. We have completed several financings since inception and believe that we have incurred ownership changes. We do not believe the ownership changes will have a material impact on our ability to utilize our net operating loss and tax credit carryforwards.

Liquidity and Capital Resources

Since our inception, we have funded our operations and met our capital expenditure requirements through the private sale of equity securities, commercial credit facilities and capital leases, resulting in net proceeds of $13.0 million, and from our initial public offering. We completed our initial public offering of 5,168,000 shares of our common stock on July 26, 1999, including 168,000 shares issued in connection with the exercise of the underwriters' over-allotment option on July 30, 1999. These shares were sold to the public at $12.00 per share, which net of offering expenses, resulted in net proceeds of $56.2 million.

Cash used in operating activities was $412,000, $3.9 million and $2.9 million in 1996, 1997, and 1998, respectively. In the nine months ended September 30, 1999, we generated $1.3 million in cash from operating activities. This represents a cash operating loss of $2.4 million and changes in working capital items consisting primarily of cash provided by deferred revenue, accounts payable and accrued expenses offset by increases in accounts receivable, unbilled services and prepaid expenses and other current assets. The cash provided by the change in deferred revenue was primarily the result of $5.0 million we received from Informix, of which $3.4 million was included in deferred revenue as of September 30, 1999. In the event Informix is named in a patent or other intellectual property infringement claim related to the agreement with BroadVision, Informix has the right to terminate the agreement and receive a refund of the $5.0 million less the greater of $530,000 per quarter, commencing with the fiscal quarter ended March 31, 1999, and all uncredited prepaid royalties as of the termination date. The amount refundable at September 30, 1999 is $3.4 million.

To date, our investing activities have consisted primarily of capital expenditures totaling $498,000, $190,000, $285,000 and $3.4 million for 1996, 1997, 1998 and the nine months ended September 30, 1999, respectively. Assets acquired consisted primarily of leasehold improvements for our new facility, as well as computer hardware, software and furniture and fixtures for our new facility and growing employee base. We expect that our capital expenditures will increase as our employee base grows.

Net cash provided by financing activities for 1996, 1997, 1998 and the nine months ended September 30, 1999 was $3.3 million, $1.9 million, $7.5 million and $55.9 million, respectively. The primary source of cash from financing activities for 1996, 1997 and 1998 was our sales of preferred stock and for the nine months ended September 30, 1999 was our initial public offering, which generated net proceeds of $56.2 million.

We have a revolving line of credit which provides for borrowings of up to the lesser of $5.0 million and 80% of eligible accounts receivable and a $200,000 equipment line of credit with Silicon Valley Bank that bear interest at the bank's prime rate plus 0.25% and 0.75%, respectively. At September 30, 1999, we had $1.5 million available under the line of credit based upon our borrowing base and $200,000 available under the equipment line of credit. These lines of credit are secured by all of our tangible and intangible intellectual and personal property and are subject to financial covenants and restrictions, including minimum liquidity requirements and a prohibition on the payment of dividends. We are currently in compliance with all related financial covenants and restrictions.

At September 30, 1999, we had $57.4 million in cash and cash equivalents and $53.7 million in working capital. Management believes that the net proceeds from our recent initial public offering and this offering, together with the existing financial resources and commercial credit facilities, will be sufficient to meet our cash requirements for at least the next twelve months. Thereafter, we may require additional funds and may seek to raise additional funds through public or private equity financings or from other sources. There can be no assurance that additional financing will be available at all or that, if available, will be obtainable on terms favorable to us. Additional financing could also be dilutive.

Year 2000 Compliance

The "Year 2000 Issue" refers generally to the problems that some software may have in determining the correct century for the year. For example, software with date-sensitive functions that is not Year 2000 compliant may not be able to distinguish whether "00" means 1900 or 2000. This could result in failures or the creation of erroneous results.

We have defined "Year 2000 compliant" as the ability to:

(a) correctly handle date information needed for the December 31, 1999 to January 1, 2000 date change;

(b) function according to the product documentation provided for this date change, without changes in operation, assuming correct configuration;

(c) where appropriate, respond to two-digit date input in a way that resolves the ambiguity as to century in a disclosed, defined and predetermined manner;

(d) if the date elements in interfaces and data storage specify the century, store and provide output of date information in ways that are unambiguous as to century; and (e) recognize year 2000 as a leap year.

We have conducted a Year 2000 readiness review for the current versions of our products. The review includes assessment, validation testing and, where necessary, remediation, upgrading and replacement of these product versions, as well as contingency planning. We continue to respond to customer questions about prior versions of our products on a case-by-case basis.

We have largely completed all phases of our plan, and continue contingency planning, with respect to the current versions of our commercially available products. The current versions of each of these products are Year 2000 compliant when configured and used in accordance with the related documentation, so long as the underlying operating system of the host machine and any other software used with or in the host machine or our products are also Year 2000 compliant. However, the current versions of some of our commercial products may require patches in order to function optimally after December 31, 1999. We require all users of these affected products to install these patches.

In June 1999, we completed testing of the versions of our commercial products first released in December 1997 and all subsequent maintenance releases, which represent approximately 80% of our installed base, and we plan to offer remedial software patches to customers. We have not tested our commercial products on all platforms or all versions of operating systems that we currently support nor have we tested versions of our commercially available products introduced prior to December 1997. These earlier versions, which represent approximately 20% of our installed Dynamo product base, may not be Year 2000 compliant.

We have not separately tested software obtained from third parties (licensed software, shareware and freeware) that is incorporated into our products. While we have sought assurances from our vendors that licensed software is Year 2000 compliant, we know that some of the licensed software is not Year 2000 compliant. To address known problems, we plan to upgrade or replace the impacted systems by year-end. Despite testing by us and by customers, and assurances from developers of products incorporated into our products, our products may contain undetected errors or defects associated with Year 2000 date functions. Known or unknown errors or defects in our products could result in delay or loss of revenues, diversion of development resources, damage to our reputation or increased service and warranty costs, any of which could materially adversely affect our business, operating results or financial condition. Some commentators have predicted significant litigation regarding Year 2000 compliance issues, and we are aware of Year 2000 lawsuits against other software vendors. Because of the unprecedented nature of Year 2000 litigation, it is uncertain whether or to what extent we may be affected by it.

Our internal systems include both our information technology, or IT, and non-IT systems. We have initiated an assessment of our material internal IT systems, including both software tools we have developed and third-party software and hardware technology, as well as an assessment of our non-IT systems. We expect to complete testing of our IT systems in 1999. To the extent that our internal systems are not Year 2000 compliant, we plan to upgrade or replace these systems. Related costs have been immaterial to date and we expect total future costs to remain below $100,000. To the extent that we are not able to test the technology provided by third-party vendors, we are seeking assurances from them that their systems are Year 2000 compliant. Although we are not currently aware of any material operational issues or costs associated with preparing our internal IT and non-IT systems for the Year 2000, we may experience material unanticipated problems and costs caused by undetected errors or defects in the technology used in our internal IT and non-IT systems.

We do not currently have any information concerning the Year 2000 compliance status of our customers. Our current and potential customers may incur significant expenses to achieve Year 2000 compliance. If our customers are not Year 2000 compliant, they may experience material costs to remedy problems, or they may face litigation costs. In either case, Year 2000 issues could reduce or eliminate budgets that current or potential customers could otherwise have for purchases of our products and services. As a result, our business, results of operations or financial condition could be harmed.

We have funded our Year 2000 plan from available cash and have not separately accounted for these costs in the past. To date, these costs have not been material. We will incur additional costs related to the Year 2000 plan for personnel to manage the project, outside contractor assistance, technical support for our products, product engineering and customer satisfaction. We are already aware that some of our internal systems are not Year 2000 compliant and require upgrading before the end of the year. We may experience material problems and costs with Year 2000 compliance that could adversely affect our business, results of operations and financial condition.

We continue to develop a contingency plan to address situations that may result if we are unable to achieve Year 2000 readiness of our critical operations. The cost of developing and implementing a contingency plan may itself be material. Finally, we are also subject to external forces that might generally affect industry and commerce, such as utility or transportation company Year 2000 compliance failures and related service interruptions.

Business

Overview

We offer an integrated suite of Internet customer relationship management and e-commerce software applications, as well as related application development, integration and support services. Our solution enables businesses to understand, manage and build online customer relationships and to market, sell and support products and services over the Internet more effectively. Our Dynamo product suite includes an application server that is specifically designed to enable and support Web applications, as well as e-commerce and Internet customer management applications. An application server is a software program that facilitates the development, deployment and management of other software programs. Our solution is designed to provide businesses with the core application platform and software tools required to develop and deploy personalized, reliable, large-scale Web sites for conducting e-commerce.

Industry Background

Growth of the Internet and Electronic Commerce

The emergence of the Internet as a global medium for interactive communications and commerce is fundamentally changing the way business is conducted. The Internet is enabling businesses to attract and retain customers, conduct e-commerce with those customers, and communicate with employees, suppliers and strategic partners. The Internet is providing the opportunity for businesses to establish new revenue streams, create a new distribution channel, reduce costs and increase customer retention. This opportunity has driven the growth in online marketing and e-commerce initiatives. International

Data Corporation estimates that more than $1.3 trillion worth of goods and services will be sold over the Internet by 2003, which represents a compounded annual growth rate of 92% for the period between 1998 and 2003.

As the growth and acceptance of online marketing and e-commerce have increased, the World Wide Web has become a highly competitive business environment where customers have a large number of easily accessible choices. For a company to succeed in this environment, its Web site must present content and provide an overall visitor experience that captures the visitor's interest and satisfies their informational and transactional needs. To accomplish this, companies are investing in Internet-based customer relationship management and e-commerce solutions, such as:

- online marketing and selling systems to target, attract and retain customers - transaction and distribution management systems to reduce the costs of delivering products and services to customers and distribution partners - customer support and relationship management systems to better understand and serve the ongoing needs of their customers International Data Corporation estimates that the worldwide Internet commerce application software market was $444 million in 1998 and projects that the market will grow to $1.7 billion in 1999 and reach $13.1 billion in 2003.

Emerging E-commerce Requirements

Many commercial Web sites present only a static collection of non-interactive content. These sites offer basic content, such as corporate information, product literature and banner advertisements, which are passively viewed by Web visitors. While this information is useful, many Web visitors prefer dynamic content, which is continually updated and enhanced, as well as interactive content, which responds and changes based on the user's input. Many Web visitors also prefer Web sites that personalize their experience and present more relevant content based on their existing relationship with the business, stated or implied preferences and needs, Web navigation behavior and other factors. To attract, serve and retain customers online, businesses must engage visitors with dynamic, relevant and targeted experiences, which often lead to transactional opportunities.

Businesses are seeking Web-based systems that can be dynamically updated and integrated, sharing data among Web applications and across their entire enterprise in order to present users with a personalized, consistent and unified customer experience. The desired result is a customer-driven Web site that takes into account the particular customer's profile, Web behavior and relationship with the company. Customer-driven Web sites can provide businesses with an efficient means to manage and maximize customer relationships online. In order to accomplish this, businesses require solutions that incorporate a number of features:

- EFFECTIVE CONTROL OF E-COMMERCE SYSTEMS AND STRATEGIES. Business managers responsible for Internet customer relationship management need easy-to-use tools to give them direct control over their e-commerce systems and strategies without requiring the time-consuming intervention of information technology specialists. With the appropriate tools, business managers can

better manage their Internet customer relationships through improved customer segmentation and delivery of targeted content, promotions and advertising campaigns, and personalized pricing and account information.

- INTEGRATION WITH EXISTING INFORMATION SYSTEMS. In order to present the customer with a unified and personalized e-commerce experience, companies must address the difficult challenge of integrating Web applications with their existing content management, customer database, transaction and customer support systems.

- COMMON PLATFORM UPON WHICH TO BUILD FUTURE APPLICATIONS. Businesses implementing sophisticated Web-based applications desire an expandable Web platform to enable them to build new applications and add third-party functionality to their e-commerce initiatives on a rapid and ongoing basis.

- SCALABILITY, PERFORMANCE AND RELIABILITY. The increasing significance of Web-based commerce requires that e-commerce systems be highly scalable in order to accommodate rapid user growth and increased Web site complexity, content and functionality. Scalability refers to the ability of a computer system to handle greater load by adding additional hardware. Further, companies need high performance and highly reliable systems because if online systems fail or cause unsatisfactory delays, even for a short period of time, businesses could miss revenue opportunities and lose customers.

Current Solutions

In response to these emerging business requirements, various applications have been developed that address discrete aspects of the enterprise e-commerce infrastructure. A number of vendors offer stand-alone solutions for Web content management, advertising management, transaction processing, e-commerce storefront development, personalization and recommendation engines, and application development tools. By implementing a collection of these stand-alone solutions, companies can attempt to deliver dynamic, personalized content to Web site visitors and manage their e-commerce efforts. However, these stand-alone solutions may not provide a satisfactory solution for many businesses:

- LACK OF INTEGRATED FUNCTIONALITY. Disparate stand-alone applications generally do not easily integrate and communicate with each other, lack a common user interface and lack a common platform for integrating with existing information systems. As a result, a collection of stand-alone applications often does not present the Web visitor with a unified customer experience and may sacrifice functionality and performance.

- HIGH COST. It is frequently difficult and expensive for companies to implement a solution consisting of a collection of disparate stand-alone solutions from multiple vendors, and these implementations frequently fail to meet requirements. In addition, businesses often incur higher costs of ownership over time as it is difficult for them to manage the uncoordinated product upgrade cycles and new application development efforts of multiple vendors.

Today, businesses increasingly seek an integrated package of applications, platforms and tools that addresses all aspects of their enterprise e-commerce infrastructure, rather than just stand-alone solutions. Some software providers have developed more comprehensive solutions incorporating a number of e-commerce functions. However, these solutions may be inadequate for a number of reasons:

- LIMITED FUNCTIONALITY. The functionality may be insufficient to serve all of a company's e-commerce requirements, resulting in the need to buy, build or adapt additional applications.

- LACK OF A MODULAR, APPLICATION SERVER-BASED ARCHITECTURE. These solutions are typically not built with separate software modules and lack the expandability that an application server-based platform provides. This limits the ability of businesses to customize their implementations, integrate their solutions with existing applications and extend their e-commerce initiatives by building future applications or incorporating third-party technology.

- POOR SCALABILITY AND RELIABILITY. Most of today's computer systems are unable to scale to meet the growing performance demands of large-scale, e-commerce Web sites. Solutions that do not scale well can be unreliable and subject to system failures, which may result in frustrated customers, lost revenue opportunities and potential financial losses.

To address the limitations of most commercially available solutions, some companies have built custom Internet customer relationship management solutions with application development tools. While these solutions can provide the required functionality and integration, they typically require lengthy implementation periods and are expensive to build and maintain. In addition, they require a comprehensive understanding of market segmentation, content targeting and advertising, as well as extensive technical expertise in Web application development and systems integration. Most companies, and many third-party systems integrators and application developers, do not have the expertise and experience to address all of these requirements.

As a result, businesses are increasingly seeking Web application software providers offering products and professional services that enable them to rapidly deploy comprehensive, effective Internet customer relationship management solutions. Businesses prefer solutions that are modular and flexible with an open, application server-based architecture. They desire solutions that are easy to integrate with existing systems and third-party applications and that enable them to extend their Web infrastructures with new applications and functionality to meet their continually evolving e-commerce needs. Businesses also need to leverage their existing business systems, strategies and expertise to manage their customer relationships effectively. Finally, businesses are seeking solutions that meet the demanding scalability, reliability and performance requirements of large-scale Web sites that conduct e-commerce.

Our Solution

We offer a suite of Web-based Internet customer relationship management and e-commerce software applications, as well as related application development, integration and support services. Our solution enables businesses to understand, manage and build their online customer relationships more effectively and to market, sell and support their products and services over the Internet. Our product suite includes Dynamo Application Server, an application server specifically designed to enable and support Web applications. Dynamo Application Server is designed to provide businesses with the core application platform and software tools required to develop and deploy personalized, effective e-commerce Web sites.

Our product suite also includes Dynamo Personalization Server, Dynamo Commerce and Dynamo Ad Station. Dynamo Personalization Server is an expandable personalization platform that enables companies to target specific content and data to particular customers or visitors on the Web. Dynamo Commerce manages and delivers product catalog content and user-targeted promotional programs and provides transaction processing capabilities for large-scale e-commerce storefronts. Dynamo Ad Station is an online banner advertising delivery application designed to help businesses more effectively manage advertising inventories on large-scale Web sites and distributed advertising networks.

Our solution incorporates the following distinguishing characteristics:

AN INTEGRATED AND MODULAR PRODUCT SUITE BASED ON A COMMON PLATFORM. Our product suite includes a comprehensive range of functionality that allows businesses to quickly develop and deploy personalized Web-based e-commerce applications. Our application server-based platform enables our Dynamo applications to share data and work together more efficiently than would a collection of discrete Web applications from different vendors using various technologies. An integrated product suite based on a common platform also ensures that new products and releases will be compatible with each other as well as with other applications built on Dynamo Application Server. The modularity of our product suite allows customers to purchase applications that fit their particular needs and allows them to quickly expand their implementations as required.

RULES-BASED PERSONALIZATION IMPLEMENTED BY BUSINESS MANAGERS. Our products allow business managers to apply new and pre-existing business rules to profile and segment users and dynamically deliver personalized content and data to online visitors. For example, businesses can present different prices, products and promotional offers to different visitors or they can deliver customer-specific information such as account detail and purchase history. Business managers can review the behavior of visitors and quickly adjust their business rules to manage their online marketing communications and e-commerce strategies.

HIGH SCALABILITY, RELIABILITY AND PERFORMANCE. Our Dynamo Application Server employs a Java-based architecture that is highly scalable. It has a dynamic load management system which allows applications to be distributed across multiple server computers. This means that as a Web site becomes more heavily utilized, additional computing resources can be added to handle the

additional load. The load management system provides redundant fail-over, a feature that transfers users on a failed server to another server without interruption. Dynamo Application Server has been designed to meet the performance requirements of high-capacity, highly personalized e-commerce Web sites.

OPEN AND EXPANDABLE APPLICATION SERVER ARCHITECTURE. Our Dynamo Application Server provides customers with an expandable platform that allows them to rapidly integrate our products with their existing systems and to deploy new applications, both internally developed and from third parties. The ability to integrate multiple applications and information systems with our common platform enables businesses to incorporate organization-wide customer data and support systems to provide a unified customer experience. In addition, our open, application server-based platform and the modularity of our product suite enable systems integrators and technology partners to develop their own proprietary applications on Dynamo for reuse or resale.

PROFESSIONAL SERVICES CAPABILITIES. We have been designing and deploying network-based applications for over seven years and Web sites for over four years. We have two primary service offerings, Innovation Solutions and Express Services. Our Innovation Solutions team provides customized application design, development and integration services to clients who desire advanced solutions that are not commercially available. We provide Innovation Solutions services for a limited number of projects that we believe will provide us with an understanding of emerging technical and business needs for our future products. Our Express Services team provides strategic consulting and integration support services to customers and systems integrators to facilitate the deployment of our products. Express Services provides system architecture design, project management, Web design and technical training and support.

Our solution provides our customers with:

Effective, High-performance E-commerce Web Sites That Are:

- dynamically generated and personalized on a real-time basis - highly functional with comprehensive e-commerce features - able to personalize content based on easily modifiable business rules to increase customer satisfaction and retention - able to present a unified, customer-centric experience by integrating various sources of customer data and content and leveraging existing information systems

The Ability to Achieve Rapid Time to Market By:

- deploying our comprehensive suite of integrated applications - enabling rapid integration with existing information systems - taking advantage of our intuitive user interfaces for business managers and application developers - utilizing our experienced consulting services professionals

The Ability to Achieve a Competitive Advantage and a Higher Return on Investment By:

- increasing e-commerce and advertising revenues - improving marketing effectiveness - reducing marketing, transaction and customer support costs - increasing customer satisfaction and retention

Strategy

Our objective is to be a leading provider of Internet customer relationship management solutions. To achieve this objective, we have adopted the following strategies:

MAINTAIN AND EXTEND PRODUCT AND TECHNOLOGY LEADERSHIP. We believe we are a technology leader in providing Internet customer relationship management solutions. We offer a comprehensive suite of software applications that we believe are based on an advanced technologies. We were one of the first companies to market a high-performance dynamic Web page generation engine to both generate and deliver Web pages on a real-time basis, and shipped our first Java-based Web application server shortly after Sun Microsystem's first commercial shipment of Java 1.0. We intend to extend our product and technology leadership by:

- extending Dynamo's personalization capabilities and building new Internet customer relationship management applications - continuing to increase the scalability, reliability and performance of our Dynamo applications - continuing to develop new adaptor and connector modules to allow our products to easily integrate with third-party Internet customer relationship management products, databases and information systems - providing Dynamo Application Server support for emerging industry standards, such as Enterprise JavaBeans, for developing business applications in Java, and XML, for formatting data and other information - using our Innovation Solutions services to identify emerging market needs GROW AND LEVERAGE PROFESSIONAL SERVICE CAPABILITIES. We have extensive experience in Web application development and integration services. Through our Express Services, we provide enabling services to train our systems integrators and technology partners in the use of our products as well as consulting services to assist with customer implementations. We plan to create additional opportunities to increase revenues from product sales by expanding our base of partners trained in the implementation and application of Dynamo. We intend to hire additional professional services personnel to increase our services revenues and to enable and support product license sales through systems integrators.

CONTINUE TO BUILD DIRECT SALES CAPABILITIES AND LEVERAGE CO-SELLING EFFORTS WITH SYSTEMS INTEGRATORS AND WEB DEVELOPERS. We sell our products directly to end-users and through co-selling efforts with systems integrators and Web developers. Our objective is to establish close relationships directly with our customers and to motivate systems integrators to implement the Dynamo technology and product suite on Internet and Web-based projects for their customers. We intend to expand our sales by hiring additional direct sales personnel, domestically and internationally, both to sell directly to end-users and to expand our co-selling efforts. We plan to

leverage our current relationships and develop additional co-selling relationships with leading systems integrators. In addition, many of our systems integrators are global enterprises, which we believe provides us with an opportunity to expand our international business.

EXPAND TECHNOLOGY PARTNER AND ORIGINAL EQUIPMENT MANUFACTURER RELATIONSHIPS AS A DISTRIBUTION CHANNEL. We work with technology partners, such as Documentum and OpenText, to develop modules that enable our software products to operate with their software products. We also work with original equipment manufacturers, such as Informix, to enable them to combine our software products with their products to form a single software application product. Some of our customers have requirements that can be met by a combination of our products and those of one or more of our partners. We sell in conjunction with these vendors in a variety of ways:

- co-marketing with a technology partner to promote the fact that our products operate together - co-selling with a partner in an arrangement where sales and service personnel from both organizations approach a customer in a coordinated sales process - selling to reseller partners - selling to original equipment manufacturers that sell and support the combined product Many of our current and potential partners are looking to extend their current offerings to include Web-enablement, personalization and e-commerce features. We believe these relationships will provide us the opportunity to establish our platform in additional markets.

EXPAND MARKET PRESENCE. Historically we have not spent significant resources on marketing and awareness programs. We intend to increase our market presence through a variety of marketing and sales programs designed to generate market awareness, penetrate target markets and help establish us as the leading provider of Internet customer relationship management solutions. We plan to increase spending on advertising, trade shows, seminars, industry events and direct marketing efforts. We also plan to devote marketing resources to expanding our channel relationships with systems integrators and technology partners. We intend to develop and promote the Dynamo brand alongside our partners' brands in all co-marketing relationships.

Products

We offer an integrated suite of Internet customer relationship management applications. Our core product is Dynamo Application Server, a dynamic Web page generation engine and application server specifically designed to enable and support Web applications, that provides businesses with the platform and software tools to develop and deploy personalized, effective e-commerce Web sites. Our product suite also includes Dynamo Personalization Server, Dynamo Commerce and Dynamo Ad Station. Each of the applications in our product suite can be purchased separately; however, the Dynamo Application Server is required to run each of our other applications. Dynamo Personalization Server is required to run Dynamo Commerce and Dynamo Ad Station. We also sell software tools to enable rapid application development, as well as adaptor modules to integrate Dynamo products with

content management systems. Our product suite is designed to meet the performance and scalability requirements of large-scale e-commerce Web sites. All of our products are based on Java and run on Sun Solaris, Windows NT and IBM AIX operating system platforms.

The diagram below illustrates the overall architecture of our product suite as well as the various applications, software tools and integration modules that are included in our product suite.

The diagram below illustrates the Dynamo Relationship Commerce Suite with horizontal, layered bars depicting Dynamo Application Server at the foundation; Dynamo Personalization Station, with open content adaptors and open profile adaptors as the second layer; Dynamo Commerce Application with open fulfillment adaptors as the third layer; and custom applications as the top layer. The left side of the bars shows the tools that work with our product suite: system console, Developer Workbench, Personalization Control Center and retail administration. The right side of the bars depicts enterprise systems including customer databases and content management and transaction fulfillment systems.

The following table briefly describes our products, list prices and system requirements.

PRODUCT DESCRIPTION LIST PRICE AND REQUIREMENTS APPLICATION SUITE Dynamo Application Server An open and expandable $10,000 per CPU platform to enable Internet customer relationship management and e-commerce applications Dynamo Personalization Server Allows businesses to develop, $20,000 per CPU; requires deploy and manage multiple Dynamo Application Server Web applications that share a common set of business rules and are personalized based on common user profiles Dynamo Commerce Enables the creation of $20,000 per CPU; requires personalized e-commerce Dynamo Application Server and storefronts that can be Dynamo Personalization Server customized and integrated with existing information systems Dynamo Ad Station Allows businesses to serve $15,000 per server; requires targeted advertisements to Dynamo Application Server and Web site visitors and to Dynamo Personalization Server manage their online advertising inventory more effectively TOOLS & INTEGRATION MODULES Dynamo Developer's Workbench Allows developers and Web $1,000 per seat designers to quickly assemble pre-built Java components through an intuitive graphical user interface Dynamo Personalization Allows business managers to $1,000 per seat Control Center define and modify personalization business rules through an intuitive graphical user interface Dynamo Targeted E-mail Enhances customer $4,000 per CPU; requires relationships through Dynamo Personalization Server rules-driven targeted e-mail messaging functionality, coordinated with Web site personalization Open Content Adaptors Provides direct integration $10,000 per CPU; requires with leading content Dynamo Personalization Server management systems DYNAMO APPLICATION SERVER. The Dynamo Application Server is designed to provide businesses with the core application platform and software tools required to develop, deploy and manage personalized, effective Web sites for conducting business on the Internet. The Dynamo Application Server provides a common application platform for:

- dynamically generating Web pages and managing user sessions - supplying a framework of shared application services to connect and integrate each of the applications in our product suite - managing the distribution of applications across multiple computers and providing an automatic recovery management system to prevent system failures - efficiently connecting to enterprise systems and third-

party applications Dynamo Application Server connects to Dynamo Developer's Workbench, a Web application development tool that allows developers and Web designers to build new applications and integrate third-party technologies.

DYNAMO PERSONALIZATION SERVER. Dynamo Personalization Server coordinates, manages and centralizes the personalization functions of the Dynamo product suite. Dynamo Personalization Server enables business managers to segment users and target content based on new and pre-existing business rules. It adjusts and personalizes Web content on a real-time basis by combining explicit user data from existing customer management and marketing databases with implicit information gathered on Web navigation behavior.

Dynamo Personalization Server performs the following functions:

- PROFILE GATHERING. When a visitor first arrives at a Web site, a profile is created automatically for that visitor. If the visitor registers or logs in, the visitor's identity is added to the profile, preserving any profile information that was gathered up to that point. Dynamo Personalization Server tracks both explicit user profile data supplied by the user as well as implicit profile attributes derived from the user's behavior on the Web site. This information is combined with any existing information about the visitor from the company's internal databases.

- SEGMENTATION AND CONTENT TARGETING. Dynamo Personalization Server enables business managers to segment visitors based on their profile data. Using business rules, content can be personalized and targeted to these groups of users. These business rules are created using the Personalization Control Center.

- CONTENT MANAGEMENT AND INTEGRATION. In addition to using Dynamo Personalization Server to target content residing on internal file systems, customers may purchase Open Content Adaptors to integrate Dynamo with leading content management systems. The Open Content Adapters provide direct integration to leading content management systems such as those from Documentum and OpenText.

- PERSONALIZED MESSAGING. Dynamo Targeted E-mail can be used with the Dynamo Personalization Server to send personalized messages to selected groups and individual Web site users.

DYNAMO COMMERCE. Dynamo Commerce is a flexible solution enabling businesses to deploy and manage large-scale, personalized, e-commerce storefronts. Dynamo Commerce delivers product catalog content and user-targeted promotional programs to manage the online shopping experience. It is designed to integrate with existing customer database, inventory, order processing, payment and fulfillment systems operated by many large organizations. In addition, Dynamo Commerce provides administration features that allow e-commerce storefronts to be operated independently by various managers throughout an organization. Dynamo Commerce features include:

- COMPLETE E-COMMERCE STOREFRONT SOLUTION. Dynamo Commerce provides a comprehensive set of e-commerce storefront functions including catalog, shopping cart, order processing, built-in search capabilities and user registration. Business managers can customize the

layout, look and feel, navigation and functionality of their storefronts through point and click interfaces and through customized Web page templates. Dynamo Commerce supports both business-to-business and business-to-consumer e-commerce.

- ENVIRONMENT FOR PERSONALIZED SELLING. Web sites built on Dynamo Commerce can be designed to deliver targeted promotions based on user profiles gathered through Dynamo Personalization Server. Since Dynamo Commerce uses both implicit and explicit profiles, content can be targeted to both anonymous and recognized visitors. Reporting functionality allows marketing personnel to gather real-time feedback on the effectiveness of various targeting and merchandising strategies.

- FLEXIBLE ORDER PROCESSING. Dynamo Commerce provides core order processing functionality that can be integrated with a wide variety of transaction models and existing business processes. Through the use of our integration modules, customers can incorporate business systems into the order processing flow at a number of stages as products are browsed, selected and purchased.

- CUSTOMIZATION, MAINTAINABILITY AND DAY-TO-DAY MANAGEMENT. Dynamo Commerce allows business managers, designers and programmers to independently maintain and manage the various aspects of the Web site relating to their particular expertise. Dynamo Commerce has an administrative interface so business managers can control product presentation, pricing and promotions. Designers can directly customize Web site templates upon which the site is built. The open, modular architecture makes it easy for programmers to extend and modify functionality. This separation simplifies deployment and ongoing maintenance.

DYNAMO AD STATION. Dynamo Ad Station allows businesses to increase advertising revenues by delivering targeted ads to visitors and by more effectively managing advertising inventory. The data gathered by Dynamo Ad Station help the business determine how to target campaigns to maximize effectiveness. Automated inventory management features allow an administrator to adjust the delivery of advertisements to help meet advertising goals. Dynamo Ad Station's comprehensive data collection and reporting features facilitate the monitoring of ad campaign effectiveness.

Services

We provide a variety of consulting, design, application development, integration and training and support services in conjunction with our products through our Innovation Solutions and Express Services offerings.

INNOVATION SOLUTIONS. Innovation Solutions services consist of customized application design, development and integration services and are ordinarily provided on a fixed-price basis. We have extensive experience in developing, designing and deploying large-scale Web applications. Our Innovation Solutions services are provided to clients with complex requirements that seek advanced solutions that are not commercially available to extend the capabilities and features of their systems. As well as being a core component of our business, Innovation Solutions projects provide us with an

understanding of emerging customer requirements and insights for new product developments. We typically select projects that we believe may provide the technical and functional foundation for our future products and services.

EXPRESS SERVICES. Express Services consist of high level consulting and enabling support services such as system architectural design, project management, Web site design, and technical training and support. Express Services are ordinarily provided on a time and materials basis. Our Express Services are provided to assist systems integrators, development partners and customers to rapidly develop and deploy Dynamo-based applications and systems. Our objective is to deploy our Express Services quickly and efficiently to reduce the time and effort required by our partners and customers to successfully deploy Dynamo applications. Our Express Services are priced on a per day basis.

CUSTOMER SUPPORT AND MAINTENANCE. We offer four levels of customer support ranging from our free support program, which is available for 60 days after a product has been purchased, to our Premier Support Program, which includes telephone support 24 hours a day, seven days per week, for customers deploying mission critical applications. Customers are entitled to receive software updates, maintenance releases and technical support for an annual maintenance fee of 20% to 30% of the then current list price of the licensed product.

TRAINING. We provide a broad selection of training for customers and partners, including programming classes covering all of the components of our product suite. Training is priced on a per day basis. Fees vary for standard public training classes and on-site private training classes.

Customers

Our principal target markets are Fortune 1000 enterprises and new businesses that plan to use the Internet as their primary business channel. Our customers are characterized by their strong commitment to Internet customer relationship management and represent a broad spectrum of enterprises within diverse industry sectors. The following is a partial list of customers that have purchased licenses and/or professional services from us:

TECHNOLOGY Informix Just in Time Solutions Newbridge Networks Sun Microsystems MANUFACTURING 3M Eastman Kodak TRAVEL AND LEISURE Hilton Hotels FINANCIAL SERVICES BancTec John Hancock Funds, Inc. KeyBank Scudder Kemper Investments MEDIA AND ENTERTAINMENT Icon MediaLab MTV/Nickelodeon Sony Online Entertainment Women.com TELECOMMUNICATIONS BellSouth INTERNET AltaVista BabyCenter Bigstep.com GoTo.com moses.com Network Solutions TechRepublic TheStreet.com CONSUMER RETAIL BMG Direct brandwise.com CareSoft GetMusic J.Crew living.com Peapod sephora.com ShopLink.com Walgreens EDUCATION Harvard Business School Ontrack Learning Universal Learning Technology

Case Studies

The following case studies illustrate the issues faced by three representative customers in deploying Web site applications, and the benefits derived from utilizing Dynamo applications.

Bmg Direct

www.bmgmusicservice.com BMG Direct is the North American music club operated by Bertelsmann AG, the Germany-based global media enterprise. With over eight million members, BMG Direct is one of the largest direct marketers in the United States. BMG Direct has traditionally sold to its music club members via direct mail. In establishing its online strategy, BMG Direct faced the challenge of building a state-of-the-art Web site for e-commerce that would leverage its existing business practices, including a complicated pricing structure, multiple customer segments and detailed customer information. It wanted to transfer its customer-interaction functions to the Internet to reduce costs and enhance customer interactions. BMG Direct also wanted a system that could scale as the popularity of its site grew. Key requirements for the BMG Direct site included integration with multiple existing systems for customer information, ordering and fulfillment. The Web site needed to provide an enjoyable and simple process for enrolling in the club and it needed to provide members with all of the benefits of the paper-based club, such as the ability to order CDs, cassettes and other merchandise, respond to featured promotions and access editorial content.

BMG Direct selected Dynamo as its e-commerce, personalization and application server platform. BMG Direct worked with us and third-party systems integrators to develop its Web site, which it launched in January 1998. The BMG Direct Web site provides club members with access to selections from the entire BMG Direct music club catalog of over 14,000 titles, significantly more than the 400-600 titles available in its catalog-based mailings. Club members also have access to editorial content from the various BMG music clubs, such as Jazz, Rock and Classical. Based on their member profiles, users receive personalized content, highlights, promotional offers, pricing and custom navigation, all consistent with the rules that govern BMG Direct's traditional business.

BMG Direct has experienced rapid adoption of its online offerings by its existing paper-based customers and an increase in new memberships. In addition, the establishment of an extensible personalization and e-commerce platform allows BMG Direct to create new clubs, present additional personalized e-commerce offerings and editorial content without requiring major re-engineering of the system.

Newbridge Networks

www.newbridge.com

Newbridge Networks is a leading provider of networking products and systems, with a global network of resellers, distributors and affiliates. In developing its Web presence to serve these distribution channels as well as current and potential customers, partners, investors and employees, Newbridge's multiple Web sites made it difficult to provide a consistent and seamless user experience. In designing a new Web site, Newbridge's goals were to deliver its online offerings through a single point of entry, consolidate content into a single physical repository and provide a consistent "look-and-feel" for visitors. To serve Newbridge's varied audiences from a single point of entry, content needed to be targeted dynamically to specific groups of users based on their interests.

We worked with Newbridge to create a multi-tier access model for managing user profiles that govern entitlement to content and enterprise systems, user preferences and subscriptions. Newbridge's internal development staff, supported by our Express Services group, developed the end-user application based on the Dynamo product suite. Newbridge launched its new Web site in January 1999. Today, visitors to the Web site can easily acquire information specific to their areas of interest. Visitors also can register and create a user identity to browse or be notified via e-mail of detailed information tailored to their needs or interests. Dynamo's personalization capabilities enable Newbridge to gather information about its customers and their preferences, analyze this information and deliver targeted information on a real-time basis.

Newbridge's current platform has enabled it to adapt its Web site to manage the delivery of information based on easily modifiable business rules, without the overhead required to support multiple sites. The various services that have resulted from this include an extranet for Newbridge's channel partners, as well as an online support area that provides customers with access to product information libraries and software updates. Users can also search for information about product compatibility, manufacturing changes and discontinued products. Newbridge continues to implement additional transactional, support and customer management features on its Web site, incorporating personalization as a means to reinforce and enhance relationships with distribution channels, and customers.

Babycenter, Inc.

www.babycenter.com

BabyCenter is a leading Internet publisher and retailer for new and expectant parents, providing original editorial content, community and online commerce features. Its Web site currently generates over 15 million page views and approximately 750,000 visits per month. The BabyCenter e-commerce storefront offers over 3,000 products. In developing its Web site, BabyCenter faced the challenge of building and supporting a full-featured and scalable consumer-oriented Web site that could provide information, advice, products and community features appropriate to parents at various stages of parenting.

BabyCenter selected the Dynamo suite of products in March 1998 as the foundation of the internal development of its Web site. Since the launch of its Web site in May 1998, BabyCenter has extended the site's functionality with additional areas and features, including the redesigned BabyCenter store launched in April 1999. Driven by Dynamo, the Web site provides personalized editorial content, product guides, product recommendations, user ratings and feedback, bulletin boards and chat rooms, as well as e-commerce transaction capabilities.

BabyCenter has been able to establish a flexible and scalable Web application based on Dynamo that delivers personalized content, manages the electronic storefront and provides the platform for the editorial publishing system that drives BabyCenter's positioning and strategy. BabyCenter now generates revenues from e-commerce transactions to augment revenues from sponsorships and other partnerships. Recently, BabyCenter announced it had signed a merger agreement with eToys, Inc., a leading online retailer of children's products.

Technology

We believe we are a technology leader in providing Internet customer relationship management solutions. Our technology leadership has been evidenced by product awards and recognition by industry commentators. For example, in December 1998 our Dynamo Application Server earned the 1998 CNET Builder.com Award as "Best Application Server." We believe our technology enables our customers to create, deploy and maintain large-scale, personalized e-commerce Web applications in less time and at a lower cost than existing alternatives. We believe that our products have the following technological advantages:

Java Foundation

Our products are written entirely in Java and support Java programming for customization and extension, except for a few integration and installation modules that can be implemented only in conventional programming languages.

We believe that our Java implementation results in the following benefits:

- STRONG COMPONENT MODEL. Java provides a component standard known as "JavaBeans," which enables developers to segment their code into discrete, well-defined units which can be assembled in a "building block" fashion to create new applications. JavaBeans' modularity makes it easier to create reusable software as well as maintain existing systems.

- PLATFORM NEUTRALITY. Java's portability allows our applications to be run on virtually any major computer system without modification. This portability eliminates porting costs normally required to support multiple platforms or to change platforms, while allowing us to release products on major platforms simultaneously.

- ENTERPRISE INTEGRATION. We believe that Java's portability and direct support for distributed applications are helping Java to become the de facto standard language for enterprise system integration.

- FEWER PROGRAMMING ERRORS. Java's automatic memory management reduces memory corruption errors, which typically represent the most costly and difficult software "bugs" in conventional compiled languages such as C or C++.

- ACCELERATED DEVELOPMENT. We believe that the above features, combined with the broad availability of high-quality Java development tools, result in faster development time.

Modular, Standards-based Component Architecture

One of the key features of our product architecture is its high degree of modularity, achieved by building additional functionality on top of the JavaBeans component technology. Customizations and extensions built by our customers or partners using industry standard JavaBean components can be managed by Dynamo Application Server. Dynamo Application Server enhances the naming, configuration and lifecycle of each component, allowing components to be added, extended, duplicated or replaced without recompilation of the rest of the system. The modularity of our component technology allows our products to be adapted to meet future business needs. In contrast, producers of non-modular products must try to anticipate and develop additional functionality at the time that they market their products.

One of the most powerful uses of our component technology is to integrate our software with external enterprise systems. We provide reference implementations of integration components while enabling our customers and partners to easily replace our reference components with new components that provide the same function but integrate with their existing systems. We adhere to industry standards to enable our products to leverage technologies produced by third parties and to protect the development investments of our partners and customers.

Performance, Scalability and Reliability

Our products have a layered architecture. Dynamo Personalization Server is built on top of Dynamo Application Server, and Dynamo Commerce and Ad Station are built on top of Dynamo Personalization Server. We believe that the integration of Dynamo Application Server with our other products yields significant benefits, particularly in performance, scalability and reliability.

Dynamo Application Server uses page compilation technology to enhance the performance of Web page generation. In most dynamic page generation servers, a Web page is generated from an HTML template, a Web page that is mostly standard HTML content with special embedded instructions to generate the dynamic portions of the page. We utilize this basic page template model, but unlike most

other servers, Dynamo Application Server converts the HTML template into Java source code and compiles it into executable binary classes. This page compilation technology improves the speed at which Dynamo Application Server can generate and serve dynamic Web pages.

Scalability is a term used to describe the ability of an application to handle greater load when additional hardware is added to a system. Scalability is particularly important for e-commerce applications where demand can grow dramatically and unpredictably. Dynamo handles scalability across computers through a dynamic session-based load management system in which multiple copies of the application are run on multiple computers. This load distribution scheme has the advantage of accommodating additional users by adding more computers. Our load management technology also enables our applications to handle computer hardware failures automatically and without interrupting the user's experience. If a computer fails, users are automatically reassigned to another running computer.

Research and Development

Our research and development group is responsible for product management, core technology, product architecture, product development, quality assurance, documentation and third-party software integration. This group also assists with pre-sale and customer support activities referred from the Express Services group and quality assurance tasks supporting the Innovation Solutions group.

Since we began focusing on selling software products in 1996, the majority of our research and development activities have been directed towards creating new versions of our products which extend and enhance competitive product features, particularly in the areas of integrating our products with external enterprise systems, supporting emerging industry standards and creating more powerful user interfaces to our products. The systems we integrate with include relational databases, content management systems and credit card payment servers. The industry standards we support include Java Servlets, a standard for constructing Web pages using the Java programming language; Enterprise Java Beans, a standard for developing modular Java programs that can be accessed over a network; and Simple Network Management Protocol, a standard for remotely monitoring the operation of a system.

Sales and Marketing

Our principal target markets are Fortune 1000 companies and new businesses that plan to use the Internet as their primary business channel. Our customers are characterized by their strong commitment to Internet customer relationship management. We target these potential customers directly through our sales force and indirectly through arrangements with systems integrators, Web developers, original equipment manufacturers and other technology partners.

We employ one group of sales professionals who are compensated based on product and service sales made directly to end-users and a second group who are compensated based on sales made through co-selling efforts with our systems integrator partners. We train and assist systems integrators in

promoting, selling, deploying, extending and supporting our products. The objective of this strategy is to establish close product relationships directly with our customers and to motivate systems integrators to adopt the Dynamo technology and suite of products on Internet and Web-based projects for their clients.

In addition, we recently initiated a strategy to co-market our products with technology partners, such as Documentum and OpenText, to sell our products through original equipment manufacturers such as Informix, with which we entered into an agreement in December 1998. We intend to increase sales of our products by entering into similar relationships with additional technology partners and original equipment manufacturers.

Our co-marketing relationships are with major systems integrators that serve the market for information system products and services. The objective of this co-marketing strategy is to motivate systems integrators to adopt the Dynamo technology and suite of products on Web-based projects for their clients. We train and assist our systems integration partners to enable them to deploy, extend and support our products.

Set forth below is a partial list of organizations with which we have selling and marketing relationships:

American Management Systems Cambridge Technology Partners Computer Sciences Corporation Context Integration Fort Point Partners Free Range Media Icon Medialab iXL Javelin Technology KPMG Modem Media . Poppe Tyson Organic Online Phoenix Pop Productions Planet Access Networks PricewaterhouseCoopers Quidnunc Group Strategic Interactive Group USWeb/CKS Vision Consulting We currently sell our products primarily in the United States. However, we are expanding our international sales organization. Currently, we are focusing our international sales efforts primarily in the United Kingdom and Japan. Many of our systems integrators and technology partners are global enterprises. We believe this provides us with an opportunity to expand our international business.

Competition

The market for Internet customer relationship management solutions is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and other market activities of industry participants. We expect competition to persist and intensify in the future. We have three primary sources of competition:

- in-house development efforts by potential customers or partners - Internet applications software vendors, such as BroadVision, InterWorld, Open Market and Vignette - platform application server products and vendors, such as BEA Systems, IBM's Websphere products, Microsoft and Netscape, among others.

We also compete in the platform application server market with the NetDynamics product of Sun Microsystems, which is also one of our customers and co-marketing partners.

We believe the primary factors upon which we compete are the functionality and expandability of our products, the extent to which our products integrate with other systems, our prices and our ability to provide quality services to assist our customers and partners. We believe that we have competitive advantages that differentiate our products and services from those of our competitors. Our application suite provides improved time-to-market and lower cost of ownership in comparison to in-house development efforts. We believe the expandability and scalability of our application server-based platform, as well as our product features, provide us an advantage over other Internet application software vendors. We believe the functionality provided by the personalization and e-commerce components of the Dynamo application suite gives us a competitive advantage over platform application server vendors.

Despite these advantages, many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do. As a result, they may be able to undertake more extensive promotional activities, offer more attractive pricing and purchase terms, and bundle their products in a manner that would put us at a competitive disadvantage.

Competition could materially and adversely affect our ability to obtain revenues from license fees from new or existing customers and professional services revenues from existing customers. Further, competitive pressures could require us to reduce the price of our software products. In either case, our business, operating results and financial condition would be materially and adversely affected.

Proprietary Rights and Licensing

Our success and ability to compete depend on our ability to develop and protect the proprietary aspects of our technology and to operate without infringing on the proprietary rights of others. We rely on a combination of trademark, trade secret and copyright law and contractual restrictions to protect our proprietary technology. These legal protections afford only limited protection for our technology. We seek to protect our source code for our software, documentation and other written materials under trade secret and copyright laws. We license our software pursuant to signed license, "click through" or "shrink wrap" agreements, which impose restrictions on the licensee's ability to use the software, such as prohibiting reverse engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements and by restricting access to our source code. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than legal protections to establish and maintain a technology leadership position.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult and while we are unable to determine the extent to which piracy of our software exists, software piracy can be expected to be a persistent problem. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or

invalidity. However, the laws of many countries do not protect proprietary rights to as great an extent as the laws of the United States. Any such resulting litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results and financial condition. There can be no assurance that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology. Any failure by us to meaningfully protect our property could have a material adverse effect on our business, operating results and financial condition.

In addition, our software is written in the Java programming language developed by Sun Microsystems and we incorporate Java Runtime Environment, Java Naming and Directory Interface, Java Servlet Development Kit, Java Foundation Classes, JavaMail and JavaBeans Activation Framework into our products under licenses granted to us by Sun. Currently, Sun makes these technologies available to the public at no charge. However, if Sun declined to continue to allow us to use these technologies for any reason, we would be required to (a) license the equivalent technology from another source, (b) rewrite the technology ourselves, and/or (c) rewrite portions of our software to accommodate the change or no longer use the technology.

Employees

As of September 30, 1999, we had a total of 245 employees. Of our employees, 65 were in research and development, 60 in sales and marketing, 92 in professional services and 28 in finance and administration. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense. From time to time, we also employ independent contractors to support our professional services, product development, sales, marketing and business development organizations. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe our relations with our employees are good.

Properties

Our headquarters are currently located in a leased facility in Cambridge, Massachusetts, consisting of approximately 60,000 square feet. Our Cambridge facility is expected to meet our needs through the beginning of 2000, at which time we intend to expand our facilities by entering into one or more additional leases. We have also leased offices for sales and support personnel in Chicago, Illinois, San Francisco, California and Reading, England. See note 8 to our consolidated financial statements.

Legal Proceedings

A patent infringement claim was filed by BroadVision, one of our competitors, against us on December 11, 1998. The case was filed in the U.S. District Court for the Northern District of California. BroadVision alleges that we are infringing their patent (U.S. Patent No. 5,710,887) for a method of

conducting e-commerce. BroadVision is seeking a permanent injunction of the sale of our Dynamo products in their current forms as well as unspecified damages. We intend to vigorously oppose BroadVision's allegations and on February 4, 1999 we filed our answer denying BroadVision's complaint and filed a counterclaim against BroadVision seeking a judgment that we are not infringing their patent and that the patent in question is in fact unenforceable and invalid.

Management

Directors and Executive Officers

Our executive officers and directors, and their respective ages and positions as of September 30, 1999, are set forth below:

Name Age Position

Jeet Singh	36	President, Chief Executive Officer and Director
Joseph T. Chung	34	Chief Technology Officer, Treasurer and Chairman of the Board
Ann C. Brady	36	Vice President, Finance and Chief Financial Officer
Paul G. Shorthose	42	Chief Operating Officer
William Wittenberg	40	Senior Vice President, Product Development
Robert P. Forlenza(1)	43	Director
Scott A. Jones(2)	38	Director
Charles R. Lax(2)	40	Director
Thomas N. Matlack(1)(2)	34	Director
Jeffrey T. Newton	41	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

JEET SINGH co-founded the company with Joseph Chung in 1991 and is our President and Chief Executive Officer and a member of our board of directors. Previously, Mr. Singh held marketing positions with Boston Technology, Inc., a manufacturer of advanced voice processing computers, Team Technologies, a Washington, D.C.-based consulting firm specializing in workgroup productivity, and Groupe Bull/Bull Corporation of America.

JOSEPH T. CHUNG co-founded the company with Mr. Singh in 1991 and is our Chief Technology Officer, Treasurer and Chairman of our board of directors. Previously, Mr. Chung was the technical director and chief technology designer of the hyperinstrument group at the MIT Media Lab and held engineering positions at Apple Computer and Digital Equipment Corporation.

ANN C. BRADY has been Chief Financial Officer since April 1999 and Vice President, Finance since January 1998. From May 1997 to January 1998, she was Director of Finance. From 1992 to May 1997, Ms. Brady was head of Finance and Accounting for HPR, Inc., a software and consulting services

company, subsequently acquired by McKesson/HBOC.

PAUL G. SHORTHOSE has been Chief Operating Officer since June 1999. From July 1998 to June 1999, he was Vice President of Marketing and Business Development for Context Integration. From August 1997 to July 1998, Mr. Shorthose served as our Vice President, Worldwide Services. From April 1992 to August 1997, Mr. Shorthose was Vice President/General Manager for the Northeast U.S. and Canada Professional Services Organization of Sybase, Inc.

WILLIAM WITTENBERG has been Senior Vice President, Product Development since March 1998. From April 1996 to March 1998, he was Vice President, Engineering. From 1991 to January 1995, Mr. Wittenberg was Director of Product Management and User Interface Design for Lotus Development Corporation.

ROBERT P. FORLENZA has been a member of our board of directors since August 1998. Since January 1995, he has been Managing Director of Tudor Investment Corporation. From 1989 to December 1994, he was a Vice President at Carlisle Capital Corporation. He also serves on the board of PRT Group, Inc., a software engineering services company.

SCOTT A. JONES has been a member of our board of directors since November 1997. Since co-founding Escient, Inc., a company focusing on Internet applications related to entertainment in the home, in July 1996, Mr. Jones has served as its Chief Executive Officer and Chairman. After co-founding Boston Technology, Inc. in 1986, Mr. Jones served as its Chairman and Chief Scientist until 1992. Since 1994, he has also been a principal of Threshold Technologies, Inc., a consulting firm, and King Air Charters, Inc., an air charter company. Mr. Jones also serves on the board of HIE, Inc., a software integration services company.

CHARLES R. LAX has been a member of our board of directors since December 1997. Since November 1997, Mr. Lax has been General Partner of SOFTBANK Technology Ventures. From March 1996 to November 1997, he was Vice President at SOFTBANK Holdings Inc. Mr. Lax also serves on the board of Interliant, Inc., an Internet hosting service company.

THOMAS N. MATLACK has been a member of our board of directors since November 1997. Since August 1998, he has been a Managing Partner at Megunticook Management LLC, a private investment fund. From 1992 to February 1997, he held various positions with the Providence Journal Company, including Chief Financial Officer from April 1996 to February 1997, Vice President, Finance from September 1995 to April 1996, and Director, Financial Planning and Analysis from 1992 to September 1995.

JEFFREY T. NEWTON has been a member of our board of directors since September 1998. Since June 1997, Mr. Newton has been Managing Director of Gemini Investors LLC. Since 1992, he has also been President of Concord Partners, Ltd., a business consulting firm.

Our board of directors is divided into three classes, with the members of each class serving for a staggered three-year term. Our board currently consists of two Class I directors, three Class II directors and two Class III directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The term

of the Class I directors (Messrs. Forlenza and Newton) expires at the annual meeting of stockholders to be held in 2000. The term of the Class II directors (Messrs. Jones, Lax and Matlack) expires at the annual meeting of stockholders to be held in 2001. The term of the Class III directors (Messrs. Chung and Singh) expires at the annual meeting of stockholders to be held in 2002.

Each officer serves at the discretion of our board of directors and holds office until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Committees of the Board of Directors

Our board of directors has a compensation committee, composed of Messrs. Jones and Lax, which makes recommendations concerning salaries and incentive compensation for our employees and consultants and administers and grants awards pursuant to our stock benefit plans, and an audit committee, composed of Messrs. Forlenza and Matlack, which reviews the results and scope of the audit and other services provided by our independent public accountants.

Director Compensation

All of our directors are reimbursed for expenses incurred to attend board of directors and committee meetings. In addition, our non-employee directors are eligible to receive stock options under our 1999 Outside Director Stock Option Plan.

In November 1997, we entered into a consulting agreement with one of our directors, Thomas N. Matlack, to provide consulting services in the areas of strategic planning and financial advice and planning. In exchange for these services, we issued Mr. Matlack a non-statutory option to purchase a total of 195,000 shares of our common stock at an exercise price of $0.50 per share. This consulting agreement terminated in November 1998.

Our 1999 Outside Director Stock Option Plan was adopted by our board of directors in May 1999 and approved by our stockholders in June 1999. Under the terms of the director plan, directors who are not employees of the company receive nonstatutory options to purchase shares of our common stock. A total of 150,000 shares of our common stock may be issued upon exercise of options granted under the plan. Each non-employee director received an option to purchase 5,000 shares of our common stock on the effective date of our initial public offering (July 20, 1999) at a price per share equivalent to the initial public offering price ($12.00 per share). In addition, each non-employee director will receive an option to purchase 2,500 shares of our common stock on the date of each annual meeting of stockholders commencing with the 2000 annual meeting of stockholders, at an exercise price per share equal to the closing price of our common stock on the date of grant. In addition, individuals who become directors and are not our employees will receive an option to purchase 5,000 shares of our common stock on the date of his or her initial election to our board of directors and an option to purchase 2,500 shares of our common stock on the date of each annual meeting of stockholders after

his or her election. The exercise price per share of such options will be the closing price per share of our common stock on the date of grant. All options granted under the director plan are fully vested upon grant.

Executive Compensation

The following table sets forth the total compensation paid or accrued for the year ended December 31, 1998 to the following (collectively, the "Named Executive Officers"):

- our chief executive officer - our four other executive officers who were serving as executive officers at December 31, 1998 and whose total salary and bonus for such year exceeded $100,000 - our current chief operating officer, who served as our Vice President, Services for a portion of 1998

Summary Compensation Table

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION	SALARY	BONUS	SHARES UNDERLYING OPTIONS
Jeet Singh..... President and Chief Executive Officer	$150,000	$ 3,038(1)	--
Joseph T. Chung..... Chief Technology Officer, Treasurer and Chairman of the Board	150,000		--
Ann C. Brady..... Vice President, Finance and Chief Financial Officer	125,000	--	62,250
William Wittenberg..... Senior Vice President, Product Development	138,846	--	90,930
Lauren J. Kelley..... Vice President, Sales	120,000	149,610(2)	35,400
Paul G. Shorthose(3).....	88,846	60,000(4)	--

(1) Represents imputed interest on an interest-free loan extended to Mr. Singh.

(2) Includes commission of $46,247 paid in 1999 but earned in 1998.

(3) Mr. Shorthose resigned as our Vice President, Services in August 1998. He began employment as our Chief Operating Officer in June 1999.

(4) Excludes bonus of $20,000 earned in 1997 and paid in 1998.

Option Grants and Exercises During 1998

The following table contains information concerning the grant of options to purchase shares of our common stock to each of the Named Executive Officers during the fiscal year ended December 31, 1998:

Option Grants in Last Fiscal Year

	INDIVIDUAL GRANTS					
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)(1)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM (1)	
NAME					5% ($)	10% ($)
Jeet Singh	--	--%	$ --	--	$ --	$ --
Joseph T. Chung	--	--	--	--	--	--
Ann C. Brady	42,000	2.6	0.50	3/16/2008	799,963	1,286,246
	7,500	0.5	0.50	8/26/2008	142,851	229,687
	12,000	0.7	0.50	8/26/2008	228,561	367,499
	750	0.0	0.50	8/26/2008	14,285	22,969
William Wittenberg	30,000	1.8	0.50	3/16/2008	571,402	918,747
	30,180	1.8	0.50	8/26/2008	574,830	924,260
	750	0.0	0.50	8/26/2008	14,285	22,969
	30,000	1.8	0.50	12/18/2008	571,402	918,747
Lauren J. Kelley	33,000	2.0	0.50	8/26/2008	628,542	1,010,622
	1,650	0.1	0.50	8/26/2008	31,427	50,531
	750	0.0	0.50	8/26/2008	14,285	22,969
Paul G. Shorthose	--	--	--	--	--	--

(1) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock price appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date. This presentation also assumes that the market value of a share of common stock on each option grant date equaled $12.00, the price at which shares were sold in our initial public offering in July 1999. These numbers are calculated based on rules promulgated by the Securities and Exchange Commission and do not reflect our estimate of future stock price growth. Actual gains, if any, on stock options exercises and common stock are dependent on the timing of such exercise and the future performance of the common stock.

Fiscal Year-end Option Values

The following table sets forth information for each of the Named Executive Officers with respect to the value of options outstanding as of December 31, 1998.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-end Option Value

	SHARES		NUMBER OF SECURITIES		VALUE OF	
	ACQUIRED		UNDERLYING UNEXERCISED		IN-THE-MONEY	
	ON	VALUE	OPTIONS AT FISCAL YEAR-END		FISCAL YEAR-END	
	EXERCISE	REALIZED				
NAME	(#)	($) (1)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Jeet Singh	--	$ --	--	--	$ --	$ --
Joseph T. Chung	--	--	--	--	--	--
Ann C. Brady	12,750	146,625	28,406	91,595	326,669	1,053,343
William Wittenberg	--	--	186,345	176,385	2,159,843	1,164,375
Lauren J. Kelley	--	--	10,350	41,550	119,025	477,825
Paul G. Shorthose	--	--	--	--	--	--

(1) Assumes a per share fair market value equal to $12.00, the price at which shares were sold in our initial public offering in July 1999.

During 1999, we have granted options to the following executive officers: Ann C. Brady, 145,000 shares at a weighted average exercise price of $7.24 per share; William Wittenberg, 90,000 shares at a weighted average exercise price of $2.00 per share; and Paul G. Shorthose, 575,000 shares at a weighted average exercise price of $10.00 per share.

Benefit Plans

1996 STOCK OPTION PLAN. Our 1996 Stock Option Plan was adopted by our board of directors in April 1996 and approved by our stockholders in May 1996. The 1996 plan authorizes the issuance of up to 6,300,000 shares of our common stock. As of September 30, 1999, options to purchase an aggregate of 3,937,221 shares of common stock at a weighted average exercise price of $4.46 per share were outstanding under the 1996 plan.

The 1996 plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and nonstatutory stock options.

Our officers, employees, directors, consultants and advisors are eligible to receive awards under the 1996 plan. Under present law, however, incentive stock options may only be granted to employees. No employee may receive any award for more than 500,000 shares in any calendar year.

Optionees receive the right to purchase a specified number of shares of common stock at a specified option price and subject to such other terms and conditions as are specified in connection with the option grant. We may grant options at an exercise price less than, equal to or greater than the fair market value of our common stock on the date of grant. Under present law, incentive stock options and options intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code may not be granted at an exercise price less than the fair market value of the common stock on the date of grant or less than 110% of the fair market value in the case of incentive stock options granted to optionees holding more than 10% of the voting power of the company. The 1996 plan permits our board of directors to determine how optionees may pay the exercise price of their options, including by cash, check or in connection with a "cashless exercise" through a broker, by surrender to us of shares of common stock, by delivery to us of a promissory note, or by any combination of the permitted forms of payment.

As of September 30, 1999, approximately 250 persons were eligible to receive awards under the 1996 plan, including five executive officers and five non-employee directors.

Our board of directors administers the 1996 plan. Our board of directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the plan and to interpret its provisions. It may delegate authority under the 1996 plan to one or more committees of the board of directors. Our board of directors has authorized the compensation committee to administer the 1996 plan, including the granting of options to our executive officers. Subject to any applicable limitations contained in the 1996 plan, our board of directors, our compensation committee or any other committee to whom our board of directors delegates authority, as the case may be, selects the recipients of awards and determines:

- the number of shares of common stock covered by options and the dates upon which such options become exercisable - the exercise price of options - the duration of options In the event of a merger, liquidation or other acquisition event, our board of directors is authorized to take one or more of the following actions:

- provide that outstanding options be assumed or substituted for by the acquiror - provide that all unexercised options terminate immediately prior to the event unless exercised within a time period specified in written notice to the option holder - in the event of a merger in which the holders of common stock would receive a cash payment for each share surrendered, provide for a cash payment to each option holder equal to the amount by which the amount paid to common stock holders exceeds the option's exercise price, multiplied by the total number of shares for which the option is then exercisable: in exchange for this payment, the options would be terminated - provide that any or all outstanding options become fully exercisable immediately prior to the event No award may be granted under the 1996 plan after April 2006, but the vesting and effectiveness of awards previously granted may extend beyond that date. Our board of directors may at any time amend, suspend or terminate the

1996 plan, except that no award granted after an amendment of the 1996 plan and for which stockholder approval is required under Section 422 of the Internal Revenue Code shall become exercisable, realizable or vested, to the extent such amendment was required to grant such award, unless and until such amendment is approved by our stockholders.

1999 EMPLOYEE STOCK PURCHASE PLAN. Our 1999 Employee Stock Purchase Plan was adopted by our board of directors in May 1999 and approved by our stockholders in June 1999. The purchase plan authorizes the issuance of up to a total of 500,000 shares of our common stock to participating employees.

All of our employees, including our directors who are employees, and all employees of any participating subsidiaries, whose customary employment is more than 20 hours per week and for more than five months in any calendar year, are eligible to participate in the purchase plan. Employees who would immediately after the grant own 5% or more of the total combined voting power or value of our stock or any subsidiary are not eligible to participate. As of September 30, 1999, 243 of our employees were eligible to participate in the purchase plan.

During each designated payroll deduction period, or offering period, each eligible employee may authorize us to deduct between 1% to 10%, in increments of 1%, of his or her base pay, including sales commissions. We will hold the deducted money in a non-interest bearing account for each participating employee. On the last business day of the offering period we will use the amount in his or her account to buy shares of our common stock for each participating employee at the following purchase price. With the exception of the first offering period, the purchase price will be 85% of the closing market price of our common stock on either (a) the first business day of the offering period or (b) the last business day of the offering period, whichever is lower. No employee is allowed to buy shares of common stock worth more than $25,000, based on the fair market value of the common stock on the first day of the offering period, in any calendar year under the plan. Each offering period will last for six months. The first offering period began on the day on which trading of our common stock began on the Nasdaq National Market (July 21, 1999), and the market price of the common stock on the first business day of the first offering period equalled the initial public offering price ($12.00 per share).

An employee must be a participant on the last day of an offering period in order to purchase stock under the plan. An employee's participation in an offering terminates upon:

- the employee's withdrawl of the balance accumulated in his or her account - termination of employment - retirement - death - transfer to a subsidiary of the company which does not participate in the plan - the subsidiary for which the employee works no longer being a subsidiary of the company In the event of the employee's death, the balance in the employee's account will be refunded to the employee's beneficiary or the executor or administrator of the employee's estate.

Because participation in the purchase plan is voluntary, we cannot now determine the number of shares of our common stock to be purchased by any of our current executive officers, by all of our current executive officers as a group or by our non-executive employees as a group.

401(K) PLAN. We have adopted an employee savings and retirement plan qualified under Section 401 of the Internal Revenue Code and covering all of our employees. Employees may elect to reduce their current compensation by up to the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) plan. We may make matching or additional contributions to the 401(k) plan in amounts to be determined annually by our board of directors.

Compensation Committee Interlocks and Insider Participation

The current members of the compensation committee of our board of directors are Messrs. Jones and Lax. No executive officer has served as a director or member of the compensation committee, or other committee serving an equivalent function, of any other entity whose executive officers served as a director or member of the compensation committee of our board of directors. However, each of Messrs. Jones and Lax and/or their affiliates have been parties to transactions with us. See "Transactions with Related Parties."

Transactions with Related Parties

The following describes transactions between us and our officers, directors and stockholders who prior to this offering owned at least 5% of our outstanding capital stock.

In July 1995, we sold 1,300,000 shares of series A preferred stock, 650,000 shares to each of Messrs. Madanjeet Singh and B.U. Chung for $0.385 per share. Upon the closing of our initial public offering in July 1999, the outstanding shares of series A preferred stock converted into 1,950,000 shares of common stock. Mr. Singh is the father of Jeet Singh, our President and Chief Executive Officer and one of our directors. Mr. Chung is the father of Joseph T. Chung, our Chief Technology Officer, Treasurer and Chairman of the Board.

In December 1996, we sold 425,532 shares of series B preferred stock to SOFTBANK Ventures Inc. for $7.05 per share and issued a performance-based warrant to SOFTBANK to purchase 425,532 shares of series B preferred stock at an exercise price of $7.05 per share. In August 1998, as a condition to obtaining the series B preferred stockholders' approval of the series D preferred stock financing, the warrant was cancelled and a new warrant issued for 425,532 shares of Series B preferred stock at an exercise price of $1.385 per share. Upon the closing of our initial public offering in July 1999, the outstanding shares of series B preferred stock converted into 1,642,953 shares of common stock, and SOFTBANK's warrant was cancelled. SOFTBANK owns 5.3% of our capital stock. Charles R. Lax, a member of our board of directors, is a General Partner of SOFTBANK Technology Ventures, an affiliate of SOFTBANK Ventures Inc.

In November and December 1997 and April 1998, we sold to private investors 1,456,789 shares of series C preferred stock for $1.62 per share. Scott A. Jones, a member of our board of directors, purchased 401,235 shares, and Thomas N. Matlack, another member of our board of directors,

purchased 30,864 shares. Upon the closing of our initial public offering in July 1999, the outstanding shares of series C preferred stock converted into 4,437,567 shares of common stock.

In August, September and October 1998, we sold to private investors 2,343,750 shares of series D preferred stock for $3.20 per share and warrants to purchase 2,146,325 shares of common stock at an exercise price of $0.11 per share. Tudor Private Equity Fund L.P. purchased 1,394,531 shares of series D preferred stock and warrants to purchase 1,277,064 shares of common stock. The Raptor Global Fund L.P. and The Raptor Global Fund Ltd. purchased 246,094 shares of series D preferred stock and warrants to purchase 430,962 shares of common stock. These related entities own 17.6% of our capital stock. Robert P. Forlenza, a member of our board of directors, is a Managing Director of Tudor Investment Corporation, the investment advisor of the Tudor and Raptor entities. GMN Investors II, L.P. purchased 625,000 shares of series D preferred stock and a warrant to purchase 1,094,511 shares of common stock. GMN Investors II, L.P. owns 6.7% of our capital stock. Jeffrey T. Newton, a member of our board of directors, is Managing Director of Gemini Investors LLC, which controls GMN Investors II, L.P. Upon the closing of our initial public offering in July 1999, the outstanding shares of series D preferred stock converted into 7,800,369 shares of common stock, and the warrants issued to the holders of series D preferred stock were cancelled.

In 1995, 1996 and 1998 we loaned Jeet Singh a total of $60,755 on an interest-free basis. This loan was repaid in full in April 1999 with a bonus we paid him.

Pursuant to a stockholders agreement dated August 18, 1998, Mr. Singh, Mr. Chung and the holders of our preferred stock agreed to vote their shares to fix the number of directors at seven. Pursuant to this agreement, the board was to consist of two directors elected by the holders of series D preferred stock; one director elected by the holders of series C preferred stock; one director elected by the holders of series B preferred stock; two directors elected by the holders of our common stock; and one director elected by the holders of series B preferred stock, series C preferred stock, series D preferred stock and our common stock. This agreement terminated upon completion of our initial public offering in July 1999.

In November 1997, we entered into a consulting agreement with Mr. Matlack. Mr. Matlack provided consulting services in the areas of strategic planning and financial advice and planning. In exchange for these services, we issued Mr. Matlack a non-statutory option to purchase a total of 195,000 shares of our common stock at an exercise price of $0.50 per share. This consulting agreement terminated in November 1998.

In June 1998 we borrowed $300,000 from Mr. Jones. This loan did not bear interest and was repaid in full in July 1998.

All future transactions between us and our officers, directors, principal stockholders and their affiliates will be approved by a majority of the board of directors, including a majority of the disinterested directors, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

Principal and Selling Stockholders

The following table sets forth information regarding the beneficial ownership of our common stock as of September 30, 1999, and as adjusted to reflect the sale of the shares of common stock in this offering, by: (a) each person we know to own beneficially more than 5% of our common stock; (b) each of our directors; (c) each of the Named Executive Officers; (d) each of the selling stockholders; and (e) all directors and executive officers as a group. Unless otherwise indicated, each person named in the table has sole voting power and investment power, or shares such power with his or her spouse, with respect to all shares of capital stock listed as owned by such person. The address of each of our executive officers and directors is c/o Art Technology Group, Inc., 25 First Street, Cambridge, Massachusetts 02141.

The number of shares beneficially owned by each stockholder is determined under rules promulgated by the Securities and Exchange Commission. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares as to which the individual has the right to acquire beneficial ownership within 60 days after September 30, 1999 through the exercise of any stock option or other right. The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Percentage of beneficial ownership is based on 31,115,113 shares of common stock outstanding as of September 30, 1999 and 32,628,033 shares of common stock outstanding after completion of this offering, assuming full exercise of the over-allotment option.

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING				SHARES BENEFICIALLY OWNED AFTER OFFERING IF OVER-ALLOTMENT OPTION EXERCISED IN FULL	
NAME OF BENEFICIAL OWNER	NUMBER	PERCENT	NUMBER OF SHARES OFFERED	NUMBER OF SHARES OFFERED IN OVER-ALLOTMENT OPTION	NUMBER	PERCENT
5% STOCKHOLDERS, DIRECTORS AND NAMED EXECUTIVE OFFICERS Tudor Private Equity Fund	5,460,258	17.6%	1,092,052	--	4,368,206	13.4%
L.P.(1) ..... 40 Rowes Wharf Boston, MA 02110 Jeet Singh(2).....	3,592,000	11.5	--	200,000	3,392,000	10.4
Joseph T. Chung(3).....	3,584,800	11.5	--	200,000	3,384,800	10.4
GMN Investors II, L.P.(4).....	2,080,098	6.7	416,020	--	1,664,078	5.1
20 William Street Wellesley, MA 02481 SOFTBANK Ventures Inc.(5)	1,642,953	5.3	328,590	--	1,314,363	4.0
24-1 Nihonbashi-Hakozakicho Chu-ku, Tokyo 103 Japan Robert P. Forlenza(6).....	5,465,258	17.6	--	--	4,373,206	13.4
Jeffrey T. Newton(7).....	2,085,098	6.7	--	--	1,664,078	5.1
Charles R. Lax(8).....	1,647,953	5.3	--	--	1,319,363	4.0
Scott A. Jones.....	1,186,461	3.8	236,292	--	950,169	2.9
Thomas N. Matlack.....	312,917	1.0	62,584	--	250,333	*

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		NUMBER OF SHARES OFFERED	NUMBER OF SHARES OFFERED IN OVER-ALLOTMENT OPTION	SHARES BENEFICIALLY OWNED AFTER OFFERING IF OVER-ALLOTMENT OPTION EXERCISED IN FULL	
	NUMBER	PERCENT			NUMBER	PERCENT
William Wittenberg.....	283,844 *	--	32,000	251,844 *		
Ann C. Brady.....	80,966 *	--	15,000	65,966 *		
Paul Shorthose.....	106,249 *	--	20,000	86,249 *		
All directors and executive	18,345,546	58.3	298,876	467,000	17,579,670	53.7
officers as a group (10 persons).....						

Other Selling Stockholders

Madanjeet Singh.....	945,000	3.0	185,136	--	759,864	2.3
B.U. Chung.....	930,100	3.0	186,020	--	744,080	2.3
The Hamblett Long Range	470,083	1.5	94,017	--	376,066	1.2
Partnership.....						
Henry P. Becton Jr., Trust.....	87,014 *		17,402	--	69,612 *	
Jon P. Goodman.....	103,418 *		20,683	--	82,735 *	
Bradley Lubin.....	75,211 *		13,000	--	62,211 *	
Osprey Venture Capital						
Limited	141,022 *		28,204	--	112,818 *	
Partnership.....						
The Clifford Family Limited	188,029 *		37,605	--	150,424 *	
Partnership.....						
Trygve Myhren.....	263,823 *		52,765	--	211,058 *	
Jane Thompson.....	142,367 *		28,473	--	113,894 *	
Michael Margolis.....	136,022 *		27,204	--	108,818 *	
Pratap Talwar.....	47,007 *		3,500	--	43,507 *	
Hasenain Panju.....	141,022 *		28,204	--	112,818 *	
New Media Investors, L.L.C.....	234,012 *		46,802	--	187,210 *	
Edward Takacs.....	134,000 *		13,000	--	121,000 *	
Nathan Abramson.....	305,948 *		--	27,980	277,968 *	
Fumiaki Matsumoto.....	226,041 *		--	23,000	203,041 *	
Robert Mason.....	178,137 *		--	18,000	160,137 *	
Grace Colby.....	159,600 *		--	14,600	145,000 *	
Brenda Sullivan.....	166,292 *		--	10,000	156,292 *	
Christopher Edwards.....	124,358 *		--	10,000	114,358 *	
Tinsley Galyean.....	71,250 *		7,000	64,250 *		
Ina Sipser.....	53,539 *		--	5,500	48,039 *	

NAME OF BENEFICIAL OWNER NUMBER PERCENT OFFERED OPTION NUMBER PERCENT

Lauren Kelley..... 37,648 * -- 4,000 33,648 * Other selling stockholders as a 306,699 * 157,447 -- 149,252 * group (9).....

* Less than 1%

(1) Includes 614,285 shares owned by The Raptor Global Fund Ltd., of which 122,857 shares are being sold in this offering, and 204,764 shares owned by The Raptor Global Fund, L.P., of which 40,952 shares are being sold in this offering. Robert P. Forlenza, a member of the board of directors, is Managing Director of Tudor Investment Corporation, the investment advisor of Tudor Private Equity Fund L.P., Raptor Global Fund Ltd. and Raptor Global Fund, L.P.

(2) Mr. Singh's shares are held in trusts of which he is the sole trustee with sole voting and dispositive power. Excludes 945,000 shares owned by Mr. Madanjeet Singh, Mr. Singh's father.

(3) Mr. Chung's shares are held in trusts of which he is the sole trustee with sole voting and dispositive power. Excludes 930,100 shares owned by Mr. B.U. Chung, Mr. Chung's father.

(4) Jeffrey T. Newton, a member of the board of directors, is Managing Director of Gemini Investors LLC, which controls GMN Investors II, L.P.

(5) Charles R. Lax, a member of the board of directors, is General Partner of SOFTBANK Technology Ventures, an affiliate of SOFTBANK Ventures, Inc.

(6) Mr. Forlenza is Managing Director of Tudor Investment Corporation, the investment advisor of Tudor Private Equity Fund L.P., The Raptor Global Fund, Ltd. and The Raptor Global Fund, L.P. Mr. Forlenza may be deemed to have beneficial ownership of 4,641,219 shares owned by Tudor Private Equity Fund, L.P., 614,278 shares owned by The Raptor Global Fund, Ltd., and 204,761 shares owned by The Raptor Global Fund, L.P. Mr. Forlenza disclaims such beneficial ownership.

(7) Mr. Newton is Managing Director of Gemini Investors LLC and may be deemed to have beneficial ownership of 2,080,098 shares owned by GMN Investors II, L.P. Mr. Newton disclaims such beneficial ownership.

(8) Mr. Lax is a Managing Director of SOFTBANK Technology Ventures and may be deemed to have beneficial ownership of 1,642,953 shares owned by SOFTBANK Ventures Inc. Mr. Lax disclaims such beneficial ownership.

(9) Consists of 11 selling stockholders who beneficially own in the aggregate less than 1% of the common stock outstanding prior to this offering.

Description of Capital Stock

We are authorized to issue 100,000,000 shares of common stock, $.01 par value per share, and 10,000,000 shares of preferred stock, $.01 par value per share. As of September 30, 1999, we had outstanding:

- 31,115,113 shares of common stock held by 237 stockholders of record; and - options to purchase 3,937,221 shares of common stock.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive proportionately our net assets available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. Our outstanding shares of common stock are, and the shares offered by us in this offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

Preferred Stock

Under the terms of our certificate of incorporation, our board of directors is authorized to issue shares of preferred stock in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from acquiring, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

Delaware Law and Our Charter and By-law Provisions

We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes

mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within the prior three years did own, 15% or more of the corporation's voting stock.

Our certificate of incorporation divides our board of directors into three classes with staggered three-year terms. In addition, our certificate of incorporation provides that directors may be removed only for cause by the affirmative vote of the holders of two-thirds of our shares of capital stock entitled to vote. Under our certificate of incorporation, any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may only be filled by vote of a majority of our directors then in office. The classification of our board of directors and the limitations on the removal of directors and filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from acquiring, control of the company.

Our certificate of incorporation also provides that any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting. Our certificate of incorporation further provides that special meetings of the stockholders may only be called by our Chairman of the Board, President or board of directors. Under our by-laws, in order for any matter to be considered "properly brought" before a meeting, a stockholder must comply with advance notice requirements. These provisions could have the effect of delaying until the next stockholders' meeting stockholder actions which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage a third party from making a tender offer for our common stock, because even if it acquired a majority of our outstanding voting securities, the third party would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders' meeting, and not by written consent.

The General Corporation Law of Delaware provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. Our certificate of incorporation and by-laws require the affirmative vote of the holders of at least 75% of the shares of our capital stock issued and outstanding and entitled to vote to amend or repeal any of the provisions described in the prior two paragraphs.

Our certificate of incorporation contains provisions permitted under the General Corporation Law of Delaware relating to the liability of directors. The provisions eliminate a director's liability for monetary damages for a breach of fiduciary duty, except in circumstances involving wrongful acts, such as the breach of a director's duty of loyalty or acts or omissions that involve intentional misconduct or a knowing violation of law. Further, our certificate of incorporation contains provisions to indemnify our directors and officers to the fullest extent permitted by the General Corporation Law of Delaware. We believe that these provisions will assist us in attracting and retaining qualified individuals to serve as directors.

Registration Rights

After this offering, the holders of approximately 10,903,000 shares of common stock will be entitled to rights with respect to the registration of such shares under the Securities Act. Under the terms of the agreement between us and the holders of such registrable securities, if we propose to register any of our securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, such holders are entitled to notice of such registration and are entitled to include shares of such common stock therein. Additionally, such holders are also entitled to demand registration rights pursuant to which they may require us on up to six occasions to file a registration statement under the Securities Act at our expense with respect to our shares of common stock, and we are required to use our best efforts to effect such registration. Further, holders may require us to file an unlimited number of additional registration statements on Form S-3 at our expense. All of these registration rights are subject to conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in such registration and our right not to effect a requested registration within twelve months following an offering of our securities, including the offering made hereby. In addition, the holders of registration rights have agreed not to exercise such rights for at least 90 days after this offering without the prior written consent of Hambrecht & Quist LLC. We have also agreed to indemnify the registration rights holders against, and provide contribution with respect to liabilities relating to any registration in which any shares of such holders are sold under the Securities Act.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is BankBoston N.A.

Underwriting

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representatives, Hambrecht & Quist LLC, U.S. Bancorp Piper Jaffray Inc., Thomas Weisel Partners LLC and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, have severally agreed to purchase from us and the selling stockholders the following numbers of shares of common stock:

Number Name of Shares

Hambrecht & Quist LLC..... U.S. Bancorp Piper Jaffray Inc..... Thomas Weisel Partners LLC..... Dain Rauscher Wessels.....

Total..... 4,500,000 The underwriting agreement provides that the obligations of the underwriters are subject to conditions that we and the selling stockholders must satisfy, including the receipt of certificates, opinions and letters from us, our counsel and our

independent auditors. The underwriters are committed to purchase all shares of common stock offered in this prospectus if any shares are purchased.

The underwriters propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus and to dealers at the public offering price less a concession not in excess of $ per share. The underwriters may allow and the dealers may reallow a concession not in excess of $ per share to other dealers. After the public offering of the shares, the underwriters may change the offering price and other selling terms.

We and 14 selling stockholders have granted to the underwriters an option, exercisable no later than 30 days after the date of this prospectus, to purchase up to 675,000 additional shares of common stock at the public offering price, less the underwriting discount set forth on the cover page of this prospectus. To the extent that the underwriters exercise this option, each underwriter will have a firm commitment to purchase a number of shares that approximately reflects the same percentage of total shares the underwriter purchased in the above table. We and those selling stockholders will be obligated to sell shares to the underwriters to the extent the option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of common stock offered in this prospectus.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect thereof.

All of the selling stockholders and all of our executive officers and directors, who will own in the aggregate 19,881,756 shares of common stock after this offering, assuming the full exercise of the underwriters' over-allotment option, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock or securities exchangeable for or convertible into shares of common stock owned by them during the 90-day period following the date of this prospectus. We have agreed that we will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock or securities exchangeable for or convertible into shares of common stock during the 90-day period following the date of this prospectus, except that we may issue shares upon the exercise of options granted prior to the date of this prospectus and may grant additional options under our stock option plan, provided that, without the prior written consent of Hambrecht & Quist LLC, any additional options shall not be exercisable during the 90-day period.

In general, the rules of the Securities and Exchange Commission will prohibit the underwriters from making a market in our common stock during the "cooling off" period immediately preceding the commencement of sales in the offering. The Commission has, however, adopted exemptions from these rules that permit passive market making under certain conditions. These rules permit an underwriter to continue to make a market subject to the conditions, among others, that its bid not exceed the highest bid by a market maker not connected with the offering and that its net purchases on any one

trading day not exceed prescribed limits. Pursuant to these exemptions, certain underwriters, selling group members, if any, or their respective affiliates intend to engage in passive market making in our common stock during the cooling off period.

Persons participating in this offering may over-allot or effect transactions that stabilize, maintain or otherwise affect the market price of the common stock at levels above those that might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids. A stabilizing bid means the placing of any bid or effecting of any purchase for the purpose of pegging, fixing or maintaining the price of the common stock. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering. A penalty bid means an arrangement that permits the underwriters to reclaim a selling concession from a syndicate member in connection with the offering when shares of common stock sold by the syndicate member are purchased in syndicate covering transactions. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise. Stabilizing, if commenced, may be discontinued at any time.

Thomas Weisel Partners LLC, one of the representatives, was organized and registered as a broker-dealer in December 1998. Since December 1998, Thomas Weisel Partners LLC has been named as a lead or co-manager on 76 filed public offerings of equity securities, of which 53 have been completed, and has acted as a syndicate manager in an additional 38 public offerings of equity securities. Thomas Weisel Partners LLC does not have any material relationship with us or any of our officers, directors or other controlling persons, except with respect to its contractual relationship with us and the selling stockholders pursuant to the underwriting agreement entered into in connection with this offering.

Legal Matters

The validity of the shares of common stock offered by us hereby will be passed upon for us by Hale and Dorr LLP, Boston, Massachusetts. Legal matters will be passed upon for the underwriters by Foley, Hoag & Eliot LLP, Boston, Massachusetts.

Experts

The consolidated financial statements as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 included in this prospectus and the registration statement relating to this prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

Where You Can Find More Information

We have filed a registration statement on Form S-1 with the SEC for the stock we are offering by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document. We are also required to file annual, quarterly and special reports, proxy statements and other information with the SEC.

You can read our SEC filings, including the registration statement, over the Internet at the SEC's Web site at HTTP://WWW.SEC.GOV. You may also read and copy any document we file with the SEC at its public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549; Seven World Trade Center, Suite 1300, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

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Report of Independent Public Accountants

To the Stockholders and Board of Directors of Art Technology Group, Inc.:

We have audited the accompanying consolidated balance sheets of Art Technology Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three

years in the period ended December 31, 1998. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Art Technology Group, Inc. and subsidiaries as of December 31, 1997 and 1998, and the results of its consolidated operations and its consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Boston, Massachusetts March 4, 1999 (except with respect to the matter discussed in Note 7(a), as to which the date is June 18, 1999)

Art Technology Group, Inc.

Consolidated Balance Sheets

	DECEMBER 31,		
	1997	1998	SEPTEMBER 30, 1999 (UNAUDITED)
ASSETS Current Assets: Cash and cash equivalents	$ 186,829	$ 4,092,790	$57,399,128
Accounts receivable, net of reserves of approximately $21,000, $250,000 and $460,000 at December 31, 1997 and 1998 and September 30, 1999, respectively	742,875	2,317,672	4,315,705
Unbilled services	198,049	290,585	477,689
Prepaid expenses and other current assets	1,000	113,423	2,094,737
Total current assets	1,128,753	6,814,470	64,287,259
Property and equipment, less accumulated depreciation and amortization	478,049	842,010	3,842,326
Receivable from officer/stockholder	56,957	--	--
Other assets	8,230	109,391	518,251
	$1,671,989	$ 7,765,871	$68,647,836
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) Current Liabilities: Line of credit	$ 304,000	$ --	$ --
Current maturities of long-term obligations	548,373	347,096	--
Accounts payable	847,826	720,180	2,309,291
Accrued			

expenses..... 393,284 1,220,101 3,239,731 Deferred revenue..... 363,440 878,341 5,060,975 Total current liabilities..... 2,456,923 3,165,718 10,609,997 Long-Term Obligations, less current maturities..... 122,175 322,069 -- Commitments and Contingencies (Note 8) Redeemable Convertible Preferred Stock..... 3,153,288 8,312,554 -- Stockholders' Equity (Deficit): Preferred Stock, $0.01 par value, Authorized--no shares at December 31, 1997 and 1998 and 10,000,000 shares at September 30, 1999 Issued and outstanding--no shares at December 31, 1997 and 1998 and September 30, 1999..... -- -- -- Preferred stock, $.01 par value-- Authorized--10,000,000 shares at December 31, 1997 and 1998 and no shares at September 30, 1999 Series A Convertible Preferred Stock-- Designated--1,300,000 shares Issued and outstanding--1,300,000 shares at December 31, 1997 and 1998 and no shares at September 30, 1999..... 500,500 500,500 -- Series C Convertible Preferred Stock-- Designated--2,000,000 shares Issued and outstanding--1,209,875 and 1,456,789 shares at December 31, 1997 and 1998, respectively, and no shares at September 30, 1999..... 1,960,000 2,360,000 -- Common stock, $.01 par value-- Authorized--25,000,000 shares at December 31, 1997 and 1998 and 100,000,000 shares at September 30, 1999 Issued and outstanding--8,906,700, 9,128,055 and 31,115,113 shares at December 31, 1997 and 1998 and September 30, 1999, respectively..... 89,067 91,281 311,151 Additional paid-in capital..... 279,685 6,040,234 81,043,234 Deferred compensation..... -- (1,692,301) (3,932,180) Accumulated deficit..... (6,889,649) (11,334,184) (19,384,366) Total stockholders' equity (deficit)..... (4,060,397) (4,034,470) 58,037,839 $1,671,989 $ 7,765,871 $68,647,836

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

Art Technology Group, Inc.

Consolidated Statements of Operations

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
Revenues:					
Services.....	$ 3,849,095	$ 4,591,660	$ 8,078,327	$ 5,848,395	$ 9,421,305
Product license.....	53,000	1,865,884	4,059,064	2,451,064	9,371,615
Total revenues.....	3,902,095	6,457,544	12,137,391	8,299,459	18,792,920
Cost of Revenues.....	1,985,495	3,196,289	5,050,274	3,473,863	6,669,053
Gross profit.....	1,916,600	3,261,255	7,087,117	4,825,596	12,123,867
Operating Expenses:					
Research and development.....	1,117,376	3,661,083	3,355,155	2,305,827	4,233,512
Sales and marketing.....	1,151,839	2,287,408	4,074,465	2,630,870	8,134,060
General and administrative...	1,059,581	1,418,037	2,291,080	1,543,452	3,149,405
Amortization of deferred					

compensation.....	--	--	106,542	--	822,996
Total operating expenses.....	3,328,796	7,366,528	9,827,242	6,480,149	16,339,973
Loss from operations...	(1,412,196)	(4,105,273)	(2,740,125)	(1,654,553)	(4,216,106)
Interest Income.....	--	6,044	53,919	7,928	681,407
Interest Expense.....	(30,271)	(128,770)	(164,359)	(131,268)	(120,282)
Net loss.....	(1,442,467)	(4,227,999)	(2,850,565)	(1,777,893)	(3,654,981)
Accretion of Dividends, Discount and Offering Costs on Preferred Stock.....	(205,633)	(213,933)	(1,593,970)	(1,342,362)	(4,395,201)
Net loss available for common stockholders..	$(1,648,100)	$(4,441,932)	$(4,444,535)	$(3,120,255)	$(8,050,182)
Net Loss Per Share (Note 1(f)):					
Basic and diluted.....	$ (0.19)	$ (0.50)	$ (0.50)	$ (0.35)	$ (0.53)
Basic and diluted weighted average common shares outstanding.....	8,848,866	8,872,202	8,967,066	8,941,046	15,176,953
Pro forma basic and diluted.....			$ (0.16)		$ (0.14)
Pro forma basic and diluted weighted average common shares outstanding.....			18,246,484		25,707,287

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

Art Technology Group, Inc. Statements of Stockholders' Equity (Deficit)

	SERIES A CONVERTIBLE PREFERRED STOCK		SERIES C CONVERTIBLE PREFERRED STOCK		COMMON STOCK		
	NUMBER OF SHARES	CARRYING VALUE	NUMBER OF SHARES	CARRYING VALUE	NUMBER OF SHARES	$.01 PAR VALUE	ADDITIONAL PAID-IN CAPITAL
Balance, December 31, 1995.....	1,300,000	$ 500,500	--	$ --	8,745,000	$ 87,450	$ --
Issuance costs related to sale of Series B redeemable convertible preferred stock.....	--	--	--	--	--	--	--
Issuance of common stock.....	--	--	--	--	105,000	1,050	--
Exercise of stock options.....	--	--	--	--	750	8	92
Grant of options to consultants (Note 7(b)).....	--	--	--	--	--	--	210,200
Net loss.....	--	--	--	--	--	--	--
Balance, December 31, 1996.....	1,300,000	500,500	--	--	8,850,750	88,508	210,292
Sale of Series C convertible preferred stock, net of issuance costs of $60,645.....	--	--	1,209,875	1,960,000	--	--	--
Accretion of Series B redeemable convertible preferred stock to redemption value.....	--	--	--	--	--	--	--
Exercise of stock options.....	--	--	--	--	55,950	559	9,393
Grant of options to consultants (Note 7(b)).....	--	--	--	--	--	--	60,000
Net loss.....	--	--	--	--	--	--	--
Balance, December 31, 1997.....	1,300,000	500,500	1,209,875	1,960,000	8,906,700	89,067	279,685
Sale of Series C convertible preferred stock.....	--	--	246,914	400,000	--	--	--
Issuance costs related to sale of Series D redeemable convertible preferred stock.....	--	--	--	--	--	--	--
Accretion of Series B and Series D							

redeemable convertible preferred stock to redemption value..... -- -- -- -- -- -- -- Exercise of stock options..... -- -- -- -- 221,355 2,214 71,002 Deferred compensation related to stock option grants..... -- -- -- -- -- -- 1,798,843 Amortization of deferred compensation..... -- -- -- -- -- -- -- Warrants issued in connection with the sale of Series D redeemable convertible preferred stock..... -- -- -- -- -- -- 2,775,000 Issuance of Series B redeemable convertible preferred stock warrants..... -- -- -- -- -- -- 1,053,245 Grants of options to consultants (Note 7(b))..... -- -- -- -- -- -- 4,210 Issuance of warrants (Note 4(b))..... -- -- -- -- -- -- 58,249 Net loss..... -- -- -- -- -- -- -- Balance, December 31, 1998..... 1,300,000 500,500 1,456,789 2,360,000 9,128,055 91,281 6,040,234 Accretion of Series B and Series D redeemable convertible preferred stock to redemption value (unaudited)..... -- -- -- -- -- -- -- Exercise of stock options (unaudited)..... -- -- -- -- 830,931 8,310 406,811 Exercise of warrant (unaudited)..... -- -- -- -- 157,238 1,572 (1,572) Deferred compensation related to stock option grants (unaudited)..... -- -- -- -- -- -- 3,062,875 Amortization of deferred compensation (unaudited)..... -- -- -- -- -- -- -- Conversion of preferred stock into common stock (unaudited)..... (1,300,000) (500,500) (1,456,789) (2,360,000) 15,709,639 157,096 13,592,406 Common stock issued to the holders of Series C convertible preferred stock and Series D redeemable convertible preferred stock in lieu of special payments (Note 6) (unaudited)..... -- -- -- -- 121,250 1,212 1,817,541 Initial public offering of common stock (unaudited)..... -- -- -- -- 5,168,000 51,680 56,124,939 Net loss (unaudited)..... -- -- -- -- -- -- -- Balance, September 30, 1999 (unaudited)..... -- $ -- -- $ -- 31,115,113 $311,151 $81,043,234

	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	STOCKHOLDERS' EQUITY (DEFICIT)
Balance, December 31, 1995.....	$ --	$ (798,707)	$ (210,757)
Issuance costs related to sale of Series B redeemable convertible preferred stock.....	--	(205,633)	(205,633)
Issuance of common stock.....	--	(910)	140
Exercise of stock options.....	--	--	100
Grant of options to consultants (Note 7(b)).....	--	--	210,200
Net loss.....	--	(1,442,467)	(1,442,467)
Balance, December 31, 1996.....	--	(2,447,717)	(1,648,417)
Sale of Series C convertible preferred stock, net of issuance costs of $60,645.....	--	(60,645)	1,899,355
Accretion of Series B redeemable convertible preferred stock to redemption value.....	--	(153,288)	(153,288)
Exercise of stock options.....	--	--	9,952
Grant of options to consultants (Note 7(b)).....	--	--	60,000
Net loss.....	--	(4,227,999)	(4,227,999)
Balance, December 31, 1997.....	--	(6,889,649)	(4,060,397)
Sale of Series C convertible preferred stock.....	--	--	400,000
Issuance costs related to sale of Series D redeemable convertible preferred stock.....	--	(106,459)	(106,459)
Accretion of Series B and Series D redeemable convertible preferred stock to redemption value.....	--	(434,266)	(434,266)
Exercise of stock options.....	--	--	73,216
Deferred compensation related to stock option grants.....	(1,798,843)	--	--
Amortization of deferred compensation.....	106,542	--	106,542
Warrants issued in connection with the sale of Series D redeemable convertible preferred stock.....	--	--	2,775,000
Issuance of Series B redeemable convertible preferred stock warrants.....	--	(1,053,245)	--
Grants of options to consultants (Note 7(b)).....	--	--	4,210
Issuance of warrants (Note 4(b)).....	--	--	58,249
Net loss.....	--	(2,850,565)	(2,850,565)
Balance, December 31, 1998.....			

(1,692,301) (11,334,184) (4,034,470) Accretion of Series B and Series D redeemable convertible preferred stock to redemption value (unaudited)..... -- (2,576,448) (2,576,448) Exercise of stock options (unaudited)..... -- -- 415,121 Exercise of warrant (unaudited)..... -- -- -- Deferred compensation related to stock option grants (unaudited)..... (3,062,875) -- -- Amortization of deferred compensation (unaudited)..... 822,996 -- 822,996 Conversion of preferred stock into common stock (unaudited)..... -- -- 10,889,002 Common stock issued to the holders of Series C convertible preferred stock and Series D redeemable convertible preferred stock in lieu of special payments (Note 6) (unaudited)..... -- (1,818,753) -- Initial public offering of common stock (unaudited)..... -- -- 56,176,619 Net loss (unaudited)..... -- (3,654,981) (3,654,981) Balance, September 30, 1999 (unaudited)..... $(3,932,180) $(19,384,366) $58,037,839

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

Art Technology Group, Inc.

Consolidated Statements of Cash Flows

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
Cash Flows from Operating Activities:					
Net loss	$(1,442,467)	$(4,227,999)	$(2,850,565)	$(1,777,893)	$(3,654,981)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities--					
Amortization of deferred compensation	--	--	106,542	--	822,996
Noncash interest expense related to issuance of warrants	--	--	18,060	13,179	40,189
Compensation expense related to issuance of nonqualified stock options	210,200	60,000	4,210	--	--
Depreciation and amortization	227,653	318,288	346,680	244,680	437,835
Changes in current assets and liabilities--					
Accounts receivable, net	(204,781)	(537,271)	(1,574,797)	(1,777,461)	(1,998,033)
Unbilled services	--	(198,049)	(92,536)	35,108	(187,104)
Prepaid expenses and other current assets	(1,000)	--	(112,423)	(228,002)	(1,981,314)
Accounts payable	442,271	346,005	(127,646)	(591,822)	1,589,111

Accrued expenses	310,432	44,404	826,817	657,129	2,019,630	
Deferred revenue	46,000	317,440	514,901	1,073,073	4,182,634	
Net cash (used in) provided by operating activities	(411,692)	(3,877,182)	(2,940,757)	(2,352,009)	1,270,963	
Cash Flows from Investing Activities:						
Purchases of property and equipment	(497,512)	(189,549)	(623,398)	(122,126)	(3,438,151)	
Decrease (increase) in receivable from officer/stockholder	(11,973)	206	56,957	56,957	--	
Increase in other assets	--	(8,230)	(101,161)	(58,204)	(408,860)	
Net cash used in investing activities	(509,485)	(197,573)	(667,602)	(123,373)	(3,847,011)	
Cash Flows from Financing Activities:						
Net proceeds from sale of Series B redeemable convertible preferred stock	2,794,367	--	--	--	--	
Net proceeds from sale of Series C convertible preferred stock	--	1,899,355	400,000	400,000	--	
Net proceeds from sale of Series D redeemable convertible preferred stock	--	--	7,393,541	7,151,724	--	
Net proceeds from initial public offering of common stock	--	--	--	--	56,176,619	
Proceeds from issuance of common stock	140	--	--	--	--	
Proceeds from exercise of stock options	100	9,952	73,216	23,424	415,121	
Proceeds from line of credit	500,000	304,000	1,496,000	1,496,000	--	
Payments on line of credit	--	(500,000)	(1,800,000)	(1,800,000)	--	
Proceeds from term loan to a bank	250,000	486,111	--	--	--	
Payments on term loan to a bank	--	(250,000)	(166,667)	(125,000)	(319,444)	
Proceeds from equipment line of credit	--	--	199,915	73,256	--	
Payments on equipment line of credit	--	--	--	--	(199,915)	
Payments on capital lease obligations	(21,709)	(45,847)	(81,685)	(61,154)	(189,995)	
Payments on note payable to a bank	(250,000)	--	--	--	--	
Net cash provided by financing activities	3,272,898	1,903,571	7,514,320	7,158,250	55,882,386	
Net increase (decrease) in cash and cash equivalents	2,351,721	(2,171,184)	3,905,961	4,682,868	53,306,338	
Cash and Cash Equivalents, beginning of period	6,292	2,358,013	186,829	186,829	4,092,790	
Cash and Cash Equivalents, end of period	$ 2,358,013	$ 186,829	$ 4,092,790	$ 4,869,697	$57,399,128	
Supplemental Disclosure of Cash Flow Information:						
Cash paid during the period for interest	$ 41,291	$ 128,770	$ 143,299	$ 131,268	$ 80,093	
Supplemental Disclosure of Noncash Investing and Financing Activities:						

```
  Accretion of dividends, discounts and special payments
    on Series B, Series C and Series D convertible
    preferred stock..................................... $        --   $   153,288   $   434,266   $
190,872   $ 4,395,201
  Value ascribed to Series B and Series D redeemable
    convertible preferred stock warrants.................. $        --   $        --   $ 3,828,245   $
3,828,245   $        --
  Equipment acquired under capital leases................. $    61,411   $   190,582   $    87,243   $
87,243   $        --
  Original issue discount related to warrants issued to a
    bank.................................................. $        --   $        --   $    58,249   $
58,249   $        --
  Conversion of preferred stock into common stock......... $        --   $        --   $        --   $
--   $13,749,502
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The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

Art Technology Group, Inc.

Notes to Consolidated Financial Statements

(Including Data Applicable to Unaudited Periods)

(1) Operations and Significant Accounting Policies

Art Technology Group, Inc. (ATG or the Company) is a Delaware Company which was incorporated on December 31, 1991. ATG offers an integrated suite of Internet customer relationship management and electronic commerce software applications, as well as related application development, integration and support services. On July 6, 1999, ATG established two wholly owned subsidiaries, ATG Securities Corporation and ATG Global, Inc.

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in the accompanying notes to the consolidated financial statements.

(A) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ATG and its wholly owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

(B) Use of Estimates

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

(C) Interim Consolidated Financial Statements

The accompanying consolidated balance sheet as of September 30, 1999, the consolidated statements of operations and cash flows for the nine months ended September 30, 1998 and 1999, and the consolidated statement of stockholders' equity (deficit) for the nine months ended September 30, 1999 are unaudited, but in the opinion of management, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for these interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted, although ATG believes that the disclosures included are adequate to make the information presented not misleading. The results of operations for the nine months ended September 30, 1999, are not necessarily indicative of the results to be expected for the entire fiscal year.

(D) Initial Public Offering

On July 26, 1999, ATG closed its initial public offering of 5,000,000 shares of common stock at a public offering price of $12 per share. The net proceeds to ATG from the offering were approximately $54,302,000. On July 30, 1999, in connection with the exercise of the underwriters' over-allotment option, ATG issued an additional 168,000 shares of common stock at the initial public offering price of $12 per share. Net proceeds to ATG from the exercise of the overallotment option was approximately $1,875,000.

In connection with ATG's initial public offering in July 1999, all shares of preferred stock were converted into 15,709,639 shares of common stock.

Art Technology Group, Inc.

Notes to Consolidated Financial Statements (Continued)

(Including Data Applicable to Unaudited Periods)

(1) Operations and Significant Accounting Policies (Continued) (E) Revenue Recognition

ATG recognizes product license revenue from licensing the rights to use its software to end-users. ATG also generates service revenues from integrating its software with its customers' operating environments, the sale of maintenance services and the sale of certain other consulting and development services. ATG generally has separate agreements with its customers, which govern the terms and conditions of its software license, consulting and support and maintenance services. These separate agreements, along with ATG's price list, provide the basis for establishing vendor specific objective evidence of fair value. This allows ATG to appropriately allocate fair value among the multiple elements in an arrangement, as well as, allocate discounts ratably over all elements in an arrangement, except for upgrade rights.

ATG recognizes revenue in accordance with Statement of Position (SOP) No. 97-2, SOFTWARE REVENUE RECOGNITION and SOP 98-4, DEFERRAL OF THE EFFECTIVE DATE OF A PROVISION OF SOP 97-2, SOFTWARE REVENUE RECOGNITION. Revenues from software product license agreements are recognized upon execution of a license agreement and delivery of the software, provided that the fee is fixed or determinable and deemed collectible by management. If conditions for acceptance are required subsequent to delivery, revenues are recognized upon customer acceptance if such acceptance is not deemed to be perfunctory. Revenues from software maintenance agreements are recognized ratably over the term of the maintenance period, which is typically one year. ATG enters into reseller arrangements that typically provide for sublicense fees payable to ATG based upon a percentage of ATG's list price. Revenues are recognized under reseller agreements as earned which is generally ratably over the life of the reseller agreement for guaranteed minimum royalties or based upon unit sales by the resellers. ATG does not grant its resellers the right of return or price protection. Revenues from professional service arrangements are recognized on either a time and materials or percentage-of-completion basis as the services are performed, provided that amounts due from customers are fixed or determinable and deemed collectible by management. Amounts collected or billed prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Unbilled services represent service revenues that have been earned by ATG in advance of billings.

The Company received $5.0 million from Informix in March 1999 under an original equipment manufacturer agreement, of which $3.4 million is included in deferred revenue at September 30, 1999. Informix has the right to terminate the agreement and receive a refund of the $5.0 million less the

greater of $530,000 per quarter, commencing with the fiscal quarter ended March 31, 1999, and all uncredited prepaid royalties as of the termination date, in the event Informix is named in a patent or other intellectual property infringement claim related to the agreement by BroadVision. The amount refundable at September 30, 1999 is $3.4 million.

(F) Net Loss Per Share

Basic and diluted net loss per common share was determined by dividing net loss available for common stockholders by the weighted average common shares outstanding during the period. Basic and diluted net loss per share are the same, as outstanding common stock options and warrants have been excluded as they are considered antidilutive as ATG has recorded a net loss for all periods presented. Options and warrants to purchase a total of 1,095,150, 2,140,182, 5,682,799, 5,535,079 and 3,949,221 common shares have been excluded from the computation of diluted weighted average shares

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) outstanding for the years ended December 31, 1996, 1997 and 1998 and the nine months ended September 30, 1998 and 1999, respectively. Shares of common stock issuable upon the conversion of outstanding convertible preferred stock and warrants have also been excluded from the date of issuance to the date of conversion (the Company's initial public offering). In accordance with the SEC Staff Accounting Bulletin No. 98, EARNINGS PER SHARE IN AN INITIAL PUBLIC OFFERING, the Company determined that there were no nominal issuances of ATG's common stock prior to ATG's initial public offering.

ATG's historical capital structure was not indicative of its current structure due to the automatic conversion of all shares of convertible preferred stock and redeemable convertible preferred stock into common stock concurrent with the closing of ATG's initial public offering. Accordingly, pro forma net loss per share is presented for the year ended December 31, 1998 and the nine months ended September 30, 1999 assuming (i) the net loss before the accretion of preferred stock dividends, discount and offering costs and (ii) the conversion of all outstanding shares of convertible preferred stock and redeemable convertible preferred stock into common stock using the as-converted method from their respective dates of issuance.

(G) Cash and Cash Equivalents

ATG accounts for investments under Statement of Financial Accounting Standards (SFAS) No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. Under SFAS No. 115, investments for which ATG has the positive intent and the ability to hold to maturity, consisting of cash equivalents, are reported at amortized cost, which approximates fair market value. Cash equivalents are highly liquid investments with original maturities of less than ninety days.

	DECEMBER 31,		SEPTEMBER 30,
	1997	1998	1999
Cash and cash equivalents--			
Cash	$186,829	$ 592,790	$ 460,370
Money market accounts	--	3,500,000	56,938,758
Total cash and cash equivalents	$186,829	$4,092,790	$57,399,128

(H) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. ATG provides for depreciation and amortization using the straight-line method and charges to operations amounts estimated to allocate the cost of the assets over their estimated useful lives.

Art Technology Group, Inc.

Notes to Consolidated Financial Statements (Continued)

(Including Data Applicable to Unaudited Periods)

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) Property and equipment at December 31, 1997 and 1998 and September 30, 1999 consisted of the following:

		DECEMBER 31,		
	ESTIMATED			SEPTEMBER 30,
ASSET CLASSIFICATION	USEFUL LIFE	1997	1998	1999
Computer equipment	3 years	$ 513,202	$ 637,683	$1,875,635
Equipment under capital leases	3 years	269,794	556,952	544,245
Computer software	3 years	74,967	284,629	385,898
Furniture and fixtures	7 years	212,579	295,924	1,116,512
Leasehold improvements	Life of lease	18,800	24,795	1,315,844
		1,089,342	1,799,983	5,238,134
Less--Accumulated depreciation and amortization		611,293	957,973	1,395,808
		$ 478,049	$ 842,010	$3,842,326

(I) Research and Development Expenses for Software Products

ATG has evaluated the establishment of technological feasibility of its products in accordance with SFAS No. 86, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED, OR OTHERWISE MARKETED. ATG sells products in a market that is subject to rapid technological change, new product development and changing customer needs; accordingly, ATG has concluded that technological feasibility is not established until the development stage of the product is nearly complete. ATG defines technological feasibility as the completion of a working model. The time period during which costs could be capitalized, from the point of reaching technological feasibility until the time of general product release, is very short, and consequently, the amounts that could be capitalized are not material to ATG's financial position or results of operations. Therefore, ATG has charged all such costs to research and development in the period incurred.

(J) Income Taxes

ATG accounts for income taxes in accordance with the provisions of SFAS No. 109, ACCOUNTING FOR INCOME TAXES. This statement requires ATG to recognize a current tax asset or liability for current taxes payable or refundable and to record a deferred tax asset or liability for the estimated future tax effects of temporary differences and carryforwards to the extent they are realizable. A deferred tax provision or benefit results from the net change in deferred tax assets and liabilities during the year. A deferred tax valuation allowance is required if it is more likely than not that all or a portion of the recorded deferred tax assets will not be realized (see Note 5).

(K) Stock-based Compensation

SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, requires the measurement of the fair value of stock options or warrants to be included in the statement of operations or disclosed in the notes to financial statements. ATG has determined that it will continue to account for stock-based compensation for employees under the Accounting Principles Board Opinion No. 25, ACCOUNTING FOR

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) STOCK ISSUED TO EMPLOYEES, and elect the disclosure-only alternative under SFAS No. 123 (see Note 7(b)).

(L) Comprehensive Income (Loss)

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME. ATG does not have any components of comprehensive income (loss) besides its reported net loss.

(M) Fair Value of Financial Instruments

Financial instruments consist mainly of cash and cash equivalents, accounts receivable, receivable from officer/stockholder, accounts payable, long-term obligations, redeemable convertible preferred stock and convertible preferred stock. The carrying amounts of these instruments approximate their fair value.

(N) Concentrations of Credit Risk

SFAS No. 105, DISCLOSURE OF INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK, requires disclosure of any significant off-balance-sheet and credit risk concentrations. ATG has no significant off-balance-sheet concentrations such as foreign exchange contracts, option contracts or other foreign hedging arrangements. ATG's accounts receivable credit risk is concentrated domestically and write-offs have historically been minimal. ATG places its cash and cash equivalents in several financial institutions. ATG has not experienced any material losses to date.

The following table summarizes the number of customers that individually comprise greater than 10% of total revenue and their aggregate percentage of ATG's total revenues which are derived substantially from customers in the United States:

SIGNIFICANT CUSTOMERS A B C D E F PERCENTAGE OF TOTAL REVENUES

```
Year Ended--
  December 31, 1996.....................       3          --         31%          --      --
--         --
  December 31, 1997.....................       3          --         29%          --      --
--         11%
  December 31, 1998.....................       3          17%        --           10%     --
10%        --
Nine months ended--
  September 30, 1998....................       2          20%        --           12%     --
--         --
  September 30, 1999....................       2          11%        --           --      11%
--         --
```

G H I Percentage of Total Revenues

```
Year Ended--
  December 31, 1996.....................     --         35%        14%
  December 31, 1997.....................     16%        --         --
  December 31, 1998.....................     --         --         --
```

Nine months ended--					
September 30, 1998.....	--	--	--		
September 30, 1999.....	--	--	--		

Art Technology Group, Inc.

Notes to Consolidated Financial Statements (Continued)

(Including Data Applicable to Unaudited Periods)

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) The following table summarizes the number of customers that individually comprise greater than 10% of total accounts receivable and their aggregate percentage of ATG's total accounts receivable:

SIGNIFICANT RECEIVABLES A B J K L M PERCENTAGE OF TOTAL ACCOUNTS RECEIVABLES

As of--							
December 31, 1997.....	4	13%	26%	18%	--	14%	--
December 31, 1998.....	2	19%	--	--	12%	--	--
September 30, 1999.....	2	17%	--	--	--	--	12%

(2) Disclosures About Segments of an Enterprise

The Company has adopted SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION in the fiscal year ended December 31, 1998. SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. ATG's chief operating decision-makers, as defined under SFAS No. 131, are the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. To date, the Company has viewed its operations and manages its business as principally one operating segment with two product offerings: software licenses and services. ATG evaluates these product offerings based upon their respective gross margins. As a result, the financial information disclosed herein, represents all of the material financial information related to ATG's principal operating segment

(3) Receivable from Officer/stockholder

ATG had advanced certain amounts to its President and Chief Executive Officer, which were due upon demand. These amounts were repaid in 1998.

(4) Long-term Obligations

(A) Line of Credit with a Bank

ATG has a working capital line-of-credit agreement with a bank under which ATG may borrow up to the lesser of $5,000,000 or 80% of eligible accounts receivable, as defined. Borrowings bear interest at the bank's prime rate (7.75% at December 31, 1998) plus 0.25%. The working capital line of credit is collateralized by substantially all assets of ATG. The agreement contains certain covenants, including defined levels of profitability and certain financial ratios. As of December 31, 1998 and September 30, 1999, ATG was in compliance with all covenants. As of September 30, 1999, there were no amounts outstanding under the working capital line of credit and approximately $1,527,000 was available for

(4) LONG-TERM OBLIGATIONS (CONTINUED) borrowing. In addition, at December 31, 1998 and September 30, 1999, ATG had letters of credit outstanding in the amount of $102,500 and $1,603,000, respectively (see note 8(a)).

(B) Term Note Payable to a Bank

ATG entered into a term note payable with a bank under which ATG could have borrowed up to $500,000 based upon certain conditions, as defined. Borrowings bore interest at the bank's prime rate (7.75% at December 31, 1998) plus 1%. During July 1999, in connection with ATG's initial public offering, all amounts were repaid. In connection with the term note payable, ATG issued warrants to purchase 56,296 shares Series C convertible preferred stock to the bank. One warrant provided for the purchase of 46,296 shares at an exercise price of $1.62 per share and the other warrant provided for the purchase of 10,000 shares at an exercise price of $0.01 per share. These warrants vested immediately and expire five years after issuance. ATG valued the warrants at $58,249, using the Black-Scholes option pricing model and the following assumptions: fair market value of $1.62; risk free

interest rate of 4.74%; an expected volatility factor of 70%; an expected life of four years; and an expected dividend yield of zero. The warrants were recorded as a debt discount. For the year ended December 31, 1998 and the nine months ended September 30, 1998 and 1999, ATG amortized $18,060, $13,179 and $40,189, respectively. In July 1999, in connection with ATG's accelerated debt repayment, ATG amortized the remainder of the debt discount. In connection with ATG's initial public offering, the warrants were converted into warrants to purchase 171,485 shares of common stock. In July 1999, the warrants to purchase 171,485 shares of common stock were exercised through a cashless exercise resulting in the net issuance of 157,238 shares of common stock.

(C) Equipment Line of Credit

On July 2, 1998, ATG entered into an equipment line of credit with a bank. Under the equipment line of credit, ATG could have borrowed up to $200,000 for capital expenditures. During 1998, ATG borrowed $199,915, all of which was outstanding as of December 31, 1998. Borrowings bore interest at the bank's prime rate (7.75% at December 31, 1998) plus 1.25%. In July 1999, ATG repaid all outstanding amounts under the line of credit.

In April 1999, ATG entered into an additional equipment line of credit with the same bank. Under the equipment line of credit, ATG may borrow up to $200,000 for capital expenditure purchases. Borrowings bear interest at the bank's prime rate (7.75% at December 31, 1998) plus 0.75%. Interest accrues and is payable monthly. Principal is due in 30 monthly installments following a six month interest only period. As of September 30, 1999, there were no amounts outstanding under the equipment line of credit.

(5) Income Taxes

No provision for federal or state income taxes has been recorded, as ATG incurred net operating losses for all periods presented. As of December 31, 1998, ATG had net operating loss carryforwards of approximately $8,870,000 available to reduce future federal and state income taxes, if any. ATG also has available federal tax credit carryforwards of approximately $235,000. If not utilized, these carryforwards expire at various dates beginning 2011, if not utilized. If substantial changes in ATG's ownership should occur, as defined by Section 382 of the Internal Revenue Code (the Code), there

Art Technology Group, Inc.

Notes to Consolidated Financial Statements (Continued)

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(5) INCOME TAXES (CONTINUED) could be annual limitations on the amount of carryforwards which can be realized in future periods. ATG has completed several financings since its inception and has incurred ownership changes as defined under the Code. ATG does not believe that these changes in ownership will have a material impact on its ability to use its net operating loss and tax credit carryforwards.

Net deferred tax assets consist of the following:

December 31, 1997 1998

Net operating loss carryforwards	$2,082,000	$3,548,000
Nondeductible expenses and reserves	808,000	1,647,000
Tax credits	154,000	235,000
	3,044,000	5,430,000
Valuation allowance	(3,044,000)	(5,430,000)
	$ --	$ --

Due to ATG's history of operating losses, there is uncertainty surrounding ATG's ability to utilize its net operating loss and tax credit carryforwards. Accordingly, ATG has provided a full valuation allowance against its otherwise recognizable deferred tax asset as of December 31, 1997 and 1998.

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

December 31, 1996 1997 1998

Income tax provision at federal statutory rate	(34.0)%	(34.0)%	(34.0)%
Increase (decrease) in tax resulting from--			
State tax provision, net of federal benefit	(6.0)	(6.0)	(6.0)
Increase in valuation allowance	40.0	40.0	40.0
Effective tax rate	--%	--%	--%

(6) Preferred Stock

As of December 31, 1998, ATG's Board of Directors had authorized 10,000,000 shares of preferred stock and has designated 1,300,000, 851,064, 2,000,000 and 2,343,750 shares as Series A convertible preferred stock (Series A Preferred Stock), Series B redeemable convertible preferred stock (Series B Preferred Stock), Series C convertible preferred stock (Series C Preferred Stock) and Series D

redeemable convertible preferred stock (Series D Preferred Stock), respectively. On July 26, 1999, in conjunction with ATG's initial public offering, all shares of preferred stock were converted into common stock. As of September 30, 1999, there were no outstanding shares of preferred stock. ATG's

(6) PREFERRED STOCK (CONTINUED) Series A, Series B, Series C and Series D Preferred Stock were issued and converted into common stock as follows:

STOCK DESCRIPTION	DATE	NUMBER OF SHARES	PRICE PER SHARE	GROSS PROCEEDS	COMMON STOCK EQUIVALENTS
Series A	July 1995	1,300,000	$0.385	$ 500,500	1,950,000
Series B	December 1996	425,532	7.05	3,000,000	1,642,953
Series C	November and December 1997, April 1998	1,456,789	1.62	2,360,000	4,437,568
Series D	August, September and October 1998	2,343,750	3.20	7,500,000	7,800,368

The rights, preferences and privileges of Series A, Series B, Series C and Series D Preferred Stock were as follows:

Redemption

The Series B Preferred Stock was subject to mandatory redemption provisions that required ATG to redeem 25%, on December 31, 2001 increasing by 25% annually thereafter, at $7.05 per share (subject to certain dilutive effects, as defined), plus any dividends accrued but unpaid thereon.

Dividends and Special Payments

The holders of the Series A, Series B and Series C Preferred Stock were entitled to receive dividends of $0.1925, $0.3525 and $0.08 per share per annum (subject to appropriate adjustment, as defined), payable when and as declared by the Board of Directors. Series B Preferred Stock and Series C Preferred Stock dividends accrued and were cumulative from the date of issuance of each share, whether or not declared. As of September 30, 1999, ATG had not declared any dividends.

The holders of the Series D Preferred Stock, generally were not entitled to receive a dividend, except under certain events, including the payment of dividends on another series of preferred stock, as defined.

Upon the closing of the initial public offering, the holders of the Series D Preferred Stock were entitled to receive in cash, their pro rata share of an amount equal to $2,411,000 multiplied by 1.33 multiplied by the percentage aggregate ownership expressed as a decimal of the holders of Series D Preferred Stock of ATG's capital stock on a fully-diluted and as converted basis at the time of the relevant event (Series D Special Payment). The Series D Shareholders were only eligible for the Series D Special Payment if the Series B Preferred Stock warrants were exercised.

If there were funds left over after the Series D Special Payment, the holders of the Series C Preferred Stock were entitled to receive in cash, their pro rata share, of an amount equal to $2,411,000 plus the Series D Special Payment multiplied by 1.33 multiplied by the percentage aggregate ownership expressed as a decimal of the holders of Series D Preferred Stock of the Company's capital stock on a fully diluted and as converted basis at the time of the relevant event. If there were not enough funds to satisfy the entire dividend, then the holders of Series C Preferred Stock were to share ratably in the remaining funds (Series C Special Payment). The Series C Shareholders were only eligible for the Special Payment if the Series B Preferred Stock warrants were exercised and the Series D Special Payment was made in full.

(6) Preferred Stock (Continued)

If there were funds left over after the payment of the initial Series D and Series C Special Payments, the holders of the Series D Preferred Stock were entitled to receive in cash, their pro rata share, an amount equal to the Series C Special Payment multiplied by 1.33 multiplied by the percentage aggregate ownership expressed as a decimal of the holders of Series D Preferred Stock of ATG's capital stock on a fully-diluted and as converted basis at the time of the relevant event (Second Series D Special Payment). If there were not enough funds to satisfy the Second Series D Special Payment, then the holders of Series D Preferred Stock would share ratably in the remaining funds. The Series D Preferred Stockholders were only eligible to receive the Second Series D Special Payment if the Series B Preferred Stock warrants were exercised and the Series D and Series C Special Payments had occurred.

In conjunction with ATG's initial public offering, the Series D Special Payment, the Series C Special Payment and the Second Series D Special Payment were canceled in exchange for the issuance of 121,250 shares of common stock which was valued at approximately $1,819,000 and recorded as a dividend.

Liquidation Preference

In certain events, including liquidation, dissolution or winding up of ATG, the holders of Series A, Series B, Series C and Series D Preferred Stock had a preference in liquidation of $0.3852, $7.05, $1.62 and $3.20 per share (subject to appropriate adjustment, as defined), plus any dividends accrued but unpaid thereon.

Voting Rights

Each holder of outstanding shares of Series A, Series B, Series C and Series D Preferred Stock was entitled to the number of votes equal to the number of whole shares of common stock, into which the shares of Series A, Series B, Series C and Series D Preferred Stock held by such holder are then convertible.

Conversion

Each share of Series A, Series B, Series C and Series D Preferred Stock was convertible at any time at the option of the holder into 1.5 shares, 1.98 shares, 3 shares and 1.5 shares of common stock, respectively, adjustable for diluting events, as defined. In addition, if ATG failed to meet certain operating criteria, including cumulative total revenues, product revenues and earnings before interest and taxes for the seven quarters ended December 31, 1999, then the conversion ratio would have increased for the holders of Series D Preferred Stock.

The conversion ratio for the Series B, Series C and Series D Preferred Stock was adjusted in conjunction with ATG's initial public offering to reflect (1) the cancellation of the Series C and D special payments, (2) the cancellation of the warrants to purchase Series B Preferred Stock and common stock discussed below and (3) the impact of ATG not meeting the criteria specified in the Series D Preferred Stock agreement. The conversion ratio in effect at the time of ATG's initial public offering was 3.86, 3.05 and 3.33 shares of common stock for each share of Series B, C and D Preferred

(6) PREFERRED STOCK (CONTINUED) Stock, respectively. In July 1999, in connection with ATG's initial public offering, all shares of prefered stock were converted into 15,709,639 shares of common stock.

Warrants

In conjunction with the issuance of the Series B Redeemable Preferred Stock in December 1996, ATG issued to a holder of Series B Preferred Stock a performance-based warrant to purchase up to 425,532 shares of Series B Preferred Stock at $7.05 per share. The performance criteria was based upon sales generated by ATG from the affiliates of the Series B Stockholder. ATG generated negligible revenues from the affiliates of the Series B stockholder, therefore, the warrant was not measured or recorded. As a condition for obtaining the Series B Stockholder's approval of the terms of the Series D Preferred Stock financing, the warrant was canceled and ATG granted to the Series B Preferred Stockholder, a new warrant to purchase 425,532 shares of ATG's Series B Preferred Stock at a purchase price of $1.385 per share, which was immediately exercisable and fully vested. The warrant was to expire on the earlier of (1) the closing of a public offering of ATG's common stock, as defined, at a price of at least $10 per share resulting in gross proceeds to ATG of at least $10 million, (2) the closing of a liquidation, merger, sale of all or substantially all assets of ATG or other similar event, as defined, or (3) August 18, 2003. ATG has valued this warrant at $1,053,245, using the Black-Scholes option pricing model and the following assumptions: a fair market value of $3.20 per share, a risk free interest rate of 5.0%, an expected volatility of 70%, an expected life of five years, and an expected dividend yield of zero. ATG has recorded the value of the warrant in the accompanying statement of stockholders' equity (deficit) and as a component of dividends on preferred stock in computing net loss per share.

In addition, in connection with the issuance of the Series D Preferred Stock, ATG issued to the holders of Series D Preferred Stock, warrants to purchase up to 2,146,325 shares of ATG's common stock at $0.11 per share, adjusted for certain dilutive events, as defined. The warrants were to vest 5% per quarter beginning on September 30, 1998 and expire August 18, 2003. ATG valued these warrants using the Black-Scholes option pricing model and the following assumptions: a fair market value of $3.20 per share, a risk free interest rate of 4.74%, an expected volatility of 70%, an expected life of five years, and an expected dividend yield of zero. ATG allocated the consideration received from the sale of the Series D preferred stock of $7,500,000 between the Series D preferred stock and warrants on the basis of the fair value of the individual component at the date of issuance and determined that the warrants were valued at $2,775,000. These warrants were recorded as a discount to the Series D

Preferred Stock and were amortized over the redemption period in computing net loss per share. For the year ended December 31, 1998 and the nine months ended September 30, 1999, ATG amortized $284,266 and $2,490,734, respectively. The amortization for the nine months ended September 30, 1999 included the accelerated amortization in connection with the conversion of the Series D Preferred Stock in connection with the initial public offering.

In conjunction with ATG's initial public offering, the warrants to purchase Series B Preferred Stock and common stock were canceled and the number of shares of common stock issuable upon conversion of the Series B and D Preferred Stock were increased to reflect the shares which would have been received upon exercise of the warrants based upon the initial public offering price.

(7) Stockholder's Equity (Deficit)

(A) Recapitalization

On May 10, 1999, ATG's Board of Directors approved a 3-for-2 stock split of ATG's common stock. The stock split was effective on June 18, 1999. All share and per share amounts of common stock for all periods have been retroactively adjusted to reflect the stock split. In addition, upon the closing of ATG's initial public offering in July 1999, its certificate of incorporation was amended and restated to, among other things, change its authorized capital stock to 100,000,000 shares of $0.01 par value common stock and 10,000,000 shares of $0.01 par value preferred stock.

(B) Stock Plans

1996 Stock Option Plan

In April 1996, the 1996 Stock Option Plan (the 1996 Plan) was approved by ATG's Board of Directors and stockholders. The purpose of the 1996 Plan is to reward employees, officers and directors, and consultants and advisors to ATG who are expected to contribute to the growth and success of ATG. The 1996 Plan provides for the award of options to purchase shares of ATG's common stock. Stock options granted under the 1996 Plan may be either incentive stock options or nonqualified stock options.

The 1996 Plan is administered by the Board of Directors, which has the authority to designate participants, determine the number and type of options to be granted, the time at which options are exercisable, the method of payment and any other terms or conditions of the options. Options generally vest annually over a two- to four-year period and expire 10 years from the date of grant.

While the Board determines the prices at which options may be exercised under the 1996 Plan, the exercise price of an incentive stock option shall be at least 100% (110% for incentive stock options granted to a 10% stockholder) of the fair market value of ATG's common stock on the date of grant. A total of 6,300,000 shares of common stock have been reserved for options to be granted under the 1996 Plan. As of December 31, 1998 and September 30, 1999, there are 3,082,488 and 1,478,117 shares, respectively, available for future grant.

1999 Outside Director Stock Option Plan

The 1999 Outside Director Stock Option Plan (Director Plan) was adopted by ATG's Board of Directors and approved by stockholders in May 1999. Under the terms of the Director Plan, directors who are not employees of ATG receive nonqualified options to purchase shares of common stock. A total of 150,000 shares of common stock have been reserved under the Director Plan.

Under the terms of the Director Plan, each currently active non-employee director received an option to purchase 5,000 shares of common stock on the effective date of the Company's initial public offering at the public offering price. Individuals who become directors after the initial public offering and are not employees of ATG will receive an option to purchase 5,000 shares of our common stock on the date of initial election to ATG's Board of Directors. In addition, each non-employee director will receive an option to purchase 2,500 shares of common stock on the date of each annual meeting of stockholders commencing in the year 2000 at an exercise price per share equal to the closing price of

(7) STOCKHOLDER'S EQUITY (DEFICIT) (CONTINUED) ATG's common stock on the date of grant. All options granted under the Director Plan will be fully vested upon grant.

1999 Employee Stock Purchase Plan

The 1999 Employee Stock Purchase Plan (the Stock Purchase Plan) was adopted by ATG's Board of Directors and approved by stockholders in May 1999. The Stock Purchase Plan authorizes the issuance of up to a total of 500,000 shares of ATG's common stock to participating employees. All ATG's employees, including directors who are employees, are eligible to participate in the Stock Purchase Plan. Employees who would immediately after the grant own 5% or more of the total combined voting power or value of our stock are not eligible to participate. During each designated semiannual offering period, each eligible employee may deduct between 1% to 10% of base pay to purchase common stock of ATG. The purchase price will be 85% of the closing market price of ATG's common stock on either (1) the first business day of the offering period or (2) the last business day of the offering period, whichever is lower.

ATG will account for the Stock Purchase Plan in accordance with APB No. 25 and accordingly, no compensation cost will be recognized under the Stock Purchase Plan. ATG will elect the "disclosure only" alternative under SFAS No. 123.

Additionally, in May 1999, ATG granted 75,000 options outside ATG's stock option plans to an executive of ATG.

(7) STOCKHOLDER'S EQUITY (DEFICIT) (CONTINUED) The following table summarizes option activity under the Stock Option Plans:

	NUMBER OF SHARES	EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 1995	--	$ --	$ --
Granted	1,101,150	.13--.50	.23
Exercised	(750)	.13	.13
Canceled	(5,250)	.13	.13
Outstanding, December 31, 1996	1,095,150	.13--.50	.17
Granted	1,261,500	.50	.50
Exercised	(55,950)	.13--.50	.19
Canceled	(160,518)	.13--.50	.23
Outstanding, December 31, 1997	2,140,182	.13--.50	.36
Granted	1,636,154	.50	.50
Exercised	(221,355)	.13--.50	.33
Canceled	(615,524)	.13--.50	.44
Outstanding, December 31, 1998	2,939,457	.13--.50	.43
Granted	1,905,418	2.00--26.81	8.82

Exercised	(830,931)		.13--8.00	.51
Canceled	(76,723)		.17--10.00	1.02
Outstanding, September 30, 1999	3,937,221	$	.13--26.81	$4.46
Exercisable, September 30, 1999	1,019,684	$	.13--12.00	$1.96

The following table summarizes information relating to currently outstanding and exercisable options as of September 30, 1999:

	OUTSTANDING			EXERCISABLE	
		WEIGHTED AVERAGE			
		REMAINING			
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$ .13--.17	356,217	6.8	$ 0.15	292,701	$ .15
.50	1,707,213	8.6	0.50	507,711	.50
2.00--2.67	397,366	9.4	2.33	55,862	2.25
3.33--4.00	99,975	9.5	3.52	10,915	3.55
8.00--12.00	1,254,100	9.7	9.66	152,495	10.05
26.81	122,350	10.0	26.81	--	--
$ .13--26.81	3,937,221	8.9	$ 4.46	1,019,684	$ 1.96

In the years ended December 31, 1996, 1997 and 1998, ATG granted 142,500, 228,000 and 15,000 nonqualified stock options exercisable at $0.13, $0.50 and $0.50 per share, respectively, which are fully

(7) STOCKHOLDER'S EQUITY (DEFICIT) (CONTINUED) vested, to consultants as payment for services performed. ATG recorded expense for the years ended December 31, 1996, 1997 and 1998 related to these grants of $210,200, $60,000 and $4,210, respectively. ATG valued the 1996 and 1997 options issued in exchange for services based upon the fair value of the services received. The services were more readily measurable as ATG had entered into similar transactions in exchange for cash consideration. ATG valued the 1998 options issued in exchange for services based upon the Black-Scholes option pricing model and the following assumptions: a fair market value of $1.62; risk free interest at 4.74%; an expected volatility factor of 70%; an expected life of four years; and an expected dividend yield of zero. The options expire ten years from the date of grant.

In connection with certain stock option grants during the year ended December 31, 1998 and the nine months ended September 30, 1999, ATG recorded deferred compensation of approximately $1,799,000 and $3,063,000, respectively, which represents the aggregate difference between the exercise price and the fair market value of the common stock as determined for accounting purposes. The deferred compensation will be recognized as an expense over the vesting period of the underlying stock options. ATG recorded compensation expense of $106,542 and $822,996 in the year ended December 31, 1998 and the nine months ended September 30, 1999, respectively, related to these options.

ATG has computed the pro forma disclosures required under SFAS No. 123 for options granted during the years ended December 31, 1996, 1997 and 1998 using the Black-Scholes option pricing model prescribed by SFAS No. 123, using the following assumptions:

Years Ended December 31, 1996 1997 1998

Risk-free interest rate	7.00%	7.00%	5.00%
Expected dividend yield	--	--	--
Expected lives	4 years	4 years	4 years
Expected volatility	70%	70%	70%
Weighted average fair value of options granted	$.13	$.18	$.14
Weighted average remaining contractual life of options outstanding	9.54 years	9.21 years	8.40 years

Had compensation expense for ATG's stock option plan been determined consistent with SFAS No. 123, the pro forma net loss available for common stockholders and pro forma net loss per share would have been as follows:

Years Ended December 31, 1996 1997 1998

Net loss available for common stockholders--			
As reported	$(1,648,100)	$(4,441,932)	$(4,444,535)
Pro forma	(1,684,305)	(4,578,226)	(4,745,661)
Basic and diluted net loss per share--			
As reported	$ (0.19)	$ (0.50)	$ (0.50)
Pro forma	(0.19)	(0.52)	(0.53)

Art Technology Group, Inc.

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(Including Data Applicable to Unaudited Periods)

(8) Commitments and Contingencies

(A) Leases

In March 1999, ATG entered into a new facility lease for its corporate headquarters which expires in February 2006. Upon occupancy of the new facility, ATG has issued the lessor a letter of credit in the amount of $1,500,000 as a security deposit. The approximate future minimum payments under this new facility lease, existing facility leases and certain equipment operating leases as of December 31, 1998 are as follows:

Operating Leases

Years ending December 31,--	
1999	$ 1,833,000
2000	2,913,000
2001	2,208,000
2002	2,251,000
2003	2,250,000
Thereafter	5,935,000
Total future minimum lease payments	$17,390,000

Rent expense included in the accompanying statements of operations was approximately $265,000, $781,000 and $810,000 for the years ended December 31, 1996, 1997 and 1998 and $588,000 and $1,197,000 for the nine months ended September 30, 1998 and 1999, respectively.

(B) Litigation

A patent infringement claim was filed by BroadVision, one of ATG's competitors, against ATG on December 11, 1998. The case was filed in the U.S. District Court for the Northern District of California. BroadVision alleges that ATG is infringing on their patent for a method of conducting e-commerce. BroadVision is seeking a permanent injunction of the sale of ATG's Dynamo products in their current forms as well as unspecified damages. ATG intends to vigorously oppose BroadVision's allegations and has filed a counterclaim against BroadVision on February 4, 1999 seeking a judgment that ATG is not infringing their patent and that the patent in question is in fact unenforceable and invalid.

(9) Employee Benefit Plan

Effective January 1, 1997, ATG adopted the Art Technology Group 401(k) Plan (the 401(k) Plan). All employees, as defined, are eligible to participate in the 401(k) Plan. The 401(k) Plan allows eligible employees to make salary-deferred contributions of up to 15% of their annual compensation, as defined, subject to certain Internal Revenue Service limitations. ATG may contribute to the 401(k) Plan at its discretion. No discretionary employer contributions were made to the Plan for the years ended December 31, 1997 and 1998 or the nine months ended September 30, 1998 and 1999.

(10) Accrued Expenses

Accrued expenses at December 31, 1997 and 1998 and September 30, 1999 consisted of the following:

	DECEMBER 31,		SEPTEMBER 30,
	1997	1998	1999
Payroll and related costs	$212,959	$ 600,467	$1,878,863
Accrued accounts payable	124,849	292,540	1,167,961
Other	55,476	327,094	192,907
	$393,284	$1,220,101	$3,239,731

(11) Valuation and Qualifying Accounts

The following is a rollforward of ATG's allowance for doubtful accounts:

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	DEDUCTIONS	BALANCE AT END OF PERIOD
Year Ended December 31, 1996	$ --	$ --	$ --	$ --
Year Ended December 31, 1997	$ --	$ 21,305	$ --	$ 21,305
Year Ended December 31, 1998	$ 21,305	$265,287	$(36,592)	$250,000
Nine months ended September 30, 1999	$250,000	$210,000	$ --	$460,000

The inside back cover shows a diagram of our product distribution channels. Arrows from the Dynamo suite of products point to system integrators and Web developers, OEM and technology partners and direct sales force. Arrows from these channels point down to customers. Arrows depicting our services point back up from these channels to the Dynamo suite of products. Text to the right of the diagram

reads: ""ATG uses its Innovation and Express Services to provide market and technology insight to drive new product development. ATG has three primary distribution channels: direct sales, systems integrators and Web Developers and sales associated with OEMs and technology partners.

The bottom of this page has three customer Web site screen shots.

4,500,000 Shares

[Logo]

Common Stock

Prospectus

Hambrecht & Quist

U.s. Bancorp Piper Jaffray

Thomas Weisel Partners Llc

DAIN RAUSCHER WESSELS a division of Dain Rauscher Incorporated , 1999 YOU SHOULD RELY ONLY ON INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK.

NO ACTION IS BEING TAKEN IN ANY JURISDICTION OUTSIDE THE UNITED STATES TO PERMIT A PUBLIC OFFERING OF OUR COMMON STOCK OR POSSESSION OR DISTRIBUTION OF THIS PROSPECTUS IN THAT JURISDICTION. PERSONS WHO COME INTO POSSESSION OF THIS PROSPECTUS IN JURISDICTIONS OUTSIDE THE UNITED STATES ARE REQUIRED TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY RESTRICTIONS AS TO THIS OFFERING AND THE DISTRIBUTION OF THIS PROSPECTUS APPLICABLE TO THAT JURISDICTION.

Part Ii Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses, all of which will be borne by the Registrant, in connection with the sale and distribution of the securities being registered, other than the underwriting discounts. All amounts shown are estimates except for the Securities and Exchange Commission registration fee and the NASD filing fee.

SEC registration fee	$ 56,381
NASD filing fee	20,781
Nasdaq National Market listing fee	17,500
Blue Sky fees and expenses	5,000
Transfer Agent and Registrar fees	5,000
Accounting fees and expenses	75,000
Legal fees and expenses	150,000
Printing and mailing expenses	95,000
Miscellaneous	75,338
Total	$500,000

Item 14. Indemnification of Directors and Officers

Article Eighth of the Registrant's Amended and Restated Certificate of Incorporation provides that no director of the Registrant shall be personally liable for any monetary damages for any breach of fiduciary duty as a director, except to the extent that the Delaware General Corporation Law prohibits the elimination or limitation of liability of directors for breach of fiduciary duty.

Article Ninth of the Registrant's Amended and Restated Certificate of Incorporation provides that a director or officer of the Registrant (a) shall be indemnified by the Registrant against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred in connection with any litigation or other legal proceeding (other than an action by or in the right of the Registrant) brought against him by virtue of his position as a director or officer of the Registrant if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful and (b) shall be indemnified by the Registrant against all expenses (including attorneys' fees) and amounts paid in settlement incurred in connection with any action by or in the right of the Registrant brought against him by virtue of his position as a director or officer of the Registrant if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Registrant, except that no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the Registrant, unless a court determines that, despite such adjudication but in view of all of the circumstances, he is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that a director or officer has been successful, on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, he is required to be indemnified by the Registrant against all expenses

(including attorneys' fees) incurred in connection therewith. Expenses shall be advanced to a director or officer at his request, provided that he undertakes to repay the amount advanced if it is ultimately determined that he is not entitled to indemnification for such expenses.

Indemnification is required to be made unless the Registrant determines that the applicable standard of conduct required for indemnification has not been met. In the event of a determination by the Registrant that the director or officer did not meet the applicable standard of conduct required for indemnification, or if the Registrant fails to make an indemnification payment within 60 days after such payment is claimed by such person, such person is permitted to petition the court to make an independent determination as to whether such person is entitled to indemnification. As a condition precedent to the right of indemnification, the director or officer must give the Registrant notice of the action for which indemnity is sought and the Registrant has the right to participate in such action or assume the defense thereof.

Article Ninth of the Registrant's Amended and Restated Certificate of Incorporation further provides that the indemnification provided therein is not exclusive, and provides that in the event that the Delaware General Corporation Law is amended to expand the indemnification permitted to directors or officers the Registrant must indemnify those persons to the fullest extent permitted by such law as so amended.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

Under Section 7 of the Underwriting Agreement, the underwriters are obligated, under circumstances, to indemnify directors and officers of the Registrant against liabilities, including liabilities under the Securities Act. Reference is made to the form of Underwriting Agreement filed as Exhibit 1 hereto.

Item 15. Recent Sales of Unregistered Securities

In the three fiscal years preceding the filing of this registration statement, the company has issued the following securities that were not registered under the Securities Act:

(a) Issuances of Capital Stock In December 1996, we issued 425,532 shares of Series B Preferred Stock to SOFTBANK Ventures Inc. for an aggregate purchase price of $3,000,000 and a warrant to purchase 425,532 shares of Series B Preferred Stock at a purchase price of $7.05 per share. In August 1998, as a

condition to obtaining the Series B preferred stockholders' approval of the Series D preferred stock financing, the warrant was cancelled and a new warrant issued for 425,532 shares of Series B preferred stock at an exercise price of $1.385 per share.

In November 1997, we issued a warrant to Silicon Valley Bank to acquire 46,296 shares of Series C Preferred Stock at an exercise price of $1.62 per share. In March 1998, we issued another warrant to Silicon Valley Bank to acquire 10,000 shares of Series C Preferred Stock at an exercise price of $0.01 per share.

In November and December 1997 and April 1998, we issued an aggregate of 1,456,789 shares of Series C Preferred Stock to fourteen private investors for $1.62 per share.

In August, September and October 1998, we issued an aggregate of 2,343,750 shares of Series D Preferred Stock to six private investors for $3.20 per share.

In connection with the sale of Series D Preferred Stock, the investors were also issued warrants which vest over five years to purchase shares of common stock at an exercise price of $0.11 per share.

(b) Grants and Exercises of Stock Options As of September 30, 1999, there were outstanding options to purchase an aggregate of 3,937,221 shares of common stock under the 1996 Stock Option Plan, at a weighted average exercise price of $4.46 per share. From April 1996 to September 30, 1999, the registrant issued 1,108,996 shares of common stock for an aggregate purchase price of $498,389 pursuant to exercise of options.

No underwriters were involved in the foregoing sales of securities. Such sales were made in reliance upon an exemption from the registration provisions of the Securities Act set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering or the rules and regulations thereunder, or, in the case of options to purchase common stock, Rule 701 under the Securities Act. All foregoing securities are deemed restricted securities for the purpose of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules

(A) Exhibits

Exhibit No. Description

1	Form of Underwriting Agreement.
3.1*	Amended and Restated Certificate of Incorporation of the Registrant.
3.2*	Amended and Restated By-Laws of the Registrant.
4*	Specimen certificate for shares of Common Stock, $.01 par value per share, of the Registrant.
5	Opinion of Hale and Dorr LLP.
10.1*	1996 Stock Option Plan, as amended.
10.2*	1999 Outside Director Stock Option Plan.
10.3*	1999 Employee Stock Purchase Plan.
10.4*	Lease between the Registrant and DVPT Limited Partnership,

	dated March 11, 1999.
10.5*	Loan and Security Agreement between the Registrant and Silicon Valley Bank, dated November 26, 1997, as amended on March 31, 1998 and July 2, 1998.
10.6*	Intellectual Property Security Agreement between the Registrant and Silcon Valley Bank, dated November 26, 1997.
10.7+*	OEM Agreement, as amended, between the Registrant and Informix Software, Inc., dated December 31, 1998.
10.8+*	Software License Agreement between the Registrant and Sun Microsystems, Inc., dated March 27, 1998.
10.9*	Registration Rights Agreement, dated August 18, 1998.
10.10*	Non-Compete Agreement between the Registrant and Jeet Singh, dated August 18, 1998.
10.11*	Non-Compete Agreement between the Registrant and Joseph Chung, dated August 18, 1998.
10.12*	Consulting Agreement between the Registrant and Thomas N. Matlack, dated November 12, 1997.
10.13*	Fourth Loan Modification Agreement between the Registrant and Silicon Valley Bank, dated May 12, 1999.
23.1	Independent Auditor's Consent.
23.2	Consent of Hale and Dorr LLP (included in Exhibit 5).

Exhibit No. Description

24 Power of Attorney (included on page II-5).

* Incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-78333).

+ Confidential materials omitted and filed separately with the Commission.

Item 17. Undertakings

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

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

The undersigned Registrant hereby undertakes that:

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

Signature

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Boston, Massachusetts, on this 22nd day of October 1999.

Art Technology Group, Inc.

BY: /S/ JEET SINGH Jeet Singh PRESIDENT AND CHIEF EXECUTIVE OFFICER

Power of Attorney and Signatures

We, the undersigned officers and directors of Art Technology Group, Inc., hereby severally constitute and appoint Jeet Singh, Ann C. Brady, Linda Handman and David A. Westenberg, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Registration Statement on Form S-1 filed herewith and any and all pre-effective and post-effective amendments to said Registration Statement, and any subsequent Registration Statement for the same offering which may be filed under Rule 462(b), and generally to do all such things in our names and on our behalf in our capacities as officers and directors to enable Art Technology Group, Inc. to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Registration Statement and any and all amendments thereto or to any subsequent Registration Statement for the same offering which may be filed under Rule 462(b).

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature Title Date

/s/ JEET SINGH Jeet Singh	President and Chief Executive Officer (Principal Executive Officer)	October 22, 1999
/s/ JOSEPH T. CHUNG Joseph T. Chung	Chief Technology Officer and Chairman of the Board	October 22, 1999
/s/ ANN C. BRADY Ann C. Brady	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	October 22, 1999

Director October 22, 1999 /s/ ROBERT P. FORLENZA Robert P. Forlenza Director October 22, 1999 /s/ SCOTT A. JONES Scott A. Jones Director October 22, 1999 /s/ JEFFREY T. NEWTON Jeffrey T. Newton Director October 22, 1999 /s/ THOMAS N. MATLACK Thomas N. Matlack

Exhibit Index

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3.1* Certificate of Incorporation of the Registrant, as currently in effect.

3.2* Certificate of Amendment to Certificate of Incorporation of the Registrant.

3.3* Form of Amended and Restated Certificate of Incorporation of the Registrant to be filed on or immediately subsequent to the date of the closing of the Offering contemplated by this Registration Statement.

3.4* Amended and Restated By-Laws of the Registrant.

4* Specimen certificate for shares of Common Stock, $.01 par value per share, of the Registrant.

5 Opinion of Hale and Dorr LLP.

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