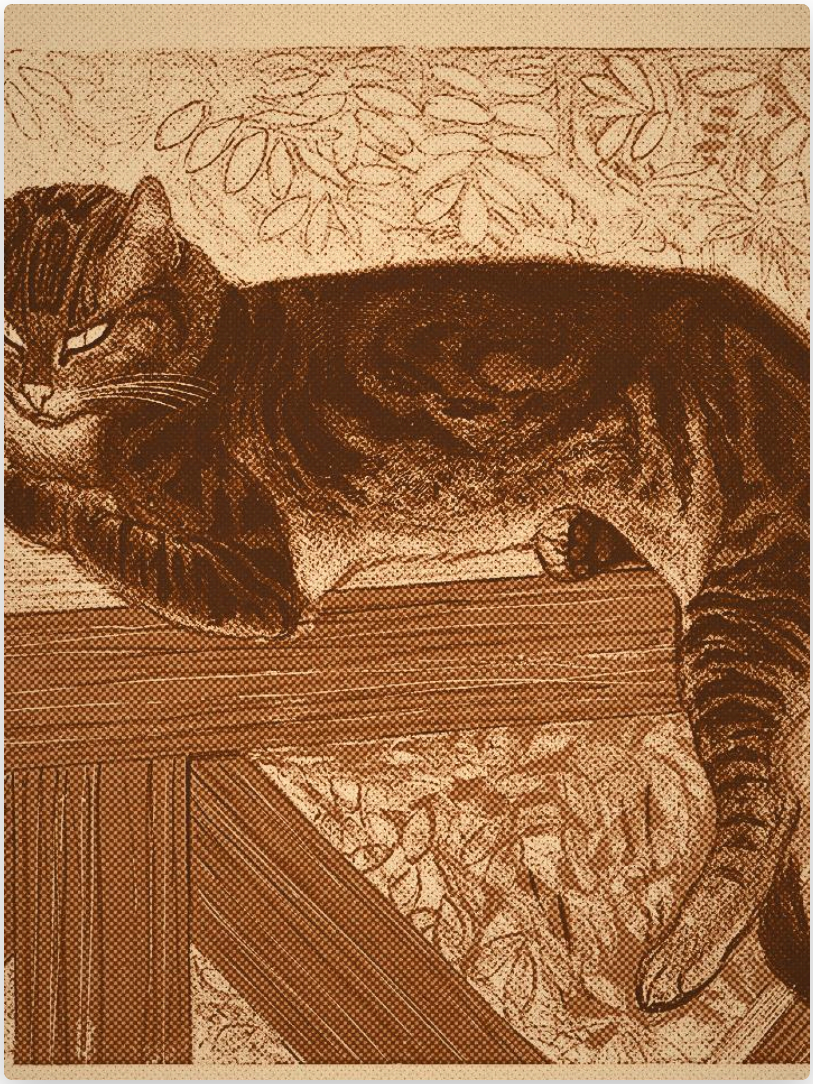
FORM S-1 · REGISTRATION STATEMENT

Calico Commerce Inc

IPO priced 1999-10-06 · $14.00 a share · CLIC



From S1 Directory · www.s1directory.com/s1/calico-commerce-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1081154/0000891618-99-003154.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 15, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549

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

DELAWARE	7372	77-0373344
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Number)	(I.R.S. Employer Identification No.)

RIVERPARK TOWERS 333 WEST SAN CARLOS STREET, SUITE 300 SAN JOSE, CALIFORNIA 95110 (408) 975-7400 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) MR. ALAN P. NAUMANN PRESIDENT AND CHIEF EXECUTIVE OFFICER CALICO COMMERCE, INC. 333 WEST SAN CARLOS STREET, SUITE 300 SAN JOSE, CALIFORNIA 95110 (408) 975-7400 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

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

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE BEING OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION 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 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, CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(1)(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE
Common Stock ($0.001 par value).....	$	$57,500,000	$15,985

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

(2) THE NUMBER OF SHARES BEING REGISTERED HEREBY IS OMITTED PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT. ESTIMATED SOLELY FOR THE PURPOSES OF DETERMINING THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT.

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 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION. DATED JULY , 1999.

SHARES

CALICO COMMERCE, INC.

COMMON STOCK [CALICO LOGO] THIS IS AN INITIAL PUBLIC OFFERING OF SHARES OF COMMON STOCK OF CALICO COMMERCE, INC. ALL OF THE SHARES OF COMMON STOCK ARE BEING SOLD BY CALICO.

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. IT IS CURRENTLY ESTIMATED THAT THE INITIAL PUBLIC OFFERING PRICE PER SHARE WILL BE BETWEEN $ AND $. APPLICATION HAS BEEN MADE FOR QUOTATION OF THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "CLIC".

SEE "RISK FACTORS" BEGINNING ON PAGE 5 TO READ ABOUT CERTAIN FACTORS YOU SHOULD CONSIDER BEFORE BUYING SHARES OF THE COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY 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.

	PER SHARE	TOTAL
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Calico	$	$

TO THE EXTENT THAT THE UNDERWRITERS SELL MORE THAN SHARES OF COMMON STOCK, THE UNDERWRITERS HAVE THE OPTION TO PURCHASE UP TO AN ADDITIONAL SHARES FROM CALICO AT THE INITIAL PUBLIC OFFERING PRICE LESS THE UNDERWRITING DISCOUNT.

THE UNDERWRITERS EXPECT TO DELIVER THE SHARES AGAINST PAYMENT IN NEW YORK, NEW YORK ON , 1999.

GOLDMAN, SACHS & CO. MERRILL LYNCH & CO. HAMBRECHT & QUIST PROSPECTUS DATED , 1999.

Prospectus Summary

You should read the following summary together with the more detailed information regarding Calico and the consolidated financial statements and notes appearing elsewhere in this prospectus. Except as set forth in the consolidated financial statements or as otherwise specified in this prospectus, all information in this prospectus:

- - assumes no exercise of the underwriters' over-allotment option;

- - gives effect to the conversion of each outstanding share of preferred stock into one share of common stock upon the completion of this offering; and - - reflects our reincorporation into Delaware prior to the consummation of this offering.

Calico Commerce, Inc.

We are a leading provider of advanced eCommerce software and services. Our products are designed to allow companies to create long-term strategic differentiation by redefining how they interact with their customers. Our advanced eCommerce solution, the Calico eSales Suite, enables the interactive buying and selling of complex products and services over the Internet and other platforms. Our products enable companies to create a guided selling experience that allows their customers to interactively affect the on-line purchasing process. This enables companies to build strong customer relationships that can result in increased revenue and reduced sales costs.

The Internet has created a new means for businesses to reach and interact directly with new and existing customers worldwide, thereby transforming the traditional ways companies market, sell and support their product and service offerings. The Internet allows for enhanced interactivity, greater personalization and the ability to offer a broad array of complex, configurable goods and services, all at the time of purchase. Forrester Research, Inc. estimates that the total value of U.S. business trade on the Internet will grow to approximately $1.3 trillion in 2003. In order to capitalize on this opportunity, companies are adopting more sophisticated approaches to eCommerce and are increasing their investment in eCommerce infrastructure. Forrester Research estimates that the U.S. market for eCommerce-enabling software solutions is expected to grow from $235 million in 1998 to $3.8 billion in 2002.

The Calico eSales Suite can be deployed at the point of sale over the Internet and other platforms to improve selling effectiveness and customer satisfaction. Our software is designed to facilitate the selling process by dynamically assessing customer requirements, providing tailored information, identifying constraints, proposing alternatives and delivering quotes. Our solutions enable companies to provide highly tailored products and services, to cross sell and upsell additional products and services and to reduce the time to market of new products and services. In addition, our solutions are designed to improve sales effectiveness and order accuracy, thereby enhancing operating efficiency and reducing costs.

Our objective is to be the leading provider of advanced eCommerce solutions to customers worldwide. The key elements of our strategy are to:

- - increase the breadth and depth of our eCommerce solutions;

- - align with eCommerce leaders and expand into additional vertical markets;

- - leverage partnerships;

- - extend our technology leadership; and - - identify and capitalize on new eCommerce-based opportunities.

Our advanced eCommerce solutions are broadly applicable to a wide range of industries and markets. Our current customers include a number of companies that have adopted aggressive eCommerce business strategies, such as Best Buy, Cisco Systems, Dell Computer, Gateway, Merrill Lynch, Nortel

Networks, Qwest Communications International, Siemens Business Communication Systems, Telia, and US West Business Resources.

We were incorporated in California in 1994 and will reincorporate in Delaware prior to the consummation of this offering. Our principal executive offices are located at 333 West San Carlos Street, Suite 300, San Jose, California 95110 and our telephone number is (408) 975-7400. Our worldwide website is at www.calico.com. The information contained on our website does not constitute a part of this prospectus.

The Offering

Common Stock offered by Calico.....	shares
Common Stock to be outstanding after this offering.....	shares
Proposed Nasdaq National Market symbol.....	"CLIC"
Use of proceeds.....	General corporate purposes, including working capital, sales and marketing activities, product development and support and capital expenditures. See "Use of Proceeds".

The above information is based on 18,080,115 shares outstanding as of June 30, 1999. Of this number, 1,535,044 shares are subject to a repurchase option held by Calico. This information does not include 3,528,823 shares of common stock issuable upon the exercise of options outstanding under our 1997 and 1995 Stock Option Plans, 20,979 shares of common stock issuable upon exercise and conversion of preferred stock options, and 88,833 shares of common stock issuable upon exercise and conversion of preferred stock warrants. See "Capitalization", "Management -- Executive Compensation", and "-- Benefit Plans".

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

Year Ended March 31, 1996 1997 1998 1999

CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Total net revenue.....	$ 2,270	$ 5,903	$11,859	$ 21,413
Gross profit.....	1,830	3,603	8,479	12,962
Loss from operations.....	(2,070)	(6,921)	(5,458)	(15,238)
Net loss.....	(1,970)	(6,900)	(5,499)	(15,261)
Net loss per share:				
Basic and diluted.....	$ (1.03)	$ (3.19)	$ (1.62)	$ (3.41)
Weighted average shares.....	1,904	2,165	3,386	4,473
Pro forma net loss per share:				
Basic and diluted.....				$ (1.11)
Weighted average shares.....				13,793

MARCH 31, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED

CONSOLIDATED BALANCE SHEET DATA:			
Cash and cash equivalents	$ 15,441	$15,441	
Working capital	10,187	10,187	
Total assets	31,368	31,368	
Debt and capital leases, long-term portion	877	877	877
Total Mandatorily Redeemable Convertible Preferred Stock	32,535	--	--
Total stockholders' equity (deficit)	(16,780)	15,755	

Consolidated statement of operations data for the year ended March 31, 1999 includes the results of operations of FirstFloor Software subsequent to our acquisition of FirstFloor in August 1998. Shares used in computing unaudited pro forma basic and diluted net loss per share include the shares used in computing basic and diluted net loss per share adjusted for the conversion of preferred stock to common stock, as if the conversion occurred on April 1, 1998 or the date of original issuance, if later. The pro forma as adjusted information above reflects the application of the estimated net proceeds from the sale of the shares of common stock that we are offering at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and our estimated offering expenses. See "Capitalization".

Risk Factors

You should carefully consider the risks described below, together with all of the other information included in this prospectus, before deciding whether to invest in our common stock.

If any of the following risks actually occurs, our business could be harmed. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

It Is Difficult to Evaluate Our Business Because We Have a Limited Operating History

We were incorporated in 1994 and, accordingly, we have a limited operating history. The revenue and income potential of our market are unproven. You should consider the risks and uncertainties frequently encountered by early stage companies like ours in new and rapidly evolving markets. These risks and uncertainties include the following:

- - we depend on a limited number of products and have sold our products and services to a small number of customers;

- - we must continue to develop new products and product enhancements;

- - we must continue to expand our direct sales force and enter into new strategic partnerships to expand our sales efforts and deployment capacity;

- - we have limited experience deploying large-scale projects; and - - we must continue to develop our direct and indirect distribution channels, both in the United States and abroad.

As a result of our limited operating history, we have limited insight into trends that may emerge and affect our business and we cannot forecast operating expenses based on our historical results. If we are not able to successfully address these risks, our business could be harmed.

We Expect to Continue to Incur Losses

We have incurred quarterly and annual losses since we were formed, and we expect to continue to incur losses on both a quarterly and annual basis for the foreseeable future. We incurred net losses of $6.9 million for fiscal 1997, $5.5 million for fiscal 1998, and $15.3 million for fiscal 1999. As of March 31, 1999, we had an accumulated deficit of $29.7 million. Moreover, we expect to continue to incur significant sales and marketing and research and development expenses, and, as a result, we will need to generate significant revenue to achieve and maintain profitability. Although our revenue has grown in recent quarters, we cannot be certain that we can sustain this growth or that we will generate sufficient revenue for profitability. If we do achieve profitability, we cannot be certain that we can sustain or increase profitability on a quarterly or annual basis in the future. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Our Quarterly Results Fluctuate Significantly and May Fall Short of Anticipated Levels

Our quarterly operating results have varied significantly in the past and we expect that they will vary significantly from quarter to quarter in the future. These quarterly variations are caused by a number of factors, including:

- - variations in demand for our products;

- - delays in customer orders;

- - timing of product deployments and achievement of milestones, particularly for large orders;

- - delays in recognition of revenue in accordance with applicable accounting principles;

- - the timing and mix of our license and services orders;

- - our ability to attract and train qualified sales personnel;

- - changes in the development of the eCommerce market;

- - our ability to develop, introduce, ship and support new and enhanced products that respond to changing technology trends in a timely manner and our ability to manage product transitions;

- - the amount and timing of increases in expenses including significant unexpected expenses for product development;

- - costs and complications relating to acquisitions and integration of new technologies or businesses;

- - our ability to expand our international operations;

- - the utilization rate of our services personnel; and - - possible purchasing delays by customers as they divert resources to address year 2000 issues.

License revenue in any quarter can be difficult to forecast because we have a long sales cycle that makes it difficult to predict the quarter in which sales will occur. License revenue can also be strongly impacted by revenue recognition policies which may require deferral of recognition of revenue from large orders due to delivery milestones or other factors. We receive a major portion of our orders near the end of each quarter. Therefore, we have difficulty predicting the volume and timing of orders, and short delays in closing orders or implementation of products can cause our operating results to fall substantially short of anticipated levels for that quarter.

A high percentage of our operating expenses are essentially fixed in the short term. In addition, we expect our operating expenses to increase as we expand our sales and marketing activities, broaden our customer support capabilities, develop new distribution channels and strategic partnerships, and fund increased levels of research and development. If our revenue does not increase along with these expenses, we could experience significant variations in our operating results from quarter to quarter and could incur substantial quarterly operating losses.

Although we have limited historical financial data, we believe that we may experience seasonal fluctuations in our quarterly operating results. For example, our quarterly results may fluctuate based upon our customers' calendar year budgeting cycles.

As a result of these and other factors, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and are not a good predictor of our future performance. In some future quarter our operating results may be below the expectations of public market analysts and investors, which could cause volatility or decline in the price of our common stock.

OUR PRODUCTS HAVE A LONG SALES AND IMPLEMENTATION CYCLE WHICH MAKES IT DIFFICULT TO PREDICT OUR QUARTERLY RESULTS The sales cycle for our products has typically ranged from three months to a year. Our products have a relatively high sales price per unit, and often are part of a significant strategic decision by our customers regarding their information systems infrastructure. Accordingly, the decision to purchase our products typically requires significant pre-purchase evaluation. We spend significant time educating and providing information to prospective customers regarding the use and benefits of our products. During this evaluation period, we may expend substantial funds in sales, marketing and management efforts.

Consequently, the lengthy sales cycle for our products makes it difficult to predict the quarter in which revenue recognition may occur and may cause license revenue and operating results to vary significantly from period to period. If anticipated sales from a specific customer for a particular quarter are not realized in that quarter, we may miss our revenue forecast and our business may be harmed.

Even after purchase, it often takes substantial time and resources to implement our software and to integrate it with our customers' existing systems. We may not be able to recognize all or a portion of the revenue until the deployment of the software is completed or implementation milestones are achieved.

Because of revenue recognition accounting requirements, we have in the past and may in the future be required to defer recognition of license revenue for software products from the period in which the agreement for the license of software is signed to subsequent periods. If we are unable to complete one or more substantial anticipated license sales or experience delays in the progress on a project or product or in the satisfaction of contract terms required for revenue recognition in a particular quarter, our business could be harmed.

Loss or Delays of Customer Orders May Adversely Affect Our Operating Results

We derive a significant portion of our software license revenue in each quarter from a limited number of customers. For example, for the fiscal year ended March 31, 1999, four customers accounted for 52% of our revenue and ten customers accounted for 81% of our revenue. Many of our contracts are in excess of $1.0 million. We expect that a limited number of customers will continue to account for a substantial portion of our revenue for the foreseeable future. As a result, if we lose a major customer, if a contract is delayed, cancelled or deferred or if an anticipated sale is not made, our revenue would be adversely affected. In addition, we cannot be certain that customers that have accounted for significant revenue in the past will continue to generate revenue in any future period.

OUR BUSINESS DEPENDS ON A NEW VERSION OF THE CALICO ESALES SUITE AND THE SUCCESSFUL DEVELOPMENT OF NEW PRODUCTS We currently derive substantially all of our revenue from licenses, professional services and support related to sales of the Calico eSales Configurator and, to a lesser extent, sales of the Calico eSales InfoGuide (previously called Calico eSales Catalog) and the Calico eSales Workbench.

The latest version of the Calico eSales Suite was introduced in June 1999. Our business depends on the success of this introduction and customer acceptance of this new version. The latest version of our suite of products includes substantial additional functions and features. Although our products have been subject to our internal testing procedures, the new version of the Calico eSales Suite has only recently been introduced, and customers may discover errors or other problems with the product, which may adversely affect its acceptance.

We expect that we will continue to depend on revenue from new and enhanced versions of the Calico eSales Configurator for the foreseeable future, and our business could be harmed if our target customers do not continue to adopt and expand their use of the Calico eSales Configurator as well as other products in the Calico eSales Suite.

Our future financial performance also depends on the successful and timely development, introduction and market acceptance of additional new and enhanced products that address customer requirements. The introduction and market acceptance of enhancements to the Calico eSales Suite and new products may cause certain customers to defer orders for our existing products. If we fail to achieve and maintain meaningful levels of market acceptance of our existing and new products, our business could be harmed.

We May Experience Difficulties in Introducing New Products and Upgrades

We expect to add new products by acquisition or internal development and by developing enhancements to our existing products. We have in the past experienced delays in the planned release dates of our software products and upgrades. New products may not be released on schedule or may contain defects when released. The introduction of enhancements to our suite of products may cause customers to defer orders for our existing products. New and enhanced products may not meet the requirements of the marketplace and achieve market acceptance. Our business could be harmed if we are unable to ship or implement new or enhanced products when planned, or fail to achieve timely market acceptance of our new or enhanced products.

OUR FUTURE SUCCESS DEPENDS ON THE ABILITY OF OUR PRODUCTS TO SCALE TO OPERATE IN AN ENTERPRISE-WIDE ENVIRONMENT Our strategy requires that our software be highly scalable, or able to accommodate substantial increases in the number of users concurrently using the product. However, we are just beginning to deploy large-scale Internet-based solutions and no large-scale deployment has been operating at any customer site for an extended period of time. In addition, the interface component of the Calico eSales Configurator is powered by Microsoft Active Server Pages and therefore operates only on Windows NT. We intend to develop user interface components to allow our customers to use either a Unix-based or Windows NT-based Web server. If we are unable to promptly or successfully develop the Unix version, the scalability of our Calico eSales Configurator may be adversely impacted for certain customer applications due to the scalability limitations of Windows NT. If our solutions do not perform adequately in large-scale implementations, our business would be harmed.

WE SELL OUR PRODUCTS AND SERVICES IN A LIMITED NUMBER OF MARKETS AND MAY NOT SUCCESSFULLY PENETRATE NEW MARKETS Sales of our products and services in two markets -- computer hardware and network and telecommunications equipment -- accounted for over 80% of our total net revenue in the fiscal year ended March 31, 1999. We expect that revenue from these two markets will continue to account for a substantial portion of our total net revenue in fiscal 2000. We are targeting expansion in additional vertical markets where advanced eCommerce solutions are highly strategic and promote competitive advantage, including manufacturing, retail, telecommunications services and financial services. If we are unable to successfully increase penetration of our existing markets or expand in these additional markets, or if the overall economic climate of our target markets deteriorates, our business could be harmed.

We Rely Significantly on and Need to Expand Our Direct Sales Organization

Our future growth depends on the ability of our direct sales force to develop customer relationships and increase sales to a level that will allow us to reach and maintain profitability. Our ability to increase our sales will depend on our ability to recruit, train and retain top quality sales people who are able to target prospective customers' senior management, and who can productively generate and service large accounts.

There is a shortage of the sales personnel we need, and competition for qualified personnel is intense. In addition, it will take time for new sales personnel to achieve full productivity. If we are unable to hire or retain qualified sales personnel, or if newly hired personnel fail to develop the necessary skills or to reach productivity when anticipated, our business could be harmed.

WE NEED TO EXPAND OUR PROFESSIONAL SERVICES ORGANIZATION AND ESTABLISH AND MAINTAIN RELATIONSHIPS WITH THIRD PARTY CONSULTANTS TO PROVIDE PROFESSIONAL SERVICES TO OUR CUSTOMERS Growth in the license of our products depends on our ability to provide our customers with professional services to assist with design, implementation and maintenance of our advanced eCommerce solutions. We plan to increase the number of our services personnel. We also plan to increasingly rely on third-party consultants to provide professional services. If we are unable to get the support of third-party consultants to provide these services or if third parties do not provide these services effectively or in a cost-efficient manner, our business could be harmed. Likewise, if these third-party consultants decide to develop their own products or support the products of our competitors rather than our products, our business could be harmed. In addition, if we have to retain third party consultants to provide services for our customers for which we have previously committed, the resulting increased costs could have an adverse impact on the gross margins for our professional services.

As third parties are increasingly used for providing professional services, our services revenue will likely not grow at the same rate as the growth of our license revenue. Services revenue tends to be somewhat more predictable than license revenue. As services revenue declines as a percentage of total net revenue, our total net revenue could become less predictable.

Year 2000 Considerations Among Our Customers and Potential Customers May Reduce Our Sales

We may experience reduced license of products as customers and potential customers put a priority on correcting year 2000 problems and therefore defer purchase decisions for software products until later in 2000. Accordingly, demand for our products may be particularly volatile and unpredictable for the remainder of calendar 1999 and 2000.

We Depend on Services Revenue

Services revenue represented 33% of total net revenue for fiscal 1997, 41% of total net revenue for fiscal 1998 and 51% of total net revenue for fiscal 1999. We anticipate that services revenue will continue to represent a significant percentage of total net revenue. To increase services revenue, we must expand our services organization, successfully recruit and train a sufficient number of qualified services personnel, and obtain renewals of current maintenance contracts by our customers.

We expect our services revenue to increase in absolute dollars as we continue to provide consulting and training services that complement our products and as our installed base of customers grows. However, services revenue could decline as a percentage of total revenue as we expect that customers will increasingly utilize third-party service providers to install and service our products.

Although services revenue is important to our business, services revenue has lower gross margins than license revenue. As a result, a continued increase in the percentage of total net revenue represented by services revenue or an unexpected decrease in license revenue could have a detrimental impact on our overall gross margins and our operating results.

We Need to Establish and Maintain Relationships with Key Partners and Systems Integrators

Our strategy is to increase geographic sales coverage worldwide, address new vertical markets and customer segments and provide our customers with additional implementation alternatives. To do this, we must complement our direct sales force and professional services organization with strategic partnerships and alliances. Until recently, few potential partner organizations have focused on the emerging class of packaged eCommerce applications and we have only established a limited number of such key partnerships and alliances. If we fail to maintain our existing relationships and to establish new relationships with key partners, or if our partners do not perform to our or our customers' expectations, our business could be harmed.

COMPETITION IN THE MARKET FOR ADVANCED ECOMMERCE PRODUCTS AND SERVICES COULD REDUCE OUR SALES AND PREVENT US FROM ACHIEVING PROFITABILITY The market for software and services that enable advanced eCommerce is new, intensely competitive, highly fragmented, and rapidly changing. We expect competition to persist and intensify, which could result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm our business. Our primary competition currently comes from companies developing solutions in-house and from a large number of emerging companies focused on eCommerce. We also compete with vendors of enterprise class application software, including BroadVision, Siebel Systems, Oracle, SAP, Baan and Microsoft. Within our Calico eSales Configurator product line our competitors include Trilogy, pcOrder.com, Selectica and FirePond.

Many of our competitors and potential competitors have a number of significant advantages over us, including:

- - a longer operating history;

- - preferred vendor status with our customers;

- - more extensive name recognition and marketing power; and - - significantly greater financial, technical, marketing and other resources, giving them the ability to respond more quickly to new or changing opportunities, technologies and customer requirements.

We also expect that competition will increase as a result of software industry consolidation. For example, a number of enterprise software companies have announced acquisitions of point solution providers to expand their product lines. Our competitors may also bundle their products in a manner that may discourage users from purchasing our products. Current and potential competitors may establish cooperative relationships with each other or with third parties, or adopt aggressive pricing policies to gain market share. In addition, new competitors could emerge and rapidly capture market share.

Competitive pressures may make it difficult for us to acquire and retain customers and may require us to reduce the prices of our products and services. We may not be able to compete successfully against current or future competitors. If we fail to compete successfully, our business could be harmed.

Continued Rapid Growth May Strain Our Operations

We have recently experienced a period of rapid growth and expansion. All members of our management team, other than our Vice President, Research and Development have joined Calico since June 1997. Our Vice President, Engineering joined Calico in January 1999, and our Vice President and Chief Financial Officer joined Calico in June 1999. From September 30, 1997 to June 30, 1999, we expanded from 85 to 210 employees. Our new employees include a number of key managerial, marketing, planning, technical and operations personnel who have not yet been fully integrated into our organization.

We intend to continue to expand our operations internationally and domestically, grow our customer base and pursue market opportunities through multiple growth strategies. Our rapid growth and expansion places significant demands on our managerial, administrative, operational, financial and other resources. To accommodate continued anticipated growth and expansion, we will be required to:

- - improve existing and implement new operational and financial systems, procedures and controls;

- - hire, train, manage, retain and motivate qualified personnel;

- - enter into relationships with strategic partners; and - - integrate our new management team.

These measures may place a significant burden on our management and our internal resources. If we are not able to install adequate control systems in an efficient and timely manner, if our current or planned personnel systems, procedures and controls are not adequate to support our future operations, or if we are unable to otherwise manage growth effectively, our business could be harmed.

In addition, we are searching for new office space because the current lease on our principal facility expires on August 31, 1999. Although we believe that suitable office space will be available, if we are unable to identify suitable space or if a change in location of our principal offices is unexpectedly disruptive, time-consuming or costly, our business could be harmed.

THE MARKET FOR OUR ADVANCED ECOMMERCE PRODUCTS AND SERVICES IS NEW AND EVOLVING AND CUSTOMERS MAY NOT ACCEPT OUR PRODUCTS The market for our products and services is at an early stage of development and is rapidly evolving. We cannot be certain that this market will continue to develop and grow, or that companies will elect to utilize our products and services rather than attempt to develop applications internally or through other sources. Enterprises that have already invested substantial resources in other methods of conducting commerce may be reluctant to adopt a new approach that may replace, limit or compete with their existing systems. We expect that we will continue to need intensive marketing and sales efforts to educate prospective customers about the uses and benefits of our products and services. Therefore, demand for and market acceptance of our products and services will be subject to a high level of uncertainty.

To Compete, We Must Introduce Products That Respond Effectively to Changing Technology

The market for software and services that enable advanced eCommerce is characterized by rapid technological change, changes in customer requirements, frequent new product and service introductions and enhancements, and emerging industry standards. Advances in Internet technology or in applications software directed at eCommerce, or the development of entirely new technologies to replace existing software, could lead to new competitive products that have better performance or lower prices than our products and could render our products obsolete and unmarketable. In addition, if a new software language or operating system becomes standard or is widely adopted in our industry, we may need to rewrite portions of our products in another computer language or for another operating system to remain competitive. If we are unable to develop products that respond to changing technology, our business could be harmed.

It is common for software companies to acquire other companies as a means of introducing new products or emerging technologies. If a new technology or product emerges that may displace our product lines, competitors with large market capitalizations or cash reserves would be better positioned than we are to acquire such new technology or product.

We Depend on Key Personnel and Must Attract and Retain Additional Qualified Personnel

Our success depends largely on the continued contributions of our key management, engineering, sales and marketing and professional services personnel, many of whom would be difficult to replace. Our success also depends on our ability to attract and retain additional qualified engineering, sales and

marketing and professional services personnel. Competition for these types of personnel is intense, especially in Silicon Valley. If we are unable to retain our existing key personnel, or attract and train additional qualified personnel, our business could be harmed.

In addition, companies in the software industry whose employees accept positions with competitors frequently claim that such competitors have breached noncompetition agreements. Although no claims have been made against us to date, we may receive claims in the future as we hire qualified personnel, and if a claim were to be made against us, it could result in material litigation. We could incur substantial costs in defending ourselves against any of these claims, regardless of the merits of these claims.

Acquisitions and New Ventures May Present Risks to Our Business

As part of our business strategy, we have in the past and may in the future make acquisitions of, or investments in companies, products or technologies that complement our current products, augment our market coverage, enhance our technical capabilities or that may otherwise offer growth opportunities. For example, in 1998 we acquired one of our OEM partners, FirstFloor Software. Acquisitions create risks for us, including:

- - difficulties in the assimilation of acquired personnel, operations, technologies or products;

- - unanticipated costs associated with the acquisition;

- - diversion of management's attention from other business concerns;

- - adverse effects on existing business relationships with suppliers and customers;

- - risks of entering markets where we have no or limited prior experience; and - - use of substantial portions of our available cash to consummate the acquisition.

These risks and difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future, and our failure to do so could harm our business.

In addition, in connection with any future acquisitions, we could:

- - issue equity securities which would dilute current stockholders' percentage ownership;

- - incur substantial debt; or - - assume significant liabilities.

These actions by us could materially adversely affect our operating results and/or the price of our common stock.

We also intend to pursue relationships with and foster development of emerging eCommerce-based businesses at an early stage of their development. We may pursue these new ventures by acquisition, joint venture, or other alternative investment. We cannot be certain that these new ventures will be successful, or that we will generate any revenue from these new ventures. In addition to the risks posed by traditional acquisitions, these new ventures may have no proven record of success, and may fail, causing us to lose our investment, and may divert management time and resources.

We Depend on Technology Licensed to Us by Third Parties

We license technology from several software providers for use with our products. We anticipate that we will continue to license technology from third parties in the future. This software may not continue to be available on commercially reasonable terms, if at all. Some of the software we license from third parties would be difficult to replace. The loss of any of these technology licenses could result in delays in the license of our products until equivalent technology, if available, is identified, licensed and integrated. In addition, the effective implementation of our products depends upon the successful operation of third-party licensed products in conjunction with our products, and therefore any undetected errors in these licensed products could prevent the implementation or impair the functionality of our products, delay new product introductions and/or injure our reputation. The use of third-party software would require us to enter into license agreements with third parties, which could result in higher royalty payments and a loss of product differentiation.

SOFTWARE DEFECTS COULD DIMINISH DEMAND FOR OUR PRODUCTS AND COULD RESULT IN PRODUCT LIABILITY CLAIMS AGAINST US Complex software products like ours may contain undetected errors or defects, including year 2000 related errors, that may be detected at any point in the life of the product. We have in the past discovered software errors in our products and as a result have experienced delays in shipment of products during the period required to correct these errors. We have only recently introduced the latest version of the Calico eSales Suite. Errors may be found from time to time in our new or enhanced products after commencement of commercial shipments, such as this latest version of our suite, resulting in loss of revenue, delay in market acceptance and sales, diversion of development resources, injury to our reputation or increased warranty and repair costs.

Our products are generally used in systems with other vendors' products, and as a result our products must integrate successfully with these existing systems. System errors, whether caused by our products or those of another vendor, could adversely affect the market acceptance of our products, and any necessary revisions could cause us to incur significant expenses.

Product Liability Litigation Could Harm Our Business

Since our products are used for mission critical applications such as eCommerce, errors, defects or other performance problems could result in financial or other damages to our customers. Although our license agreements generally contain provisions designed to limit our exposure to product liability

claims, existing or future laws or unfavorable judicial decisions could negate such limitation of liability provisions. Product liability litigation, even if it were unsuccessful, would be time consuming and costly to defend and could harm our business.

OUR FAILURE AND THE FAILURE OF OUR KEY SUPPLIERS AND CUSTOMERS TO BE YEAR 2000 COMPLIANT COULD NEGATIVELY IMPACT OUR BUSINESS The year 2000 issue creates risks for us in four principal areas:

- - potential warranty or other claims from our customers;

- - systems we use to run our business;

- - systems used by our suppliers; and - - the possibility that our potential customers will reduce spending on advanced eCommerce products such as ours as a result of significant spending on year 2000 remediation.

Our products are generally integrated into computer systems involving sophisticated hardware and complex software products, which may not be year 2000 compliant. The failure of our customers' systems to be year 2000 compliant could impede the success of applications that we or our partners have developed for them. Accordingly, known or unknown defects that affect the operation of our software, including any defects or errors in applications that include our products, could result in delay or loss of revenue, diversion of development resources, damage to our reputation, or increased service or warranty costs and litigation costs, any of which could harm our business.

We need to ensure year 2000 compliance of our own internal computer and other systems, to continue testing our software products and to audit the year 2000 compliance status of our suppliers and business partners. We have not completed our year 2000 investigation and overall compliance initiative, and the total cost of our year 2000 compliance may be substantial and may harm our business. We may experience material unanticipated problems and costs caused by undetected errors or defects in the technology used in our internal systems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Compliance."

We Have Limited Protection of Our Intellectual Property

Our success and ability to compete depend upon our proprietary technology. Despite our efforts to protect our intellectual property, a third party could copy or otherwise obtain our software or other proprietary information without authorization, or could develop software competitive to ours. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around our patents or other intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States, and we expect that it will become more difficult to monitor the use of our products if we increase our international presence.

We may have to litigate to enforce our intellectual property rights, to protect our trade secrets or know-how or to determine their scope, validity or enforceability. Enforcing or defending our proprietary technology is expensive, could cause the diversion of our resources and may not prove successful. Our protective measures may prove inadequate to protect our proprietary rights. Any failure to enforce or protect our rights could cause us to lose a valuable asset and could harm our business.

We May Be Subject to Intellectual Property Infringement Claims

There has been substantial litigation in the software and Internet industries regarding intellectual property rights. It is possible that, in the future, third parties may claim that we or our current or potential future products infringe their intellectual property. We expect that software product developers and providers of eCommerce solutions will increasingly be subject to infringement claims as the number of products and competitors in our industry grows and the functionality of products overlaps. Any claims, with or without merit, could be costly and time-consuming to defend, divert our management's attention, cause product delays, and otherwise harm our business. If our products were found to infringe a third party's proprietary rights, we could be required to enter into royalty or licensing agreements in order to be able to sell our products. Royalty and licensing agreements, if required, may not be available on terms acceptable to us or at all.

If Use of the Internet Does Not Grow, Our Business Would Be Harmed

Growth in sales of our products and services depends upon the continued and increased use of the Internet as a medium for commerce and communication. Although the Internet is experiencing growth in the number of users and traffic, such rapid growth is a recent phenomenon and may not continue. In addition, the Internet infrastructure may not be able to support the demands placed on it by increased usage and bandwidth requirements. Other risks associated with commercial use of the Internet could slow its growth, including:

- - inadequate security of information distributed over the Internet, resulting in privacy concerns;

- - inadequate reliability of the network infrastructure;

- - slow development of enabling technologies and complementary products; and - - limited accessibility and ability to deliver quality service.

In addition, the recent growth in the use of the Internet has caused frequent periods of poor or slow performance, requiring components of the Internet infrastructure to be upgraded. Delays in the development or adoption of new equipment and standards or 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. If the Internet infrastructure does not develop sufficiently to address these concerns, our business could be harmed.

Increasing Government Regulation of the Internet Could Harm Our Business

As eCommerce and the Internet continue to evolve, we expect that federal, state and foreign governments will adopt laws and regulations covering issues such as user privacy, taxation of goods and services provided over the Internet, pricing, content and quality of products and services. If enacted, these laws and regulations could limit the market for eCommerce, and therefore the market for our products and services. Although many of these regulations may not apply directly to our business, we expect that laws regulating the solicitation, collection or processing of personal or 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 Telecommunications Act violation are currently unsettled. The imposition upon us and other software and service providers of potential liability for information carried on or disseminated through our applications could require us to implement measures to reduce our exposure to this liability. These measures could require us to expend substantial resources or discontinue certain services. In addition, although substantial portions of the Communications Decency Act (the Act through which the Telecommunications Act of 1996 imposes criminal penalties) were held to be unconstitutional, similar legislation may be enacted and upheld in the future. It is possible that this legislation could expose companies involved in eCommerce to liability, which could limit the growth of eCommerce generally. Legislation like the Telecommunications Act and the Communications Decency Act could dampen the growth of Internet usage and decrease its acceptance as a communications and commercial medium.

Our software utilizes encryption technology, the export of which is regulated by the United States government. If our export authority is revoked or modified, if our software is unlawfully exported or if the United States adopts new legislation restricting export of software and encryption technology, our business could be harmed. Current or future export regulations could limit our ability to distribute our products outside of the United States. While we take precautions against unlawful exportation of our software, we cannot effectively control the unauthorized distribution of software across the Internet.

Changes in Accounting Standards Could Affect Our Future Operating Results

Statement of Position 97-2, "Software Revenue Recognition", was issued in October 1997 by the American Institute of Certified Public Accountants and amended by Statement of Position 98-4. We adopted Statement of Position 97-2 effective April 1998 and we believe our current revenue

recognition policies and practices are consistent with Statement of Position 97-2 and Statement of Position 98-4. The American Institute of Certified Public Accountants has also issued Statement of Position 98-9 which is effective for us for transactions entered into after March 31, 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Additionally, agencies responsible for interpreting and setting accounting standards, including the SEC and the Financial Accounting Standards Board, are reviewing the accounting standards related to business combinations and stock-based compensation. Any changes to either of these standards or any other accounting standards could adversely affect our results of operations.

We Face Risks from Expansion of Our International Operations

In order to increase our international sales opportunities, we will need to develop further our international sales, professional services and support organizations, and we will need to form additional relationships with partners worldwide. If we are unable to expand our international operations and international sales on a timely basis, our business could be harmed. This expansion may be more difficult or take longer than we anticipate, and we may not be able to successfully market, sell, deliver and support our products internationally.

If successful in our international expansion, we will be subject to a number of risks associated with international operations, including:

- - longer accounts receivable collection cycles;

- - expenses associated with localizing products for foreign markets;

- - difficulties in managing operations across disparate geographic areas;

- - difficulties in hiring qualified personnel;

- - difficulties associated with enforcing agreements and collecting receivables through foreign legal systems;

- - changes in a specific country's or region's political or economic conditions;

- - trade protection measures that favor local competition;

- - import or export licensing requirements;

- - potential adverse tax consequences;

- - unexpected changes in regulatory requirements; and - - reduced or limited protection of intellectual property rights.

Our international sales are currently U.S. dollar-denominated. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. In the future, we may elect to invoice some of our international customers in local currencies.

Doing so will subject us to fluctuations in exchange rates between the U.S. dollar and the particular local currency. Our operating results could also be adversely affected by the seasonality of international sales and the economic conditions of our overseas markets.

Remediation of Problems Related to the Euro May Involve Significant Time and Expense

On January 1, 1999, the Euro became a functional legal currency of certain European countries that have agreed to fix their respective currencies to one currency as part of a planned European economic and monetary union. During the next three years, business in member countries will be conducted in both the existing national currency and the Euro. As a result, companies operating in or conducting business in member countries will need to ensure that their financial and other software systems are capable of processing transactions and properly handling these currencies, including the Euro.

We are still assessing the impact that conversion to the Euro will have on the products that we sell. We plan to take appropriate corrective actions based upon the results of such assessment. We have not yet determined the cost related to addressing this issue. This issue and its related costs could harm our business.

We Have Discretion as to the Use of the Proceeds from This Offering

Our management has complete discretion as to how to spend the proceeds from this offering and may spend these proceeds in ways with which our stockholders may not agree. We cannot predict that investment of the proceeds will yield a favorable return. See "Use of Proceeds".

Our Directors and Executive Officers Will Retain Significant Control Over Calico

Following the completion of this offering, our directors, executive officers, and holders of 5% or more of our outstanding common stock will beneficially own approximately % of our outstanding common stock. These stockholders, acting together, would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and significant corporate transactions, such as mergers or other business combination transactions. This control may have the effect of delaying or preventing a third party from acquiring or merging with us. See "Principal Stockholders".

Our Charter Documents and Delaware Law May Inhibit a Takeover or Change in Control

Provisions in our Certificate of Incorporation and Bylaws may have the effect of delaying or preventing a merger or acquisition of us or a change in our control or changes in our management. These provisions include, among others:

- - the division of the board of directors into three separate classes with staggered three-year terms;

- - the right of the board of directors to elect a new director to fill a vacancy created by the expansion of the board of directors;

- - the ability of the board of directors to alter our Bylaws;

- - the authorization of the issuance of "blank check" preferred stock;

- - the prohibition of cumulative voting in the election of directors;

- - the prohibition of stockholder action by written consent; and - - the establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Furthermore, because we are incorporated in Delaware, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions would prohibit certain large stockholders, in particular those owning 15% or more of our outstanding voting stock, from consummating a merger or combination with us, unless either two-thirds of the shares of voting stock not owned by this large stockholder approve the merger or combination, or the board of directors approves the merger or combination, or the transaction which resulted in the large stockholder owning 15% or more of our outstanding voting stock. These requirements could have the effect of delaying or preventing a third party from acquiring us. See "Description of Capital Stock".

OUR STOCK PRICE MAY BE VOLATILE WHICH MAY LEAD TO LOSSES BY INVESTORS AND RESULT IN SECURITIES LITIGATION There has been no public market for our shares prior to this offering, and after the offering, an active public market for the shares may not develop. We will negotiate and determine the initial public offering price with the representatives of the underwriters based on several factors. This price will likely vary from the market price of the common stock after the offering. You may not be able to resell your shares at or above the initial public offering price due to a number of factors, including:

- - actual or anticipated fluctuations in our operating results;

- - changes in expectations as to our future financial performance, changes in financial estimates of securities analysts, or our failure to meet expectations or financial estimates;

- - announcements of technological innovations; and - - the operating and stock price performance of other comparable companies.

In addition, the stock market in general, and the securities of Internet and software companies in particular, have experienced volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of our actual operating performance.

In the past, securities class action litigation has often been instigated against a company following periods of volatility in the company's stock price. If this were to happen to Calico, litigation would be expensive and would divert management's attention. See "Underwriting".

Future Sales of Our Stock Could Cause Our Stock Price to Fall

Sales of a substantial number of shares of our common stock in the public market after this offering could cause the market price of our common stock to decline. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional equity securities. Upon completion of this offering, we will have approximately shares of common stock outstanding, approximately if the underwriters' over-allotment option is exercised in full, based on shares outstanding as of March 31, 1999.

Our officers and directors and substantially all of our existing stockholders have agreed with Goldman, Sachs & Co. not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this offering. When these lock-up agreements expire, these shares and the shares underlying any options held by these individuals will become eligible for sale, in some cases subject only to the volume, manner of sale and notice requirements of Rule 144 of the Securities Act of 1933. See "Shares Eligible for Future Sale".

The Purchasers of Shares in the Offering Will Experience Immediate Dilution

We expect that the initial public offering price will be substantially higher than the pro forma net tangible book value per share of our outstanding common stock. Accordingly, if you purchase shares in this offering, you will experience immediate and substantial dilution of approximately $ in net tangible book value per share, or approximately % of the assumed offering price of $ per share. In contrast, our existing stockholders paid an average price of $ per share. If other stockholders exercise options or warrants to purchase our common stock, you will experience further dilution. See "Dilution".

We Do Not Intend to Pay Dividends

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings for funding growth and therefore do not anticipate paying any dividends in the foreseeable future. See "Dividend Policy".

Special Note Regarding Forward-looking Statements

Some of the information in this prospectus contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates" and similar expressions. Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of reasons, including those discussed under "Risk Factors" and elsewhere in this prospectus.

You should read statements that contain those words carefully because they discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other "forward-looking" information. Before you invest in our common stock, you should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this prospectus could substantially harm our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common stock could decline and you could lose all or part of your investment.

Use of Proceeds

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      We estimate that we will receive net proceeds of $     million from the
sale of the                shares of common stock in this offering, assuming an
initial public offering price of $     per share and after deducting estimated
underwriting discounts and commissions and estimated offering expenses of $
million. If the underwriters' over-allotment option is exercised in full, we
estimate that our net proceeds will be $     million.
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We intend to use the net proceeds of the offering primarily for general corporate purposes, including working capital, sales and marketing activities, product development and support and capital expenditures. In connection with our proposed move or expansion of our headquarters facility, we expect that we may expend up to $3.0 million or more of the offering proceeds. We may, if appropriate opportunities arise, use an undetermined portion of the net proceeds to acquire or invest in complementary companies, product lines, products or technologies. We do not have any agreements or commitments with respect to any acquisition or investment and we are not involved in any negotiations with respect to any transaction. Pending such uses, we will invest the net proceeds in investment grade, interest-bearing securities.

Dividend Policy

We have never paid cash dividends. We do not anticipate paying cash dividends in the forseeable future. Under the terms of our line of credit facilities, we may not declare or pay any dividends without the prior consent of the lenders under each of the credit facilities.

Capitalization

The following table sets forth our capitalization as of March 31, 1999:

- - on an actual basis;

- - on a pro forma basis to reflect the conversion of all outstanding shares of preferred stock into 10,416,715 shares of common stock; and

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- -   on a pro forma as adjusted basis to reflect this conversion and the
    application of the estimated net proceeds from the sale of      shares of
    common stock in this offering, after deducting the estimated underwriting
    discounts and commissions and estimated offering expenses.
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The outstanding share information excludes 2,331,240 shares of common stock issuable upon the exercise of options outstanding under our option plans with a weighted average exercise price of $6.71 per share, 22,240 shares of common stock issuable upon exercise and conversion of preferred stock options at a weighted average exercise price of $4.06 per share, and 88,833 shares of common stock issuable upon exercise and conversion of outstanding preferred stock warrants at a weighted average exercise price of $1.96 per share. The outstanding share information also excludes 3,134,607 shares of common stock available for issuance under our 1997 Stock Option Plan and 500,000 shares of common stock reserved for issuance under our 1999 Employee Stock Purchase Plan. Of the total shares outstanding, 1,782,987 shares are subject to our right of repurchase.

This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes to the consolidated financial statements.

MARCH 31, 1999 PRO FORMA AS ACTUAL PRO FORMA ADJUSTED (IN THOUSANDS, EXCEPT SHARE DATA)

Notes payable, current portion	$ 628	$ 628	$ 628
Capital lease obligations, current portion	256	256	256
Notes payable, non-current	$ 700	$ 700	$ 700
Capital lease obligations, non-current	177	177	177
Mandatorily Redeemable Convertible Preferred Stock	32,535	--	--
Stockholders' equity (deficit):			
Preferred Stock; $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding actual, pro forma and pro forma as adjusted	--	--	--
Common Stock; $0.001 par value; 100,000,000 shares authorized; 7,623,849 shares issued and outstanding, actual; 18,040,564 shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted	8	18	
Additional paid-in capital	17,880	50,405	
Notes receivable from stockholders	(2,211)	(2,211)	(2,211)
Unearned compensation	(2,779)	(2,779)	(2,779)
Accumulated deficit	(29,678)	(29,678)	(29,678)
Total stockholders' equity (deficit)	(16,780)	15,755	
Total capitalization	$ 16,632	$ 16,632	$

Dilution

Our pro forma net tangible book value at March 31, 1999 was $11.2 million or $0.62 per share based upon 18,040,564 shares outstanding. Pro forma net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares outstanding as of March 31, 1999, after giving effect to the conversion into common stock of all of our outstanding shares of preferred stock. After giving effect to the sale in this offering of shares of common stock at an assumed initial public offering price of $ per share, and after deducting the estimated underwriters' discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of March 31, 1999 would have been approximately $ million or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of March 31, 1999	$ 0.62	
Increase per share attributable to new investors		
Pro forma net tangible book value per share after this offering		
Dilution per share to new investors		$

The following table summarizes, as of March 31, 1999, assuming conversion into common stock of all of our outstanding shares of preferred stock, the total cash consideration paid to us and the average price per share paid by existing stockholders and by new investors at the assumed initial public offering price of $ per share, before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us:

	SHARES PURCHASED		TOTAL CASH CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT (IN THOUSANDS)	PERCENT	
Existing stockholders	18,040,564	%	$ 34,594	%	$1.92
New investors					
Total		100%	$	100%	

As of March 31, 1999, there were outstanding options to purchase an aggregate of 2,331,240 shares of common stock at a weighted average exercise price of $6.71 per share, options to purchase 22,240 shares of preferred stock at a weighted average exercise price of $4.06 per share and warrants to purchase 88,833 shares of preferred stock at a weighted average exercise price of $1.96 per share. To the extent that any of these options or warrants is exercised, there will be further dilution to new investors.

Selected Consolidated Financial Data

The selected consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes and other financial information included elsewhere in this prospectus. The selected consolidated statement of operations data for Calico for each of the years ended March 31, 1997, 1998 and 1999, and the consolidated balance sheet data as of March 31, 1998 and 1999, are derived from our consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for Calico for the period from inception on April 14, 1994 to March 31, 1995, the year ended March 31, 1996, and the consolidated balance sheet data as of March 31, 1995, 1996 and 1997, are derived from our consolidated financial statements that are not included in this prospectus. The consolidated statement of operations data for the fiscal year ended March 31, 1999 include the results of operations of FirstFloor subsequent to our acquisition of FirstFloor in August 1998. Historical results are not necessarily indicative of results to be expected in any future period.

	PERIOD FROM APRIL 14, 1994 (INCEPTION) TO MARCH 31, 1995	YEAR ENDED MARCH 31, 1996	1997	1998	1999
		(IN THOUSANDS, EXCEPT PER SHARE DATA)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net revenue:					
License	$ 93	$ 1,521	$ 3,940	$ 6,965	$ 10,482
Services	227	749	1,963	4,894	10,931
Total net revenue	320	2,270	5,903	11,859	21,413
Cost of net revenue:					
License	2	7	178	265	1,179
Services	66	433	2,122	3,115	7,272
Total cost of net revenue	68	440	2,300	3,380	8,451
Gross profit	252	1,830	3,603	8,479	12,962
Operating expenses:					
Sales and marketing	98	1,972	5,950	7,593	14,138
Research and development	132	458	2,224	3,342	5,677
General and administrative	25	480	1,486	2,222	3,988
Stock compensation	--	990	864	780	2,007
Acquired in-process research and development	--	--	--	--	1,840
Amortization of goodwill	--	--	--	--	550
Total operating expenses	255	3,900	10,524	13,937	28,200

Loss from operations	(3)	(2,070)	(6,921)	(5,458)	(15,238)
Interest and other income, net	31	100	21	(41)	(23)
Net income (loss)	$ 28	$(1,970)	$(6,900)	$ (5,499)	$(15,261)
Net income (loss) per share:					
Basic and diluted	$ 0.01	$ (1.03)	$ (3.19)	$ (1.62)	$ (3.41)
Weighted average shares	4,000	1,904	2,165	3,386	4,473
CONSOLIDATED BALANCE SHEET DATA (AT PERIOD END):					
Cash and cash equivalents	$ 83	$ 1,780	$ 1,921	$ 2,514	$ 15,441
Working capital (deficit)	(42)	1,683	353	44	10,187
Total assets	252	2,800	4,356	7,692	31,368
Debt and capital leases, long-term portion	--	90	815	814	877
Total Mandatorily Redeemable Convertible Preferred Stock	--	3,842	9,500	14,505	32,535
Total stockholders' deficit	(21)	(2,012)	(8,854)	(13,428)	(16,780)

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

You should read the following discussion and analysis together with "Selected Consolidated Financial Data" and our consolidated financial statements and the notes to those statements included elsewhere in this prospectus. This discussion contains forward looking statements based on our current expectations, assumptions, estimates and projections about us and our industry. These forward looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these forward looking statements as a result of certain factors, as more fully described in the "Risk Factors" section and elsewhere in this prospectus. We undertake no obligation to update publicly any forward looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

We are a leading provider of advanced eCommerce software and services. Our products are designed to allow companies to create long term strategic differentiation by redefining how they interact with their customers. Our advanced eCommerce solution, the Calico eSales Suite, enables the interactive buying and selling of complex products and services over the Internet and other platforms. We believe that our products and services are broadly applicable to a wide range of industries and markets.

We were incorporated in April 1994. From May 1994 through March 1997, we generated revenue primarily from the license of products based upon our first generation configuration technology. In March 1997, we released our first product designed for use over the Internet and corporate networks.

In December 1998, we released Calico eSales 2.0, an integrated suite of products that extended the Internet-based architecture and included Calico eSales Catalog (since re-named Calico eSales InfoGuide), a product that allows targeted delivery of information without the need to modify existing applications or information sources. Calico eSales InfoGuide was the first product release based upon technology obtained from our August 1998 acquisition of FirstFloor. In May 1999, we released Calico eSales Loyalty Builder, which incorporates technology also obtained from our acquisition of FirstFloor. In June 1999, we released Calico eSales 2.5, an integrated suite that incorporates eSales Loyalty Builder, eSales Quote and improved versions of our other products.

We derive revenue principally from the license of our Calico eSales Suite of products and the delivery of associated implementation and support services. To date, our sales have been primarily within the computer hardware and network and telecommunications equipment industries. Revenues from international sales have not been material to date.

We recognize revenue under Statement of Position No. 97-2, "Software Revenue Recognition," which requires revenue earned on software arrangements involving multiple contract elements to be allocated to each element based upon vendor-specific objective evidence of fair value for each element. Revenue from license fees is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant obligations of Calico with regard to implementation exist, the fee is fixed or determinable, and collection is probable. Provisions for sales returns are made at the time of revenue recognition based upon estimated returns. License revenue from contracts involving customization or services which are essential to the functionality of the software is recognized under contract accounting using the completed contract or percentage-of-completion methods as appropriate.

Services revenue primarily comprises revenue from consulting services, maintenance contracts and training. Services revenue from consulting and training is generally recognized as the service is performed. Maintenance contracts include the right to unspecified upgrades and ongoing support. Maintenance revenue is deferred and recognized on a straight-line basis as services revenue over the life of the related contract, which is typically one year.

Revenue from contracts involving significant implementation, customization or services essential to the functionality of the software is recognized over the period of each engagement, primarily using the percentage-of-completion method of contract accounting. Labor hours completed is generally used as the measure of progress towards completion. A provision for estimated losses on engagements is made in the period in which the loss becomes probable and can be reasonably estimated.

We bill customers in accordance with contract terms. Customer advances and amounts billed to customers in excess of revenue recognized are recorded as deferred revenue. Amounts recognized as revenue in advance of billing are recorded as unbilled receivables.

Our percentage of total net revenue derived from services was 33% in fiscal 1997, 41% in fiscal 1998 and 51% in fiscal 1999. As we develop additional relationships with service partners, we anticipate that an increasing share of professional services will be provided by third parties. As a result, we expect that a higher percentage of total net revenue may be attributable to license revenue in the future.

Our cost of license revenue consists primarily of amortization of purchased technology, sub-licensing fees paid for embedded technology, and to a lesser extent other product-related costs. Our cost of services revenue consists primarily of salary expense and other related costs for our consulting and support organizations, as well as third-party contractor expenses.

Our operating expenses are classified as sales and marketing, research and development, and general and administrative. We classify all charges to these operating expense categories based on the nature of the function benefiting from the expenses incurred. All operating expense categories contain common recurring expenditures, including salaries, employee benefits, incentive pay, travel and entertainment, costs for contract staff and professional advisory services and allocated facilities. The sales and marketing category contains additional expenditures specific to the sales and marketing group, such as public relations, trade show participation, advertising, sales lead generation, and commissions. To date, all software development costs in research and development have been expensed as incurred. General and administrative expenses include our executive, financial, human resources and information technology departments, and include additional expenditures related to legal and financial advisors, as well as bad debt reserves.

In connection with the granting of stock options to our employees, we have recorded unearned stock compensation totaling $5.6 million through March 31, 1999, of which $2.8 million remains to be amortized. This amount represents the difference between the exercise price and the estimated fair value of our common stock on the date these stock options were granted. This amount is included as a component of stockholders' equity and is being amortized by charges to operations over the vesting period of the options, consistent with the method described in Financial Accounting Standards Board, or FASB, Interpretation No. 28. We recorded amortization of unearned stock compensation of $780,000 for fiscal 1998 and $2.0 million for fiscal 1999. The amortization of the remaining unearned stock compensation at March 31, 1999 will result in additional charges to operations through fiscal 2003. The amortization of stock compensation is classified as a separate component of operating expenses in our consolidated statement of operations.

Effective August 21, 1998, we acquired all of the outstanding shares of FirstFloor in exchange for shares of our preferred stock. We accounted for the acquisition using the purchase method of accounting. Of the total purchase price, approximately $1.8 million was allocated to in-process research and development and immediately charged to operations, $360,000 to tangible assets, $1.5 million to existing products and core technology, $2.0 million to liabilities assumed, and $4.3 million to goodwill. The intangible assets will be amortized over their estimated useful lives which range from seven to 48 months.

Since our inception, we have incurred quarterly and annual losses, and we expect to continue to incur losses on both a quarterly and annual basis for the foreseeable future. We incurred net losses of $6.9 million for fiscal 1997, $5.5 million for fiscal 1998 and $15.3 million for fiscal 1999. As of March 31, 1999, we had an accumulated deficit of $29.7 million. We expect that our operating expenses will

continue to increase substantially in future quarters as we increase sales and marketing operations, develop new distribution channels, expand our professional services organization, and continue to fund research and development.

We have recently experienced a period of rapid growth and expansion, and expect to continue to expand through multiple growth strategies. To manage this growth effectively, we will have to improve our existing operational and financial systems and hire additional qualified personnel. In addition, we expect to expand our current headquarters or move to new facilities during the first half of fiscal 2000. The expenses related to this expansion or move may be greater than our obligations for our current facility.

Results of Operations

The following table sets forth, for the periods presented, selected consolidated financial data as a percentage of total net revenue.

Year Ended March 31, 1997 1998 1999

Net revenue:			
License	67%	59%	49%
Services	33	41	51
Total net revenue	100	100	100
Cost of net revenue:			
License	3	2	6
Services	36	26	33
Total cost of net revenue	39	28	39
Gross profit	61	72	61
Operating expenses:			
Sales and marketing	101	64	65
Research and development	38	28	27
General and administrative	25	19	19
Stock compensation	14	7	9
Acquired in-process research and development	--	--	9
Amortization of goodwill	--	--	3
Total operating expenses	178	118	132
Loss from operations	(117)	(46)	(71)
Interest and other income, net	--	--	--
Net loss	(117)%	(46)%	(71)%

Comparison of Fiscal Years Ended March 31, 1997, 1998 and 1999

Revenue

Total net revenue increased 101% from $5.9 million in fiscal 1997 to $11.9 million in fiscal 1998 and 80% to $21.4 million in fiscal 1999.

LICENSE. License revenue increased 77% from $3.9 million in fiscal 1997 to $7.0 million in fiscal 1998, and 50% to $10.5 million in fiscal 1999. License revenue as a percentage of total net revenue was 67% in fiscal 1997, 59% in fiscal 1998 and 49% in fiscal 1999. The increases in absolute dollars were primarily due to increased market acceptance of our products, increases in the average size of transactions, as well as the introduction of versions of our product that included functionality for Internet and corporate network use.

SERVICES. Services revenue increased 149% from $2.0 million in fiscal 1997 to $4.9 million in fiscal 1998 and 123% to $10.9 million in fiscal 1999. Services revenue at a percentage of total net revenue was 33% in fiscal 1997, 41% in fiscal 1998 and 51% in fiscal 1999. The increases in absolute dollars and as a percentage of total net revenue were primarily due to an increase in the number and size of customer deployments, additional follow-on consulting services for existing customers, an increase in the installed base of customers on maintenance contracts and renewals of prior period maintenance contracts.

Cost of Revenue

LICENSE. Cost of license revenue increased 49% from $178,000 in fiscal 1997 to $265,000 in fiscal 1998, and 345% to $1.2 million in fiscal 1999. Cost of license revenue as a percentage of license revenue was 5% in fiscal 1997, 4% in fiscal 1998 and 11% in fiscal 1999. The increase in absolute dollars in fiscal 1998 was primarily due to costs associated with sub-licensing of third- party software used in our products. The increase in absolute dollars and as a percentage of license revenue in fiscal 1999 was primarily due to the amortization of existing products and core technology acquired in the acquisition of FirstFloor in the quarter ended September 30, 1998 and, to a lesser extent, increased software sub-licensing fees.

We may from time to time in the future enter into various technology sub-licensing arrangements with third parties which may require payments that do not coincide with the timing and magnitude of license revenue. In addition, the cost of amortization of our existing products and core technology does not vary with recognized license revenue. As a result, our cost of license revenue may vary significantly from quarter to quarter in both absolute dollars and as a percentage of license revenue.

SERVICES. Cost of services revenue increased 47% from $2.1 million in fiscal 1997 to $3.1 million in fiscal 1998 and 133% to $7.3 million in fiscal 1999. Cost of services revenue as a percentage of services revenue was 108% in fiscal 1997, 64% in fiscal 1998 and 67% in fiscal 1999. The increase in absolute dollars was primarily due to increased professional services personnel engaged in deployment, training and technical support. In certain periods in the past, our cost of services revenue exceeded our services revenue. This is generally because the actual cost of providing consulting services, whether provided internally or through third parties, exceeded the fixed price payment received from some of our customers. We generally do not enter into and do not intend to enter into fixed price payment arrangements for our consulting services. Cost of services revenue declined as a percentage of services revenue in fiscal 1998 primarily due to improved billing rate realization as well as an increase in revenue from maintenance contracts during fiscal 1998. Cost of services revenue increased in fiscal

1999 due to increased use of contract personnel. We expect cost of services revenue to increase in the future in absolute dollars as we expand our service capacity to meet anticipated demand. Cost of services revenue as a percentage of services revenue may vary significantly from quarter to quarter depending upon the mix of services that we provide and the utilization rate of our services personnel. Additionally, we may seek to gain more flexibility by staffing engagements with increasing use of third-party contractors, whose expenses may exceed those of employees.

Operating Expenses

SALES AND MARKETING. Sales and marketing expenses increased 28% from $6.0 million in fiscal 1997 to $7.6 million in fiscal 1998 and 86% to $14.1 million in fiscal 1999. Sales and marketing expenses as a percentage of total net revenue were 101% in fiscal 1997, 64% in fiscal 1998 and 65% in fiscal 1999. The increases in absolute dollars were primarily due to an increase in sales and marketing personnel and our increased marketing program expenditures, particularly sales lead generation, advertising and public relations, together with an increase in commissions payable. Sales and marketing expenses decreased as a percentage of total net revenue in fiscal 1998 primarily due to revenue growth and increased in fiscal 1999 due to the investments in sales and marketing described above. We believe sales and marketing expenses will continue to increase in absolute dollars as we expand our sales and marketing organization, initiate additional marketing programs, expand our distribution channels and expand geographically. Sales and marketing expenses may increase or fluctuate as a percentage of total net revenue from period to period.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 50% from $2.2 million in fiscal 1997 to $3.3 million in fiscal 1998 and 70% to $5.7 million in fiscal 1999. Research and development expenses as a percentage of total net revenue were 38% in fiscal 1997, 28% in fiscal 1998 and 27% in fiscal 1999. The increase in fiscal 1998 in absolute dollars was primarily due to increases in engineering and development personnel and the cost of contracted services. The increase in fiscal 1999 was due to our addition of engineering and development personnel, both through new hiring and as a result of our FirstFloor acquisition. Research and development expenses as a percentage of total net revenue declined in fiscal 1998 and fiscal 1999 due to the higher rate of revenue growth during the periods.

We believe that continued investment in research and development is critical to attaining our strategic objectives, and as a result we expect that research and development expenses will increase in absolute dollars in future periods, and may increase or fluctuate significantly as a percentage of total net revenue from period to period.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 50% from $1.5 million in fiscal 1997 to $2.2 million in fiscal 1998, and 79% to $4.0 million in fiscal 1999. General and administrative expenses as a percentage of total net revenue were 25% in fiscal 1997, 19% in fiscal 1998 and 19% in fiscal 1999. The increase in general and administrative expenses in absolute dollars was primarily due to increased personnel and systems to support our expanding operations. General

and administrative expenses also increased in absolute dollars in fiscal 1999 due to a charge of $660,000 for excess lease payments and losses on disposal of certain fixed assets, both associated with our FirstFloor acquisition.

We believe that general and administrative expenses will continue to increase in absolute dollars as we expand our operations and assume the responsibilities of a public company, and may fluctuate as a percentage of total net revenue from period to period.

STOCK COMPENSATION. In fiscal 1998 and 1999 we recorded aggregate unearned compensation totalling $5.6 million. The unearned compensation represents the difference between the exercise price of stock option grants and the deemed fair value of our common stock at the time of the grants. We recorded expenses related to stock compensation of $864,000 during fiscal 1997, $780,000 during fiscal 1998 and $2.0 million during fiscal 1999.

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT. In conjunction with our acquisition of FirstFloor, we ascribed $1.8 million to certain in-process research and development projects, which was charged to operations in the quarter ended September 30, 1998. The amount of purchase price allocated to in-process research and development was determined using appropriate valuation techniques, including percentage-of-completion, which utilizes key milestones to estimate the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the revenue expected to be generated from these projects, and discounting the net cash flows back to their present value. The discount rate includes a factor that takes into account the uncertainty surrounding the successful development of the purchased in-process technology. The remaining identified intangibles, including the value of acquired existing products and core technology, is amortized over the periods of benefit ranging from seven to 36 months.

The value assigned to acquired in-process research and development was determined by identifying two specific research and development projects -- a marketing information delivery system and a personalization solution -- for which technological feasibility had not been established. The first project reached technological feasibility and was commercially released in December 1998. The second project reached technological feasibility and was commercially released in May 1999. The value of the in-process projects was adjusted to reflect the relative value and contribution of the acquired research and development. In doing so, consideration was given, as appropriate, to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred and the projected cost to complete the projects. The value assigned to acquired in-process research and development was based on the assumptions set forth in the following paragraph.

Net cash flows from these projects were determined based on our estimates of revenue, cost of sales, research and development costs, selling, general and administrative costs, and income taxes associated with the projects. Revenue growth rates for each technology was developed considering, among other things, the then-current and expected industry trends, acceptance of the technologies and historical growth rates for similar industry products. Estimated total revenue from the acquired in-process research and development projects generally peak in fiscal 2000 and decline through fiscal 2001 as

other new products are expected to be introduced. These revenue projections were based on our management's estimate of market size and growth, expected trends in technology and the expected timing of new product introductions. We applied a royalty charge as a percentage of operating income for each in-process project to attribute value for dependency on predecessor core technology. Royalty rates were developed based on published documentation of royalty rates and the specific facts and circumstances, and in our view, are considered reasonable approximations of fair value rates for the respective types of technology under exclusive, perpetual, worldwide licenses. The estimated net cash flows of each project were discounted back to their present value using discount rates of 30% for the marketing information delivery system and 40% for the personalization solution, which represents a premium over our cost of capital of 20% to reflect the risk associated with the stage of completion of the in-process technologies. The estimated percentage-of-completion of the in-process research and development projects were 82% for the marketing information delivery system and 47% for the personalization solution.

AMORTIZATION OF GOODWILL. During fiscal 1999, we recognized $550,000 in amortization, reflecting the amortization of goodwill acquired as part of the FirstFloor acquisition.

Interest and Other Income, Net

Interest and other income, net declined from $21,000 of net interest income in fiscal 1997 to $41,000 of net interest expense in fiscal 1998, and improved to $23,000 of net interest expense in fiscal 1999, representing less than one percent of total net revenue in each period.

Income Taxes

No provision for federal and state income taxes was recorded for fiscal 1997, 1998 or 1999 because we incurred net operating losses in each of those periods.

As of March 31, 1999, we had net operating loss carryforwards for federal income tax reporting purposes of $12.1 million that expire in various amounts beginning in fiscal 2011. We also had net operating loss carryforwards for state income tax reporting purposes of $9.7 million that expire in various amounts beginning in fiscal 2003. We had net deferred tax assets, including our net operating loss carryforwards and tax credits of $8.8 million as of March 31, 1999. A valuation allowance has been recorded for the net deferred tax asset balance as a result of uncertainties regarding the realization of the asset balance. See note 5 of the notes to the consolidated financial statements.

Quarterly Results of Operations

The following table sets forth our unaudited consolidated statement of operations data for each of the eight quarters in the period ended March 31, 1999, as well as that data expressed as a percentage of our total net revenue for the quarters presented. We have prepared this unaudited consolidated information on a basis consistent with our audited consolidated financial statements, and in the

opinion of our management, this information reflects all normal recurring adjustments necessary for a fair presentation of our operating results for the quarters presented. You should read this information in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. You should not draw any conclusions about our future results from the operating results for any quarter.

	QUARTER ENDED							
	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MAR. 31, 1999
	(IN THOUSANDS)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA:								
Net revenue:								
License	$ 1,285	$ 1,162	$ 2,305	$ 2,213	$ 2,932	$ 2,657	$ 2,560	$ 2,333
Services	780	1,371	1,150	1,593	1,721	2,628	3,155	3,427
Total net revenue	2,065	2,533	3,455	3,806	4,653	5,285	5,715	5,760
Cost of net revenue:								
License	20	53	97	95	101	265	350	463
Services	815	597	828	875	1,367	1,742	2,036	2,127
Total cost of net revenue	835	650	925	970	1,468	2,007	2,386	2,590
Gross profit	1,230	1,883	2,530	2,836	3,185	3,278	3,329	3,170
Operating expenses:								
Sales and marketing	1,768	1,962	1,824	2,039	2,758	3,066	3,699	4,615
Research and development	670	776	934	962	972	1,232	1,684	1,789
General and administrative	542	610	573	497	641	1,459	934	954
Stock compensation	11	160	252	357	424	469	582	532
Acquired in-process research and development	--	--	--	--	--	1,840	--	--
Amortization of goodwill	--	--	--	--	--	78	234	238
Total operating expenses	2,991	3,508	3,583	3,855	4,795	8,144	7,133	8,128
Loss from operations	(1,761)	(1,625)	(1,053)	(1,019)	(1,610)	(4,866)	(3,804)	(4,958)
Interest and other income, net	(36)	(6)	7	(6)	(35)	(46)	54	4
Net loss	$(1,797)	$(1,631)	$(1,046)	$(1,025)	$(1,645)	$(4,912)	$(3,750)	$(4,954)
AS A PERCENTAGE OF TOTAL NET REVENUE:								
Net revenue:								
License	62%	46%	67%	58%	63%	50%	45%	41%
Services	38	54	33	42	37	50	55	59
Total net revenue	100	100	100	100	100	100	100	100
Cost of net revenue:								

License	1	2	3	2	2	5	6	8				
Services	39	24	24	23	30	33	36	37				
Total cost of net revenue	40	26	27	25	32	38	42	45				
Gross profit	60	74	73	75	68	62	58	55				
Operating expenses:												
Sales and marketing	86	77	53	55	59	58	65	80				
Research and development	32	31	27	25	21	23	29	31				
General and administrative	26	24	16	13	14	28	17	17				
Stock compensation	1	6	7	9	9	9	10	9				
Acquired in-process research and development	--	--	--	--	--	35	--	--				
Amortization of goodwill	--	--	--	--	--	1	4	4				
Total operating expenses	145	138	103	102	103	154	125	141				
Loss from operations	(85)	(64)	(30)	(27)	(35)	(92)	(67)	(86)				
Interest and other income, net	(2)	--	--	--	--	(1)	1	--				
Net loss	(87)%	(64)%	(30)%	(27)%	(35)%	(93)%	(66)%	(86)%				

Factors Affecting Quarterly Results

Total net revenue has increased during each of the eight quarters ended March 31, 1999 due to an increase in the number of our customers, an increase in the average transaction size and an increase in follow-on orders from existing customers. We experience significant variability in license revenue from quarter to quarter due to the timing and size of transactions. License revenue has declined sequentially in each of the three quarters ended March 31, 1999, primarily due to delays in recognition of revenue under a few large contracts entered into during those quarters.

Services revenue has increased significantly during the comparison periods, but is also subject to significant variability driven by transaction timing, contract terms and billing rate realization. Services revenue declined in the quarter ended December 31, 1997 due to the recognition of services revenue in the previous quarter upon completion of one large project. Services revenue increased significantly as a percentage of total net revenue in the four quarters ended March 31, 1999 primarily as a result of several large implementation projects during those periods.

Cost of license revenue increased in the three quarters ended March 31, 1999 as a result of the amortization of existing products and acquired core technology subsequent to our acquisition of FirstFloor. Cost of services revenue increased significantly in the quarter ended June 30, 1998 primarily due to costs associated with the hiring and training of new professional services personnel who were not yet fully utilized.

Sales and marketing expenses increased significantly in the quarter ended June 30, 1998 primarily due to the expansion of our domestic sales force, as well as the establishment of our international sales office, and increased in the quarter ended March 31, 1999 due to commissions related to the signing of a few large orders and further expansion of our sales force. Research and development expenses increased significantly in the three quarters ended March 31, 1999 due to an increase in product development personnel acquired in conjunction with our acquisition of FirstFloor. General and administrative expenses increased significantly in the quarter ended September 30, 1998 as a result of a $660,000 charge for excess lease payments and losses on disposal of certain fixed assets associated with our FirstFloor acquisition.

Our quarterly operating results have varied significantly in the past and we expect that they will vary significantly from quarter to quarter in the future. These variations are caused by a number of factors, including the length of our sales cycle, demand for and market acceptance of our products and services, the timing of orders and deployment of our products and services, the impact of our revenue recognition policies, changes in technology and changes caused by the rapidly evolving eCommerce market and the impact of year 2000 investments by us and our customers.

As a result of these and other factors, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and are not a good predictor of our future performance. Our operating results may be below the expectations of public market analysts and investors in future quarters, which could cause volatility in the price of our stock.

Liquidity and Capital Resources

Since inception, we have financed our operations and met our capital expenditure requirements primarily through the sale of private equity securities, and to a lesser extent, notes payable and capital equipment leases. As of March 31, 1999, we had $15.4 million of cash and cash equivalents. Cash used in operating activities was $4.3 million for fiscal 1997, $3.3 million for fiscal 1998 and $7.4 million for fiscal 1999. Cash used in operations resulted primarily from net losses and increases in our accounts receivable, offset in part by the growth in accrued liabilities, deferred revenue, and non-cash expenses including depreciation and stock compensation.

Net cash used in investing activities of $930,000 for fiscal 1997, $1.4 million for fiscal 1998 and $1.8 million for fiscal 1999, related to purchases of computer equipment and to a lesser extent software and office furniture to support our expanding operations.

Net cash provided by financing activities was $5.4 million for fiscal 1997, $5.3 million for fiscal 1998 and $22.1 million for fiscal 1999, resulting primarily from proceeds that we received from the sale of our common and preferred stock. We have also used debt and leases to partially finance our operations and capital purchases. At March 31, 1999 we also had $1.3 million in current and noncurrent debt as well as $433,000 in current and noncurrent lease obligations.

Our borrowings under our debt and lease agreements require us to comply with quarterly financial tests, including minimum operating results, and liquidity, leverage and debt service ratios. As of March 31, 1999 and subsequent to year-end, we were not in compliance with the minimum operating results covenant. We obtained a waiver from the lender for the periods in which we were not in compliance.

We also have noncancelable operating leases for office space and equipment of approximately $1.6 million which are payable through fiscal 2004.

Although we have no material long-term commitments for capital expenditures, we anticipate a substantial increase in our capital expenditures and lease commitments consistent with anticipated growth in operations, infrastructure and personnel. We believe that existing cash and cash equivalents, together with the net proceeds of this offering, will be sufficient to meet our working capital needs for at least the next 12 months. However, we may need to raise additional funds in order to support more rapid expansion of our sales force, develop new or enhanced products or services, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements. If we seek to raise additional funds, we may not be able to obtain funds on terms which are favorable or otherwise acceptable to us. If we raise additional funds through the issuance of equity securities, the percentage ownership of our stockholders would be reduced. Furthermore, these securities may have rights, preferences or privileges senior to our common stock.

Recently Issued Accounting Pronouncements

In March 1998, the AICPA issued Statement of Position No. 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use". SOP No. 98-1 will become effective during the year ending March 31, 2000. SOP No. 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of these costs. We do not expect the adoption of SOP No. 98-1 to have a material effect on our results of operations, financial position or cash flows.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives and Hedging Activities". This statement establishes accounting and reporting standards of derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 will become effective during the year ending March 31, 2001. The adoption of SFAS No. 133 is not expected to have a material effect on our results of operations, financial position or cash flows.

Qualitative and Quantitative Disclosures About Market Risk

We develop products in the United States and market our products in North America, and to a lesser extent in Europe and Asia. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Because nearly all of our revenue is currently denominated in U.S. dollars, a strengthening of the dollar could make our

products less competitive in foreign markets. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Due to the short-term nature of our investments, we do not believe that we have a material risk exposure. Because some of our debt arrangements are based on variable rates of interest, our interest expense is sensitive to changes in the general level of U.S. interest rates. Since these obligations represent a small percentage of our total capitalization, we believe that there is not a material risk exposure.

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. Software with date sensitive information that is not year 2000 compliant may not be able to distinguish whether "00" means 1900 or 2000, which may result in system 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 harm our business.

We believe that all current versions of our products are year 2000 compliant, so long as they are configured and used in accordance with our specifications, and provided that the underlying operating systems and any other software used with our products are also year 2000 compliant. However, since our products are integrated with our customers' systems, the failure of our customers' systems to be year 2000 compliant could impede the success of our applications in their systems. Accordingly, known or unknown defects or errors that affect the operation of our software, including any defects or errors in systems that include our products, could result in delay or loss of revenue, diversion of development resources, damage to our reputation, or increased service or warranty costs, any of which could harm our business.

We have initiated an assessment of our internal systems and are not currently aware of any material operational issues or costs associated with preparing our internal systems for the year 2000. However, we may experience material unanticipated problems and costs caused by undetected errors or defects in the technology used in our internal systems.

In conjunction with our year 2000 assessment, we have begun to contact our major suppliers to determine whether their operations and the products and services they provide are year 2000 compliant. Where practicable, we will attempt to mitigate our risks with respect to the failure of suppliers to be year 2000 compliant. However, these failures remain a possibility and could harm our business.

We are in the process of developing a contingency plan to address situations that may result if our products, our internal systems, or the systems of our suppliers or customers are not year 2000 compliant.

We have funded our year 2000 plan from available cash and have not separately accounted for these costs. To date, these costs have not been material and are not expected to be material. However, we may experience unanticipated problems and costs with year 2000 compliance that could harm our business.

Business

We are a leading provider of advanced eCommerce software and services. Our products are designed to allow companies to create long term strategic differentiation by redefining how they interact with their customers. Our advanced eCommerce solution, the Calico eSales Suite, enables the interactive buying and selling of complex products and services over the Internet and other platforms. Our products enable companies to create a guided selling experience that allows their customers to interactively affect the on-line purchasing process. This enables companies to build strong customer relationships that can result in increased revenue and reduced sales costs.

The Calico eSales Suite can be deployed at the point of sale over the Internet and other platforms to improve selling effectiveness and customer satisfaction. Our software is designed to facilitate the selling process by dynamically assessing customer requirements, providing tailored information, identifying constraints, proposing alternatives, and delivering quotes. Our solutions enable companies to provide highly tailored products and services, to cross sell and up sell additional products and services and to reduce the time to market of new products and services. In addition, our solutions are designed to improve sales effectiveness and order accuracy, thereby enhancing operating efficiency and reducing costs.

Our advanced eCommerce solutions are broadly applicable to a wide range of industries and markets. Our current customers include a number of companies that have adopted aggressive eCommerce business strategies, such as Best Buy, Cisco, Dell, Gateway, Merrill Lynch, Nortel Networks, Qwest, Siemens, Telia and US West.

Industry Background

Growth of the Internet and Ecommerce

The rapid growth of the Internet is revolutionizing the way in which businesses and consumers communicate, share information and conduct business. The Internet has created a new means for businesses to reach and interact directly with new and existing customers worldwide, thereby transforming the traditional ways companies market, sell and support their product and services offerings. For some organizations, the Internet acts as a means to improve the effectiveness of existing distribution channels. For others, it is replacing those channels or enabling entirely new business models in a world where traditional barriers to entry are rapidly dissolving. Forrester Research estimates that the total value of U.S. business trade on the Internet will grow to approximately $1.3 trillion by 2003.

Driven by rapidly accelerating global competition, companies are seeking to improve their operations by re-engineering their supply chains, increasing their responsiveness to customers, and offering a wider range of products and services which can be dynamically matched with customers' specific needs. In order to capitalize on this opportunity, companies are adopting more sophisticated approaches to eCommerce and are increasing their investment in eCommerce infrastructure. These approaches are characterized by enhanced interactivity, greater personalization and the ability to offer a broad array of complex configurable products and services, all at the time of purchase. Forrester Research estimates that the U.S. market for eCommerce-enabling software solutions is expected to grow from $235 million in 1998 to $3.8 billion in 2002.

Advanced Ecommerce Requires a New Class of Software Solutions

Over the past two decades, many major corporations have invested large amounts of time and money automating their internal business processes through the deployment of enterprise resource planning and sales force automation software. These systems have enabled companies to centralize and better manage important enterprise data, re-engineer business processes and provide sales representatives with updated product information, contact management and lead tracking. While these systems have become an important element of enterprise information technology and have brought many operational benefits, they were developed prior to the commercial use of the Internet, and were not designed for large scale, Internet-based, customer-driven interactions and commerce. Because these process automation systems were designed for a limited universe of internal users, they have not generally scaled to accommodate the significant number of users or transactions made possible by the Internet and have not provided the level of intuitive graphical user interface that is necessary for engaging customer interactions.

As commercial use of the Internet began to develop, early eCommerce vendors developed custom websites and transactions systems using general purpose Internet publishing tools, such as HTML editors and specialized database tools. These tools enabled companies to post static product catalogs and brochure content on the Internet, but generally allowed only limited real-time interactivity and did not provide mission critical reliability and scalability. Recently, packaged eCommerce applications have emerged, focusing primarily on enabling transactions by providing security, credit card validation and the management of "shopping baskets". In addition, a variety of point solution software applications have been developed to provide functionality in discrete aspects of the selling process, such as personalization and content delivery. While these early packaged applications and point solutions have helped to automate online transactions, they generally have not provided well-integrated functionality or capabilities for the online purchasing of complex and configurable products and services, such as computers, network equipment or financial services.

We believe that the rapid growth and evolution of eCommerce requires a new class of software solutions designed specifically for advanced eCommerce interactions with customers, resellers and partners. This new class of software must leverage companies' large investments in enterprise

applications, and combine the mission-critical reliability of traditional enterprise systems with the scalability and flexibility of Internet software. In addition, this software must be customer-driven, integrate a broad range of sophisticated functionality and enable the sale of complex products and services.

The Calico Solution

We have pioneered a new class of advanced eCommerce software solutions that are designed to enable companies to create long term strategic differentiation by redefining how they interact with their customers. The Calico eSales Suite can be deployed at the point of sale over the Internet and other platforms to improve selling effectiveness and customer satisfaction. Our software is designed to facilitate the selling process by dynamically assessing customer requirements, providing tailored information, identifying constraints, proposing alternatives and delivering quotes.

Buyers can use our software to research, evaluate, weigh trade-offs on price, performance and other attributes, configure in real-time and buy complex goods and services.

Our solutions provide the following advantages:

HIGHLY STRATEGIC. Our software solutions are designed to help suppliers increase their revenue by capitalizing on new eCommerce opportunities and reduce their costs by enhancing operating efficiency and order accuracy. For example, our tailored solutions enable suppliers to provide personalized products and services, to cross sell and upsell additional products and services and to reduce the time to market of new products and services. As a result, we believe our solutions can provide a significant return on investment and generally are viewed by our customers as a means of achieving strategic and competitive advantage.

CUSTOMER-DRIVEN. Unlike traditional enterprise applications, our solutions are designed specifically for interacting directly with customers, resellers and other partners. Our "user-guided behavior" technology enables users to define the purchasing process according to their own needs and to flexibly configure complex goods and services at the point of sale in real time. In addition, our agent technology delivers personalized information during the purchase process enabling companies to proactively engage the customer, anticipate customer needs, provide real-time information and speed delivery. By keeping the customer at the center of the buying experience, focus can be shifted from the transaction to the customer relationship, creating a key source of competitive differentiation.

INTEGRATED. By combining advanced configuration, information delivery, content management and personalization functionality, we offer a broad, integrated suite of advanced eCommerce applications, providing significant benefits to customers who wish to launch or improve comprehensive eCommerce functionality quickly. In addition, our software enables customers to develop highly intuitive, interactive, graphical and content-rich eCommerce sites. We also provide professional consulting and implementation services, complemented by our relationships with third-party implementation partners, to provide a tailored solution for each customer's needs.

SCALABLE AND FLEXIBLE. Our product architecture is designed to be highly scalable, enabling enterprises to interact directly with large numbers of customers via the Internet and other platforms. The Calico eSales Suite employs highly flexible modeling and application integration tools which are designed to enable it to be rapidly integrated with existing enterprise applications. These applications include enterprise resource planning, sales force automation and supply chain management, and their underlying databases.

DEPLOYABLE ACROSS MULTIPLE CHANNELS. The Calico eSales Suite is designed to connect buyers and sellers, including distributors, resellers, telemarketers and direct sales forces, to end users. To reach these audiences, the Calico eSales Suite can be deployed across the Internet, intranets, extranets and corporate networks and can be accessed through desktop and mobile computers and retail kiosks. The Calico eSales Suite uses a single set of business rules, enhancing consistency of user experience and reducing maintenance.

Strategy

Our objective is to be the leading provider of advanced eCommerce applications to customers worldwide. The key elements of our strategy include:

INCREASE THE BREADTH AND DEPTH OF OUR ECOMMERCE SOLUTIONS. Our strategy is to provide solutions that enhance customer interaction by adding new features to our Calico eSales Suite and by adding new products that provide marketing and post-sales service functionality. We plan to accomplish this through internal product development, licensing and acquisitions of third-party technology and partnering. Our acquisition of FirstFloor provided agent technology which enables targeted, personalized information delivery, a key element in our Calico eSales solution. The introduction of personalized products which provide marketing functionality will enable our customers to tailor Internet sites to help build relationships with their most important customers. In addition, we intend to facilitate integration of our products with a broad range of enterprise and Internet software applications through the development of integration toolsets and additional application programming interfaces.

ALIGN WITH ECOMMERCE LEADERS AND EXPAND IN OTHER TARGETED VERTICAL MARKETS. Our advanced eCommerce solutions are broadly applicable to a range of industries and markets. To date, our customers have been concentrated in two major industry groups -- computer hardware and network and telecommunications equipment. Our strategy has been to pursue relationships with leading participants in key industries who have adopted aggressive eCommerce business strategies, such as Best Buy, Cisco, Dell, Gateway, Merrill Lynch, Nortel Networks, Qwest, Siemens, Telia and US West. In addition, we plan to continue to expand in additional industries where advanced eCommerce solutions are highly strategic and promote significant competitive advantage, including manufacturing, retail, telecommunications services, and financial services.

LEVERAGE PARTNERSHIPS. Our strategy is to increase our revenue base by complementing our direct sales force and professional services organization with strategic partnerships and alliances. These partnerships are intended to increase geographic sales coverage worldwide, address new vertical markets and market segments, and provide our customers with access to additional design, modeling and implementation resources. In addition, our goal is to form additional marketing and distribution alliances with enterprise and eCommerce software vendors and resellers to broaden distribution or provide complementary functionality to our applications. We also intend to provide enterprise integration to our customers through alliances with systems integrators and middleware vendors.

EXTEND TECHNOLOGY LEADERSHIP. Our Calico eSales Suite is based on advanced expert systems technology which allows matching of user requirements with suppliers' product and service offerings. For example, the bill of materials created by our Calico eSales Quote product is described in extensible markup language, or XML, enabling dynamic and intelligent exchange among eCommerce applications. Our strategy is to continue to develop leading technologies in order to deliver more advanced functionality to our customers.

IDENTIFY AND CAPITALIZE ON NEW ECOMMERCE-BASED BUSINESSES. Our strategy is to pursue relationships with and foster the development of emerging eCommerce-based businesses at an early stage of their development. By entering into a variety of arrangements with these emerging leaders, we believe we can further capitalize on the growth of eCommerce and remain at the forefront of eCommerce trends and technology.

Products and Services

We have developed a suite of applications, integration tools and services for building advanced eCommerce solutions.

The Calico Esales Suite

The Calico eSales Suite is an integrated family of interactive user-guided software products that provide our customers with the ability to create aspects of person-to-person selling in an on-line environment. Companies can use our suite of products to support multiple sales channels, including direct sales, in-store, resellers, value added resellers, telesales and sales over the Internet. Our products can be deployed individually or as part of the entire suite, depending on customer preference.

The Calico eSales Suite includes the following software modules:

CALICO ESALES CONFIGURATOR. At the heart of the Calico eSales Suite is the Calico eSales Configurator, an expert system that matches customer requirements with product attributes, guiding customers to products and services that meet their needs. The Calico eSales Configurator employs our "user-guided behavior" technology to explore different combinations of solution elements. This technology enables users to evaluate trade-offs on price, performance or other attributes, while at the same time determining that the configured product or service meets business or legal constraints set by

the vendor. The Calico eSales Configurator uses dynamic models of customer requirements and product attributes developed using the Calico eSales Workbench. Once the models have been created, they can be loaded into an application running standalone or in a multi-user setting. A single model can be deployed across multiple sales channels, including direct sales, in-store, resellers, value added resellers, telesales, and sales over the Internet, streamlining maintenance and permitting significant flexibility.

In this way, customers can select and purchase complex products and services without the individual attention of a sales person and speed the process of creating complete and correct complex product configurations.

CALICO ESALES LOYALTY BUILDER. The Calico eSales Loyalty Builder is designed to address the challenge of building and maintaining customer loyalty on-line. Calico eSales Loyalty Builder personalizes the Internet-based guided selling experience from the customer's initial expression of interest through configuring and ordering products. This personalized guided selling experience enables companies to proactively engage customers to build stronger customer relationships with the objective of increasing revenue and reducing sales costs. The Calico eSales Loyalty Builder is an integral part of the Calico eSales Suite, and provides organizations with a customer-driven, enterprise-ready eCommerce solution for personalized buying over the Internet. The Calico eSales Loyalty Builder's Java and XML-based architecture is designed to enable customers to adopt the technology within their existing Web infrastructure.

CALICO ESALES QUOTE. The Calico eSales Quote provides customized sales quotations to customers for selected products and stores quotes for later retrieval or immediate entry into an order management system. The Calico eSales Quote is designed to enable unification of product requirements, complex configurations and pricing and acts as the intermediary to automating order entry. The Calico eSales Quote is built using the Java programming language and XML-based architecture. This enables companies to integrate the quoting and pricing functions of the Calico eSales Suite with existing order entry, enterprise resource planning and external pricing tools. In addition, the core functionality of the Calico eSales Quote can be extended via the Java-based application programming interfaces provided with the Calico eSales Quote.

CALICO ESALES INFOGUIDE. The Calico eSales InfoGuide, previously called Calico eSales Catalog, delivers targeted marketing information, such as brochures, product datasheets, product reviews and competitive comparisons, directly to customers during the on-line buying process. The Calico eSales InfoGuide is a Java-based tool that pairs content-sensitive selections and browser clicks with content from any source, even pre-existing content stored in multiple file formats. The Calico eSales Configurator, Calico eSales Quote and Calico eSales InfoGuide are integrated so that at any point within the buying process the customer can request additional information and have targeted information delivered.

CALICO ESALES WORKBENCH. The Calico eSales Workbench is a flexible toolset for creating product, pricing and content models for use by the Calico eSales Configurator. This toolset is used to develop models that describe how each product can be configured and priced and establishes the

relationship between the requirements and the products to be configured. The Calico eSales Workbench does not require significant computer programming or advanced technical expertise to develop or maintain models.

CALICO ESALES ENGINE. The Calico eSales Engine runs the models created with the Calico eSales Workbench. The Calico eSales Engine is a constraint-based sales engine, deployable on platforms ranging from laptops to high-end servers. Because the engine allows users to access the same model, regardless of whether they are using ActiveX-, Java- or HTML-based user interfaces, each modification and update of a model only needs to be made once. Calico eSales Engines are included with each Calico eSales Configurator. Additional Calico eSales Engines can be added to run the same model, thereby accommodating increased traffic while continuing to provide rapid response time.

Professional Services

We offer a range of professional and support services including requirements analysis and definition, iterative prototyping, design, data analysis, process modification advice, implementation consultation, education, and post-deployment maintenance. Our staff of deployment architects and consultants work with customers to capture and model the business logic and policies that reflect marketing and selling practices. Our professional services consultants also help with the integration of our applications into other enterprise systems. Our professional services team and our consulting partners use the Calico eSales Workbench to design, iterate and finalize graphical user interfaces which meet specific customer requirements, delivering a personalized buying experience. These professionals have backgrounds in user interface design, systems integration, technology strategy, and project management.

We use our Opportunity Assessment Methodology in working with customers to define the opportunity set, priorities, business justification, project costs and roadmap to implementation relating to each project. This methodology includes a series of cross-functional interviews at many levels of our customer's project team. This series of interviews results in an analytical comparison, known as the Calico eSales Proficiency Matrix, which is used to determine how our customer's sales practices compare to other sales practices in their industry. This analysis enables the customer to build cross-functional action plans, including economic justification and a cohesive and knowledgeable project team. The methodology may recommend that a prototype be created to demonstrate the concept and set expectations for our engagement.

Maintenance and Customer Service

We offer a broad range of maintenance and customer service options to meet the varying needs of each customer. Customers covered by maintenance agreements can report application problems, make enhancement requests and obtain update releases. Our help desk is staffed with technical support engineers experienced in a variety of programming languages. For deployed customers or those using in-house modeling resources, our remote consulting staff provides ongoing consulting, limited

continuing education and customer-specific model support. Our implementation support is targeted at customers who have completed their modeling and require assistance in implementing a client/server or Internet server deployment. We also help troubleshoot problems with network bandwidth, network access and configurations as they pertain to our products.

Sales and Marketing

We market and sell our products primarily through our direct sales force located at our headquarters in San Jose, and our regional sales and service offices in Atlanta, Boston, Chicago, England, and Sweden. As of June 30, 1999, our total sales and marketing organization consisted of 67 employees. We intend to increase our domestic and international direct sales organizations, in part by increasing our direct sales force in Australia, the Benelux, Germany, Singapore and Japan during fiscal 2000. We are also complementing our direct sales force through additional distribution channels, including systems integrators and value added resellers, both domestically and internationally. For example, we have entered into an agreement with an entity to provide sales distribution and services in Japan.

We have multi-disciplined sales teams that consist of sales, technical and support professionals. Our senior management also takes an active role in our sales efforts. We often develop a pilot or custom demonstration which we or our partners can then use to design a model for a full scale implementation. Our sales efforts are typically directed to senior executives at our customers' organizations, including the chief executive officer, the chief information officer and the vice presidents of sales and marketing.

To support our direct sales efforts and to actively promote our Calico eSales brand, we conduct comprehensive marketing programs and market research, including public relations, print advertisements, online advertisements, trade shows, speaking engagements and ongoing customer communications.

Strategic Partnerships

We are pursuing marketing, implementation and resale partnerships and cooperative alliances with advanced eCommerce software vendors, systems integrators, professional services organizations and application services providers. These partnerships and alliances are intended to increase geographic sales coverage worldwide and address new vertical markets and market segments. In addition, these partnerships and alliances allow us to provide our customers with access to additional resources to design, install and customize our solutions.

We have formed marketing and distribution alliances with enterprise and eCommerce software vendors to broaden distribution and provide complementary functionality to our applications. For example, we have entered into a joint marketing relationship with Silknet Software, a leading provider of Internet-based customer support solutions, and a cooperative marketing agreement with IBM. We also intend to expand the professional services offered to our customers by enhancing existing

relationships with leading systems integrators and professional services organizations, such as Cap Gemini and DRT Systems, and by developing additional relationships with other professional services organizations.

Significant Customers

We have provided advanced eCommerce solutions primarily to customers concentrated in two major industry groups -- computer hardware and network and telecommunications equipment. We are continuing to expand in other markets, such as manufacturing, retail, telecommunication services and financial services. In fiscal 1999, Gateway and Dell each represented more than 10% of our total net revenue. In fiscal 1998, Micron Electronics accounted for more than 10% of our total net revenue. In fiscal 1997, Amdahl, Lanier and US Robotics each accounted for more than 10% of our total net revenue. A substantial portion of our revenue in any given quarter has been, and is expected to continue to be, generated from a limited number of customers with large financial commitment contracts.

The following is a partial list of customers who have purchased our products and services and that we believe are representative of our overall customer base:

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Best Buy                Qwest
Cabletron               Siemens
Cisco                   Starhub
Dell                    Sunrise Medical
Gateway                 Telia
Merrill Lynch           Telxon
Motorola                US West
MTD Products            Zurn Industries
Nortel Networks
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Technology

Our software architecture provides the platform for our advanced eCommerce solutions. Our technology is designed to provide interactive, scalable, and easily maintained advanced eCommerce applications. The user interface component of the Calico eSales Configurator is powered by Microsoft Active Server Pages and therefore operates only on Windows NT. The Calico eSales Loyalty Builder, Calico eSales Quote, Calico eSales InfoGuide and Calico eSales Engine each operate on Unix and Windows NT. We intend to develop user interface components to allow our customers to use either a Unix-based or Windows NT-based Web server. If we are unable to promptly or successfully develop the Unix version, the scalability of our Calico eSales Configurator may be adversely impacted for certain customer applications due to the scalability limitations of Windows NT.

The elements of our technology consist of the following:

User-guided Behavior Technology

We have developed proprietary "user-guided behavior" technology that is based upon expert systems that provide the ability to match user requirements with specific product and service offerings from companies, subject to a number of constraints. The user-guided behavior technology offers the following benefits:

- - Our data maintenance system allows data to be entered in tabular form for concise expression of relationships between data, thereby reducing the system's maintenance requirements.

- - Applications that are constructed from the models created with the Calico eSales Workbench require only constraints, product content information and user interface information. Since models can be loaded into an application running standalone or in a multi-user setting, the same application can be targeted to run on laptops, desktops and the Internet.

- - Constraints, together with our user-guided behavior technology, provide options to the end user and explain why particular configurations are not valid.

The Calico eSales Engine is designed to handle complex configurations. Our technology allows for composite modeling, which permits the configuration to expand to accommodate numerous sites at the user's request. The Calico eSales Configurator supports multiprocessor servers as well as server clusters. This enables enterprises to scale their deployments readily to accommodate traffic. Because session state information is stored in multiple locations, a user's configuration session can proceed uninterrupted even in the event of a server failure.

Access to Enterprise Data

Our proprietary agent technology allows customers to quickly and easily access their enterprise data and content, as well as external content from their intranet and the Internet as part of an advanced eCommerce system, without re-authoring or re-publishing. Automatic notification and delivery of documents and other mission critical information is possible without needing to modify existing applications or information sources.

Adherence to Industry Standards

The Calico eSales Loyalty Builder, Calico eSales Quote and Calico eSales InfoGuide have been designed based on XML, an emerging standard for data representation and computer-to-computer exchange of information supporting eCommerce. Software systems that support XML provide customers with the ability to reduce application development time, easily integrate with legacy enterprise systems and build applications that span the business processes of a company, its suppliers, distributors and customers.

In addition, Calico eSales Loyalty Builder, Calico eSales Quote and Calico eSales InfoGuide have all been designed using Java, a programming language that enables compatibility across multiple platforms and facilitates Internet-based performance. Java is emerging as a development language for electronic business and other Internet applications.

Our architecture is designed to comply with widely accepted commercial software industry standards for building large-scale Internet applications. In addition to XML, we use other widely accepted standards in developing our products, including structured query language, Java database connectivity and open database connectivity for accessing relational database management systems, HTTP for Internet access and HTML for Web information presentation. The Calico eSales Configurator can be operated in conjunction with enterprise applications provided by Oracle, Baan, SAP and JD Edwards. Integration with these and other applications is facilitated by our support of open standards.

Research and Development

Our future success will depend in part upon our ability to enhance the Calico eSales Suite of products, develop new products and capitalize on our technological leadership to provide advanced eCommerce solutions to a global customer base. Our immediate focus is to extend the existing enterprise application integration capabilities of our product suite to Oracle Order Entry and SAP Order Entry. In addition, we are seeking to broaden our current product line by improving performance, platform independence, adaptation to standards, integration with enterprise applications, ease of modeling and applicability to commercial products and services.

To foster development, definition, adoption and implementation of open standards that can be leveraged by the Calico eSales Suite, we work with several industry standards organizations such as the World Wide Web Consortium, RosettaNet, Commercenet, the American Association of Artificial Intelligence, the Institute for Electrical and Electronic Engineering and the Association for Computing Machinery. For example, through these organizations we are actively promoting the use of XML technology for data representation and computer-to- computer exchange of information.

Our research and development expenses were $2.2 million for fiscal 1997, $3.3 million for fiscal 1998 and $5.7 million for fiscal 1999. We expect to continue to invest significantly in research and development in the future. We have experienced technical personnel in the areas of agent-based technology, artificial intelligence, expert systems, user interface design, enterprise and middleware software development.

Proprietary Rights

Our success and ability to compete are substantially dependent on our internally developed technology and software applications. We have two U.S. patents. While we rely on patent, trademark, service mark, copyright and trade secret laws and restrictions in the United States and other jurisdictions, together

with contractual restrictions, to protect our proprietary rights, patent, trademark, copyright and trade secret protection may not be available in every country in which we distribute our products.

We also typically enter into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with our customers, suppliers and strategic partners in order to limit access to and distribution and disclosure of our proprietary information. However, despite our efforts to protect our proprietary rights, unauthorized parties could copy or otherwise obtain and use our products or technology or develop products with the same functionality as our products. Policing unauthorized use is difficult, and the steps we have taken may not prevent misappropriation of our technology. In addition, the laws of some foreign countries provide less protection of proprietary rights than do the laws of the United States, and we expect that it will become more difficult to monitor the use of our products if we increase our international presence.

Substantial litigation regarding intellectual property rights exists in the software industry. We expect that software products may increasingly be subject to third-party infringement claims as the number of competitors supplying advanced eCommerce applications and solutions grows, and the functionality in other industry segments overlaps. Some of our competitors may have filed or intend to file patent applications covering aspects of their technology that they claim our technology infringes. Our competitors may make a claim of infringement against us with respect to our products and technology. These claims could result in litigation subjecting us to significant liability for damages, or in invalidation of our proprietary rights. Any claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources or require us to enter into royalty or licensing agreements in order to be able to sell our products. Royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all.

Competition

The market for software and services that enable advanced eCommerce is new, intensely competitive, highly fragmented and rapidly changing.

We believe that our ability to compete depends on many factors, both within and beyond our control, including:

- - the performance, functionality, scalability and flexibility of our software solutions;

- - the timing and market acceptance of new products and product enhancements to the Calico eSales Suite of products;

- - the effectiveness of our sales and marketing efforts; and - - the quality and performance of our professional services.

We expect competition to persist and intensify. Our primary competition currently comes from companies developing solutions in-house and from a large number of emerging companies focused on eCommerce. We also compete with vendors of enterprise class application software, including

BroadVision, Siebel Systems, Oracle, SAP, Baan and Microsoft. Within our Calico eSales Configurator product line, our competitors include Trilogy, pcOrder.com, Selectica and FirePond.

Many of our competitors and potential competitors have a number of significant advantages over us, including:

- - a longer operating history;

- - preferred vendor status with our customers;

- - more extensive name recognition and marketing power; and - - significantly greater financial, technical, marketing and other resources, giving them the ability to respond more quickly to new or changing opportunities, technologies and customer requirements.

We also expect that competition will increase as a result of software industry consolidation. For example, a number of enterprise software companies have announced acquisitions of point solution providers to expand their product lines. Our competitors may also bundle their products in a manner that may discourage users from purchasing our products. Current and potential competitors may establish cooperative relationships among themselves or with third parties or adopt aggressive pricing policies to gain market share. In addition, new competitors could emerge and rapidly capture market share.

Legal Proceedings

We are currently involved in litigation with a former employee arising out of the alleged sexual harassment and wrongful termination of the employee. We have responded to the lawsuit by filing an answer that denies all of the material allegations. The lawsuit was filed on June 11, 1997 in the Santa Clara County Superior Court for the State of California, and the case is currently in the early stages of pre-trial discovery. The lawsuit seeks unspecified monetary amounts for lost wages and benefits, emotional and physical distress and punitive damages.

We believe that we have meritorious defenses against the alleged claims, and intend to defend ourselves vigorously. However, due to the nature of litigation and the fact that discovery is still in its early stages, we cannot determine the possible loss, if any, that may ultimately be incurred either in the context of a trial or as a result of a negotiated settlement. We may also incur substantial legal fees in this matter. After consideration of the nature of the claims and facts relating to the litigation, we believe that the resolution of this matter will not harm our business. However, the results of these proceedings, including any potential settlement, are uncertain and there can be no assurance that they will not harm our business.

Employees

As of June 30, 1999, we had 210 employees. Of that total, 65 were primarily engaged in product development, engineering or systems engineering, 67 were engaged in sales and marketing, 54 were engaged in professional services and 24 in operational, financial and administrative functions.

None of our employees is represented by a labor union, and we have never experienced a work stoppage. Our relations with our employees are good.

Facilities

Our headquarters are located in approximately 38,600 square feet in San Jose, California, occupied under a sublease expiring on August 31, 1999. We also lease office space in Pleasanton, California; Boston, Massachusetts; Atlanta, Georgia; Chicago, Illinois; Reading, England; and Stockholm, Sweden, under leases for terms expiring from August 1999 to January 2002. We have additional leased space in San Jose and Mountain View, California, some of which we have sublet to unrelated third parties.

We are currently searching for new space to occupy upon expiration of our principal office lease. We believe that suitable additional space will be available and that this additional space, together with our other current facilities, will be adequate to meet our needs for the foreseeable future. However, if we are unable to identify suitable space or if the change in location of our principal offices is unexpectedly disruptive, time-consuming or costly, our business would be harmed.

Management

Officers and Directors

Our executive officers, other officers and directors as of June 30, 1999 are:

Name Age Position(s)

Alan P. Naumann(1)	39	President, Chief Executive Officer and Director
Dave Barrett(1)	43	Executive Vice President and Chief Operating Officer
Matthew DiMaria(1)	38	Vice President, Marketing
Arthur F. Knapp, Jr.(1)	50	Vice President and Chief Financial Officer
H. Tayloe Stansbury(1)	38	Vice President, Engineering
David Cardinal	39	Vice President and Chief Technical Officer
Lynn Butler Corsiglia	40	Vice President, Human Resources
Paul Greenfield	47	Vice President and Managing Director, Eurasia
Steve Leahy	40	Vice President, Americas
Alan MacMurray	42	Vice President, Professional Services
Joseph Moran	42	Vice President, Finance
Amanda North	42	Vice President, New Ventures
Barton O'Brien	43	Vice President, Strategic Sales
Michael Ouye	45	Vice President, Advanced Development

William Paseman.....	44	Vice President, Research and Development and Chairman of the Board
Beverly Powell-Goldman.....	45	Vice President, Business Development
Bernard J. Lacroute(2).....	55	Director
William D. Unger(2).....	49	Director

(1) Executive Officer (2) Member of Audit and Compensation Committees ALAN P. NAUMANN has served as President, Chief Executive Officer and a director of Calico since September 1997. From November 1995 to September 1997, Mr. Naumann served as Vice President and General Manager at Cadence Design Systems, a software company. From 1988 to November 1995, Mr. Naumann held director and vice president positions in sales and field operations at Cadence. From 1982 to 1987, Mr. Naumann served in various sales and business development positions at Hewlett Packard. Mr. Naumann holds a B.S. degree in Computer Engineering from Iowa State University.

DAVE BARRETT has served as our Executive Vice President and Chief Operating Officer since May 1999, and from February 1998 to May 1999, Mr. Barrett served as our Executive Vice President, Business Operations. From December 1996 until he joined Calico, Mr. Barrett served as Senior Vice President, Worldwide Sales and Customer Services at Pure Atria/Rational Software Corporation, an enterprise software development automation company. From March 1996 to December 1996, Mr. Barrett served as Vice President, Sales, Marketing and Services at Nets, Inc., an eCommerce company. Mr. Barrett served as Vice President, Field Sales & Services for Lotus Development Corporation, which was subsequently acquired by IBM, from July 1994 to March 1996. From March 1992 to July 1994, Mr. Barrett served concurrently as General Manager, Government Sales and Marketing and Senior Director Strategic Sales and Operations at Lotus, and from June 1984 to March 1992, Mr. Barrett held various senior management positions in sales, marketing and services at Lotus. Mr. Barrett holds a B.S. degree in Marketing Management from the University of Rhode Island.

MATTHEW DIMARIA has served as our Vice President, Marketing since September 1998. Mr. DiMaria joined Calico as Vice President of Product Marketing in March 1998. From March 1995 to February 1998, Mr. DiMaria served as Vice President of Americas, Marketing for Symantec Corporation, a software company. From July 1994 to February 1995, Mr. DiMaria served as a partner of Presence Corporation, a high technology consulting company which he co-founded. From June 1986 to June 1994, Mr. DiMaria held various sales and marketing positions at Ingres Corporation, a software provider. Mr. DiMaria holds a B.S. degree in Information Systems Management from the University of Maryland.

ARTHUR F. KNAPP, JR. has served as our Vice President and Chief Financial Officer since June 1999. From 1991 to March 1999 Mr. Knapp served as Senior Vice President and Chief Financial Officer at Boole & Babbage, a systems management software company. From 1984 to 1991, Mr. Knapp served as Chief Financial Officer at Legent Corporation, a systems management software company. Mr. Knapp holds a B.S. degree in Finance from the Pennsylvania State University and is a Certified Public Accountant and a Certified Management Accountant.

H. TAYLOE STANSBURY has served as our Vice President, Engineering since January 1999. From July 1996 to January 1999, Mr. Stansbury served as Vice President, Document Management Systems for Xerox Corporation. From December 1994 to June 1996, Mr. Stansbury served as Director, then Vice

President, of Software Engineering for Xerox's XSoft division. Mr. Stansbury holds a B.S. degree in Applied Mathematics and Computer Science from Harvard University.

DAVID CARDINAL has served as our Vice President and Chief Technical Officer since August 1998 when we acquired FirstFloor, which Mr. Cardinal co-founded in October 1992. From October 1992 to April 1996, Mr. Cardinal was Chairman, Chief Executive Officer and President of FirstFloor, and from April 1996 to August 1998, Mr. Cardinal was Chairman and Chief Technical Officer of FirstFloor. Prior to that time, Mr. Cardinal served as General Manager of Desktop Software at Sun Microsystems and held various positions at Amdahl Corporation and MICA, Inc., a supplier of training and consulting solutions. Mr. Cardinal holds a B.S. degree in Electrical Engineering from Princeton University.

LYNN BUTLER CORSIGLIA has served as our Vice President, Human Resources since March 1998. From November 1995 until she joined Calico, Ms. Butler Corsiglia served as Director of Human Resources at Netscape Communications Corporation. Ms. Butler Corsiglia held human resource management positions at Sybase Incorporated from October 1992 to October 1995 and served in various human resource management positions at Ungermann-Bass from July 1986 to October 1992.

PAUL GREENFIELD has served as our Vice President and Managing Director, Eurasia since June 1998. From May 1994 to June 1998, Mr. Greenfield was Vice President, European Operations at Avant! Corporation, a leading provider of software used to implement integrated circuits on silicon chips. From June 1993 to May 1994, Mr. Greenfield served as Vice President, Northern European Operations at Redwood Design Automation. Mr. Greenfield holds an H.N.C. degree from Hammersmith College of Commerce in London.

STEVE LEAHY has served as our Vice President, Americas since August 1998. From August 1997 until he joined Calico, Mr. Leahy served as Vice President, Northeast at Informix Software, an enterprise database and data management company. From August 1994 to August 1997, Mr. Leahy was Director of Sales for Pure Software, which later merged to become Pure Atria/Rational Software Corporation, where he continued as Director of Sales for the Eastern US and Canada. During the five year period prior to that date, Mr. Leahy held various positions at Sun Microsystems in various sales capacities. Mr. Leahy holds a B.A. degree in History from Bowdoin College.

ALAN MACMURRAY has served as our Vice President, Professional Services since April 46 1997. From January 1995 until he joined Calico, Mr. MacMurray served as Vice President, Professional Services at TravelNet, Inc., an eCommerce software company. From March 1988 to December 1994, Mr. MacMurray held four services and support positions at Aspect Telecommunications, a supplier of automated call distributors. From December 1984 to March 1988, he was employed by the Rolm Division of IBM where he held various sales and services roles including Branch Manager. He has a B.S. degree in Economics from Harvard College and an M.B.A. degree in Marketing and Finance from the University of Chicago.

JOSEPH MORAN has served as our Vice President, Finance since June 1997, and as Chief Financial Officer from June 1997 to June 1999. From 1991 to 1997, Mr. Moran held various positions at Sybase, including Vice President, Finance, Enterprise Business Group from June 1996 to June 1997, and

Director of Finance from January 1993 to June 1996. Mr. Moran holds a B.S. degree in Economics from the University of California at Berkeley and an M.B.A. degree in Finance and International Business from the University of Chicago.

AMANDA NORTH has served as our Vice President, New Ventures since September 1998. From November 1997 to September 1998, Ms. North served as Calico's Vice President, Corporate Marketing. From October 1993 to November 1997, Ms. North held various positions at Studio Archetype, a leading developer of complex and high visibility web sites. Ms. North was President of Studio Archetype from October 1996 to October 1997. Ms. North holds B.A. degrees in Economics and Politics from Princeton University and an M.B.A. degree from Stanford University.

BARTON O'BRIEN has served as our Vice President, Strategic Sales, since he co-founded Calico in January 1994. Prior to joining Calico, Mr. O'Brien held sales positions at RSA Data Security, a leading developer of encryption and authentication technology. Mr. O'Brien holds a B.S. degree in Business Administration from the University of Florida and an M.S. degree in Industrial Administration from Carnegie-Mellon Graduate School of Industrial Administration.

MICHAEL OUYE has served as our Vice President, Advanced Development, since August 1996 when Calico acquired FirstFloor, where he had been Vice President, Engineering since April 1994. From February 1987 to April 1994, Mr. Ouye was involved in the formation of GO Corporation and EO, Inc., developing the concepts and software around pen-based computing as Director of Engineering and Vice President, Engineering, respectively. Mr. Ouye has a B.S. degree in Computer Science from California State University in Sacramento and an M.S. degree in Computer Science from the University of Santa Clara.

WILLIAM PASEMAN, the Chairman of the board of directors of Calico and a director since he founded Calico, served as Calico's President until January 1996, and has since served as Calico's Vice President, Research and Development. From 1990 to 1994, Mr. Paseman was a consultant at Paseman & Associates, a consulting firm that he co-founded. From 1986 to 1990, Mr. Paseman co-founded Atherton Technology, Inc., a software company, where he served as Vice President of Technology. Mr. Paseman holds a B.S. degree in Chemical Engineering, a B.S. degree in Electrical Engineering, and an M.S. degree in Chemical Engineering from Rice University. He also holds an M.S. degree in Computer Science from Massachusetts Institute of Technology.

BEVERLY POWELL-GOLDMAN has served as our Vice President, Business Development since December 1998. From October 1997 to December 1998, Ms. Powell-Goldman served as Executive Vice President, Worldwide Sales and Business Development at Extricity Software, a provider of business-to-business integration software. From June 1996 to October 1997, Ms. Powell-Goldman served as Vice President, Strategic Alliances at Siebel Systems, a supplier of enterprise relationship management software. From September 1991 to October 1995, Ms. Powell-Goldman served as General Manager and Senior Vice President at Hyperion Software/Pillar Corp. 47 Ms. Powell-Goldman holds a B.S. degree in Business Administration and Economics from San Jose State University.

BERNARD J. LACROUTE has been a director of Calico since June 1995. Mr. Lacroute has been a partner with Kleiner Perkins Caufield & Byers since 1989. Prior to joining Kleiner Perkins Caufield & Byers, Mr. Lacroute held a number of senior executive positions in leading high technology firms including Digital Equipment Corporation and Sun Microsystems. Mr. Lacroute is a director of Brio Technology, Inc., a software provider, and a director of several privately held companies. Mr. Lacroute holds graduate degrees in Physics from the University of Grenoble and in Engineering from the Ecole Nationale Superiere d'Ingenieurs, as well as an M.S. degree in Electrical Engineering from the University of Michigan.

WILLIAM D. UNGER has been a director of Calico since June 1995. Mr. Unger joined Mayfield Fund, a venture capital firm, in 1983, and has been a general partner of several venture capital firms affiliated with Mayfield Fund since 1987. Before joining Mayfield, Mr. Unger founded the executive recruitment firm Positek. Mr. Unger is a director of several privately held companies. Mr. Unger holds a B.A. Degree in Elementary Education from the University of Illinois.

Board of Directors

Upon completion of the offering, the terms of the board of directors will be divided into three classes: Class I, whose term will expire at the annual meeting of stockholders to be held in 1999; Class II, whose term will expire at the annual meeting of stockholders to be held in 2000; and Class III, whose term will expire at the annual meeting of stockholders to be held in 2001. The Class I directors are , the Class II directors are , and the Class III directors are . At each annual meeting of stockholders after the initial classification, the successors to directors whose term expires will be elected to serve a term of three years. This classification of directors may have the effect of delaying or preventing changes in our control. Our board of directors consists of four members. Our bylaws provide that the authorized number of directors may be changed by resolution of the board of directors.

Executive officers are elected by the board of directors annually. There are no family relationships among any of our directors, officers or key executives.

Board Committees

The board of directors has established an audit committee and a compensation committee.

The audit committee reviews and monitors our corporate financial reporting and our external audits, including, among other things, our control functions, the results and scope of the annual audit and other services provided by our independent accountants and our compliance with legal matters that have a significant impact on our financial reports. The audit committee also consults with management and our independent accountants prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of our financial affairs. In addition, the audit committee

has the responsibility to consider and recommend the appointment of, and to review fee arrangements with our independent accountants. The current members of the audit committee are Messrs. Lacroute and Unger.

The compensation committee reviews and makes recommendations to the board of directors regarding our compensation policies and all forms of compensation to be provided to our executive officers and directors, including among other things, annual salaries and bonuses and stock option and other incentive compensation arrangements. The current members of the compensation committee are Messrs. Lacroute and Unger.

Director Compensation

Our directors do not currently receive any compensation for their service as directors, other than reimbursement of all reasonable out-of-pocket expenses for 48 attendance at meetings of the board of directors. Members of the board of directors are eligible to receive discretionary option grants and stock issuances under our 1997 Stock Option Plan and employee-directors will be able to participate in our 1999 Employee Stock Purchase Plan.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS No interlocking relationship exists between our board of directors or compensation committee and the board of directors or compensation committee of any other company, and no such interlocking relationship existed in the past.

Executive Compensation Summary Compensation Table

The following table sets forth the compensation paid to our chief executive officer and each of our other executive officers whose total salary and bonus exceeded $100,000 for the fiscal year ended March 31, 1999:

Summary Compensation Table

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION(S)	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS
Alan P. Naumann..... President and Chief Executive Officer	$175,000	$ 37,148	200,000
Dave Barrett..... Executive Vice President and Chief Operating Officer	175,000	179,018	--
Matthew DiMaria..... Vice President, Marketing	155,000	19,380	--

Option Grants in Fiscal Year Ended March 31, 1999

The following table sets forth information for stock options granted during the fiscal year ended March 31, 1999 to our chief executive officer and each of our other executive officers who earned in excess of $100,000.

All of these options were granted under our 1997 Stock Option Plan. Options granted under the 1997 Option Plan generally vest over a four-year period with 25% of the shares vesting at the first anniversary of the grant date and the remaining shares vesting in equal monthly installments over the next 36 months.

The percentages in the column entitled "Percent of Total Options Granted to Employees in Fiscal 1999" was based on an aggregate of 2,458,637 options granted to our employees under our 1997 Stock Option Plan during fiscal 1999. The exercise price of each option is equal to the fair market value of our common stock as determined by the board of directors on the date of grant, taking into account the purchase price paid by investors for shares of our preferred stock, the liquidation preferences and other rights, privileges and preferences associated with the preferred stock and an evaluation by the board of directors of our revenues, operating history and prospects.

The potential realizable value is calculated based on the ten-year term of the option at the time of grant. For purposes of these columns, we assumed stock appreciation of 5% and 10% as required by the Securities and Exchange Commission. These rates of appreciation do not represent our prediction of our stock price performance. The potential realizable values at 5% and 10% appreciation are calculated by assuming that the estimated fair market value on the date of grant appreciates at the indicated rate for the entire term of the options and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price.

Option Grants in Fiscal Year Ended March 31, 1999

					POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES DURING FISCAL 1999	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Alan P. Naumann.....	200,000	8.1%	$2.60	4/29/08	$327,025	$828,746
Dave Barrett.....	--	--	--	--	--	--
Matthew DiMaria.....	--	--	--	--	--	--

Aggregate Option Exercises and Option Values

The following table presents for our chief executive officer and each of our other highest-paid executive officers the number of options exercised during the fiscal year ended March 31, 1999 and the number and value of securities underlying unexercised options that are held by our chief executive officer and other highest-paid executive officers as of March 31, 1999. Each of the options listed in the table is immediately exercisable in full at the date of grant, but shares purchased on exercise of unvested options are subject to a repurchase right in our favor that entitles us to repurchase unvested shares at their original exercise price on termination of the employee's services with us. The heading "Vested" refers to shares no longer subject to repurchase; the heading "Unvested" refers to shares subject to repurchase as of March 31, 1999. The numbers in the column "Value of Unexercised In-the-Money Options at March 31, 1999" are based on the fair market value of our common stock of $14.25 at March 31, 1999, as determined by our board of directors, less the exercise price payable for the shares.

Option Exercises in Fiscal Year Ended March 31, 1999 and Fiscal Year-end Option Values

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT MARCH 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT MARCH 31, 1999	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	VESTED	UNVESTED	VESTED	UNVESTED
Alan P. Naumann.....	200,000	$180,000	--	--	$ --	$ --
Dave Barrett.....	275,000	68,950	--	--	--	--
Matthew DiMaria.....	--	--	--	--	--	--

Employment Agreements and Change in Control Arrangements

All options granted to Mr. Naumann will accelerate in full upon a change in our control and either a successor or purchasing corporation fails to either assume such options or replace them with substantially equivalent options or within 36 months following a change in control Mr. Naumann either is terminated without cause or resigns for good reason, as provided in the option agreement.

The options granted to Mr. Barrett will accelerate up to 70% or in full, upon a change in our control, the amount depending upon the date of the event, and either a successor or purchasing corporation fails to either assume such options or replace them with substantially equivalent options or within 12 months following a change in control Mr. Barrett either is terminated without cause or resigns for good reason as provided in the option agreement.

Benefit Plans

1995 Stock Option Plan

Our 1995 Stock Option Plan provides for the grant of incentive stock options to employees, within the meaning of Section 422 of the Internal Revenue Code, and for the grant of nonstatutory stock options to employees, non-employee directors and consultants. The terms of the 1995 Stock Option Plan are substantially identical to the terms of our 1997 Stock Option Plan. The board of directors has determined that no further options will be granted under the 1995 Stock Option Plan, although options granted under the 1995 Stock Option Plan will remain outstanding in accordance with their terms.

1997 Stock Option Plan

Our 1997 Stock Option Plan was adopted by the board of directors in June 1997 and by the stockholders in July 1997. The 1997 Stock Option Plan provides for the grant of incentive stock options to employees, within the meaning of Section 422 of the Internal Revenue Code, and for the grant of nonstatutory stock options to employees, non-employee directors and consultants. However, no incentive stock options may be granted under the 1997 Stock Option Plan after June 2007.

The maximum number of shares issuable under the plan is 9,810,000 shares. The share reserve will automatically be increased on the first day of each fiscal year beginning on or after April 1, 2001 by an amount equal to 5% of the number of shares of our common stock which were issued and outstanding on the last day of the preceding fiscal year. Notwithstanding the foregoing, the maximum number of shares issuable at any time under the 1997 Stock Option Plan will be reduced by the number of outstanding shares that were issued under the 1995 Stock Option Plan, plus the number of shares subject to outstanding options which were granted under the 1995 Stock Option Plan, which together was 2,457,070 shares as of March 31, 1999. As of March 31, 1999, 4,856,510 shares had been issued upon the exercise of options under our 1995 and 1997 Stock Option Plans, options to purchase a total of 2,331,240 shares at a weighted average exercise price of $6.71 per share were outstanding under these plans, and 3,134,607 shares were available for future grants under the 1997 Stock Option Plan.

The 1997 Stock Option Plan is administered by the board of directors, or a committee of the board. Subject to the provisions of the plan, the board of directors or its committee has the authority to select the persons to whom options are granted and determine the terms of each option, including:

- - the number of shares of common stock covered by the option;

- - when the option becomes exercisable;

- - the per share option exercise price, which, in the case of incentive stock options, must be at least 100% of the fair market value of a share of common stock as of the date of grant or 110% of fair market value for incentive stock options granted to 10% stockholders, and, in the case of nonstatutory

stock options, must be at least 85% of the fair market value of a share of common stock as of the date of grant; and - - the duration of the option, which may not exceed ten years, or five years for incentive stock options granted to a 10% stockholder.

Generally, options granted under the 1997 Stock Option Plan vest over four years, and are non-transferable other than by will or the laws of descent and distribution. In the event of a change in our control, if the acquiring or successor corporation does not assume or substitute for options outstanding under the plan, the options shall terminate. Options granted to four of our executive officers provide for acceleration upon a change in our control.

Firstfloor Options

In connection with the acquisition of FirstFloor, we assumed the options granted under the FirstFloor 1993 Stock Option Plan and converted the options into options to purchase 31,474 shares of our Series D Preferred Stock. At March 31, 1999, options to purchase 22,240 shares of Series D Preferred Stock were outstanding at a weighted average exercise price of $4.06 per share. We do not intend to grant further options to purchase our Series D Preferred Stock.

401(K) Plan

In 1995, we adopted a tax-qualified employee savings and retirement plan which covers our eligible full-time U.S. employees. Under the 401(k) Plan, employees may elect to reduce their current annual compensation up to the lesser of 15% or the statutorily prescribed limit, which is $10,000 in calendar year 1999, and have the amount of the reduction contributed to the 401(k) Plan. The plan permits, but does not require us to make matching contributions to the 401(k) Plan. To date we have not made any matching contributions to the 401(k) Plan. The 401(k) Plan is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code, so that contributions by us or our employees to the 401(k) Plan, and income earned on plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan. Salary deferred contributions are held in trust. Each participant may direct the investment of his or her account among the investment options offered by the 401(k) Plan.

1999 Employee Stock Purchase Plan

In July 1999, the board of directors adopted the 1999 Employee Stock Purchase Plan, subject to stockholder approval. We have reserved a total of 500,000 shares of common stock for issuance under the employee stock purchase plan, none of which has yet been issued. The employee stock purchase plan will become effective as of the effective date of this offering and will be administered by the board of directors or by a committee appointed by the board of directors. Employees are eligible to participate if they are customarily employed by us for at least 20 hours per week and more than five months in any fiscal year.

The employee stock purchase plan permits an eligible employee to purchase our common stock at a discount through accumulated payroll deductions of up to 15% of his or her compensation. Participants generally may not purchase more than 500 shares on any purchase date or stock having a value measured at the beginning of the offering period, greater than $25,000 in any calendar year. The employee stock purchase plan also provides that all participants, in aggregate, may not purchase more than 100,000 shares on any purchase date.

Unless the board of directors or a committee of the board of directors determines otherwise, the first offering period starts on the effective date of this offering and will run for approximately 24 months and will be divided into four consecutive purchase periods of approximately six months. The first offering period and the first purchase period commence on the date of this prospectus. Subsequent offering periods will generally have a duration of 12 months and will be divided into two consecutive purchase periods of approximately six months. Offering periods and purchase periods after the initial offering will commence on May 1 and November 1 of each year. The board of directors may change the dates or duration of one or more offerings, but no offering period may exceed 27 months. Participants will purchase shares on the last day of each purchase period.

The price at which shares are purchased under the employee stock purchase plan is equal to 85% of the lower of the fair market value of a share of common stock on the first day of the offering period, or the last day of the purchase period. In the event of a change in our control, our board of directors may accelerate the purchase date of the then current purchase period to a date prior to the change in control, or the acquiring corporation may assume or replace the outstanding purchase rights under the employee stock purchase plan. Participants may end their participation in the employee stock purchase plan at any time, and participation automatically ends on termination of employment. The board of directors may amend or terminate the employee stock purchase plan at any time as long as such amendment or termination does not impair outstanding purchase rights.

Limitation on Directors' Liability and Indemnification

As permitted by the Delaware General Corporation Law, we have adopted provisions in our certificate of incorporation and bylaws that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except liability for:

- - any breach of the director's duty of loyalty to us or our stockholders;

- - acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

- - unlawful stock repurchases, redemptions or other distributions or unlawful payments of dividends; or - - any transaction from which the director derived an improper personal benefit.

Our certificate of incorporation and bylaws also allow us to indemnify our officers, directors and other agents to the fullest extent permitted by Delaware law. We intend to enter into separate indemnity agreements with each of our officers and directors which gives these officers and directors additional indemnification. The indemnity agreements may require us, among other things, to:

- - indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers;

- - advance expenses as incurred to our officers and directors in connection with any legal proceeding as to which they could be indemnified, subject to limited exceptions; or - - obtain directors' and officers' liability insurance.

We also intend to purchase an insurance policy covering our directors and officers for claims they may otherwise be required to pay or for which we may be required to indemnify them.

At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification is sought. We are not aware of any threatened litigation or proceeding which may result in a claim for indemnification.

Transactions with Related Parties and Insiders

We have raised capital primarily through the sale of our stock. On May 26, 1995 and May 31, 1995, we sold 4,000,000 shares of Series A Preferred Stock at a price of $1.00 per share. On June 7, 1996, we sold an aggregate of 2,400,000 shares of Series B Preferred Stock at a price of $2.40 per share. On July 23, 1997, we sold an aggregate of 1,388,889 shares of Series C Preferred Stock at a price of $3.60 per share. On August 21, 1998 we exchanged 832,297 shares of Series D Preferred Stock for all of the issued and outstanding shares of capital stock of FirstFloor in connection with our acquisition of FirstFloor. From September 4, 1998 through September 23, 1998, Calico sold an aggregate of 1,791,725 shares of Series E Preferred Stock at a price of $6.837 per share.

The following holders of more than 5% of our voting securities purchased shares of Series A, Series B, Series C and Series E Preferred Stock or were shareholders of FirstFloor and received shares of Series D Preferred Stock in exchange for their shares of capital stock of FirstFloor:

PURCHASER	SHARES OF SERIES A PREFERRED STOCK	SHARES OF SERIES B PREFERRED STOCK	SHARES OF SERIES C PREFERRED STOCK	SHARES OF SERIES D PREFERRED STOCK	SHARES OF SERIES E PREFERRED STOCK
Entities Affiliated with Kleiner Perkins Caufield & Byers.....	2,000,000	1,000,000	347,222	--	219,394
Entities Affiliated with Mayfield Fund.....	2,000,000	1,000,000	347,222	132,502	365,659
Entities Affiliated with Integral Capital Partners.....	--	400,000	694,445	--	117,010

The preferred stock purchased by these affiliates was purchased on the same terms and conditions as the preferred stock purchased by other investors.

Entities affiliated with Kleiner Perkins Caufield & Byers are together considered a 5% stockholder of ours. Bernard J. Lacroute, a director of Calico, is a general partner of Kleiner Perkins Caufield & Byers. Entities affiliated with Mayfield Fund are together considered a 5% stockholder of ours. William Unger, a director of Calico, is a general partner of Mayfield Fund. Entities affiliated with Integral Capital Partners are together considered a 5% stockholder of ours.

In connection with our offering of the Series A and Series B Preferred Stock, 1,100,000 shares and 400,000 shares of common stock held by William Paseman, one of our founders, were exchanged for 1,100,000 shares of Series A and 400,000 shares of Series B Preferred Stock which were then sold by Mr. Paseman independently of the shares sold by us.

In connection with our acquisition of FirstFloor, David Cardinal, our Chief Technology Officer and a co-founder of FirstFloor, exchanged his existing shares of FirstFloor capital stock for 61,103 shares of Calico Series D Preferred Stock, of which 9,165 shares are held in escrow until August 21, 1999.

Certain of our stockholders, including all of our 5% stock holders and our director William Paseman, are entitled to registration rights in respect of their common stock issued or issuable upon conversion of preferred stock held by them. See "Description of Capital Stock -- Registration Rights".

We have received promissory notes in amounts in excess of $60,000 from the following executive officers as consideration for the exercise of these individuals' employee stock options:

Name Amount of Note

Alan P. Naumann.....	$760,000
Dave Barrett.....	343,750
Matthew DiMaria.....	141,750

These notes bear simple interest at rates ranging from 5.59% to 6.65% per annum, are full recourse, and are secured by a pledge of the underlying shares of common stock. The notes mature on various dates through fiscal 2002.

We intend to enter into indemnity agreements with each of our directors and officers. These indemnity agreements will require us to indemnify these officers and directors against liabilities that may arise by reason of their status or service as officers or directors, and to advance expenses incurred as a result of any proceedings against them as to which they could be indemnified.

We believe that all transactions with our officers, directors, principal stockholders and other affiliates described above were made on terms no less favorable to us than could have been obtained from unaffiliated third parties.

Principal Stockholders

The following table sets forth the beneficial ownership of our common stock as of June 30, 1999, by:

- - each person who is known by us to beneficially own more than 5% of our common stock;

- - our chief executive officer, each of the executive officers named in the summary compensation table and each of our directors; and - - all of our executive officers and directors as a group.

Unless otherwise indicated, the address of each of the named individuals is c/o Calico Commerce, Inc., 333 West San Carlos Street, Suite 300, San Jose, California 95110. Unless otherwise indicated below, and subject to applicable community property laws, we believe that the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

Percentage of ownership on the table is based on 18,080,115 shares outstanding as of June 30, 1999 and shares outstanding immediately following the completion of this offering, assuming the underwriters' over-allotment option is not exercised and assuming the conversion of all shares of preferred stock into common stock. Of the total shares outstanding, 1,535,044 shares are subject to our right of repurchase. Beneficial ownership is determined under the rules and regulations of the Securities and Exchange Commission. All shares of common stock subject to options currently exercisable or exercisable within 60 days after June 30, 1999 are deemed to be outstanding for the purpose of computing the percentage of ownership of the person holding the options, but are not deemed to be outstanding for computing the percentage of ownership of any other person. Entries denoted by an asterisk represent an amount less than 1%.

		PERCENTAGE OF SHARES OUTSTANDING	
	NUMBER OF SHARES BENEFICIALLY OWNED	BEFORE OFFERING	AFTER OFFERING
Mayfield Fund(1) 2800 Sand Hill Road, Menlo Park, California 94025	3,845,383	21%	
Kleiner Perkins Caufield & Byers(2) 2750 Sand Hill Road, Menlo Park, California 94025	3,566,616	20	
Integral Capital Partners(3) 2750 Sand Hill Road, Menlo Park, California 94025	1,211,455	7	
Alan P. Naumann(4)	1,000,000	6	
Dave Barrett(5)	275,000	2	
Matthew DiMaria(6)	135,000	*	
William Paseman	2,500,000	14	
Bernard Lacroute(2) 2750 Sand Hill Road, Menlo Park, California 94025	3,566,616	20	
William Unger(1) 2800 Sand Hill Road, Menlo Park, California 94025	3,845,383	21	
All executive officers and directors as a group (8 persons)(7)	11,596,999	64	

(1) The shares listed represent 3,330,795 shares held by Mayfield VII; 175,217 shares held by Mayfield Associates Fund II; 193,112 shares held by Mayfield Software Partners; 23,399 shares held by the Unger-Luchsinger Family 56 Trust U/D/T 12/1999, a revocable trust for the benefit of the Unger-Luchsinger Family; and 122,860 shares held by e-trust, a revocable trust over which Mr. Unger has no control or direct or indirect interest. Mr. Unger is a general partner of Mayfield Associates Fund II and Mayfield VII Management Partners, a California Limited Partnership, which is the general partner of

Mayfield VII. Mayfield VII is one of the general partners of Mayfield Software Partners. Except for those shares held by the Unger-Luchsinger Family Trust U/D/T 12/1999, Mr. Unger disclaims beneficial ownership of all other shares except for his pecuniary interest.

(2) Bernard Lacroute is a partner of Kleiner Perkins Caufield & Byers. The shares listed represent 2,698,483 shares held by Kleiner Perkins Caufield & Byers VII, 783,308 shares held by KPCB Java Fund, and 84,825 shares held by KPCB Information Sciences Zaibatsu Fund II. Mr. Lacroute disclaims beneficial ownership of all shares except for his pecuniary interest.

(3) The shares listed represent 975,080 shares held by Integral Capital Partners III, L.P., and 236,375 shares held by Integral Capital Partners International III, L.P.

(4) Includes 558,334 shares subject to repurchase by Calico in the event Mr. Naumann ceases to be an employee of Calico prior to full vesting of the shares. The right of repurchase lapses at the rate of 20,834 shares per month until July 18, 2001, after which date the right to repurchase lapses at the rate of 4,166 shares per month.

(5) Includes 183,334 shares subject to repurchase by Calico in the event Mr. Barrett ceases to be an employee of Calico prior to full vesting of the shares. The right of repurchase lapses at the rate of 5,729 shares per month.

(6) Includes 90,000 shares subject to repurchase by Calico in the event Mr. DiMaria ceases to be an employee of Calico prior to full vesting of the shares. The right of repurchase lapses at the rate of 2,813 shares per month.

(7) Includes 831,668 shares subject to repurchase by Calico upon cessation of employment prior to full vesting of the shares.

Description of Capital Stock

As of June 30, 1999, there were 18,080,115 shares outstanding held by 239 shareholders of record. Upon completion of this offering, our authorized capital stock will consist of 100,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of preferred stock, $0.001 par value per share. The following description of our capital stock gives effect to the amendments to the certificate of incorporation to be filed upon completion of this offering. Our certificate of incorporation and bylaws, to be effective after the closing of this offering, provide further information about our capital stock.

Common Stock

Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of our common stock are entitled to the following rights:

- to receive dividends at such times and in such amounts as the board of directors may determine out of funds legally available for dividends;

- one vote for each share held on all matters submitted to a vote of stockholders; and - upon our liquidation, dissolution or winding up, share ratably in all assets remaining after payment of liabilities and the liquidation preference of any preferred stock.

Because our certificate of incorporation does not authorize cumulative voting for the election of directors, the holders of a majority of the shares voted can elect all of the directors then standing for election. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

Upon completion of this offering, all outstanding shares of preferred stock will be converted on a one-to-one basis into shares of common stock. However, following this conversion, under our certificate of incorporation, the board of directors will have the authority, without further action or authorization by the stockholders, to designate and issue up to 10,000,000 shares of preferred stock in one or more series. The board of directors can fix the rights, preferences and privileges of the shares of each series of preferred stock and any qualifications, limitations or restrictions on these shares.

The board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of entrenching our board of directors and making it more difficult for a third party to acquire, or discourage a third party from acquiring, a majority of our outstanding voting stock. Furthermore, the preferred stock may have other rights, including economic rights, senior to the common stock. We have no current plans to issue any shares of preferred stock.

Warrants

At June 30, 1999, we had issued warrants to purchase a total of 88,833 shares of common stock on an as-converted basis. Warrants to purchase 28,000 shares of common stock at $1.00 per share will expire in November 2002. Warrants to purchase 23,333 shares of common stock at $2.40 per share will expire in November 2004 and warrants to purchase 37,500 shares of common stock at $2.40 per share will expire in June 2007.

Registration Rights

Following this offering, under the terms of an amended investor rights agreement, the holders of approximately 13,729,543 shares of our common stock, including shares issuable upon conversion of preferred stock and warrants and options to purchase preferred stock, will have rights to require us to register those registration shares under the Securities Act. Subject to limitations in this investor rights agreement, the holders of at least 30% of these shares may require, on two occasions, that we use our

best efforts to register these shares for public resale. If we register any common stock for our own account, other than a registration relating solely to employee benefit plans, a registration relating solely to transactions under Rule 145 of the Securities Act, or a registration on any registration form which does not permit secondary sales, or for the account of other security holders, the holders of these shares are entitled to include their shares of common stock in the registration, subject to the ability of the underwriters to limit the number of shares included in the offering. The holders of these shares may also require us to register all or a portion of their registrable securities on Form S-3 when we are eligible to use this form, provided, among other limitations, that the proposed aggregate price of the offering to the public is at least $500,000. We will pay all fees, costs and expenses of these registrations, other than underwriting discounts and commissions.

Delaware Anti-takeover Law and Certain Charter Provisions

Provisions of Delaware law and our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us by means of a tender offer, proxy contest, or otherwise, and could make the removal of incumbent officers and directors more difficult. These provisions could discourage coercive takeover practices and takeover bids and encourage persons seeking to acquire control of us to negotiate first with us.

We will be subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a publicly held Delaware corporation from engaging in any business combination with an interested stockholder for three years following the date the stockholder became an interested stockholder, unless:

- - prior to that date, the board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

- - upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began; or - - on or following that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

Section 203 defines a business combination to include:

- - any merger or consolidation involving the corporation and the interested stockholders;

- - any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholders;

- - subject to limited exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholders;

- - any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholders; or - - the receipt by the interested stockholders of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as an entity or person who, together with affiliates and associates, owns 15% or more of the corporation's outstanding voting stock.

Upon filing after the closing of this offering, our certificate of incorporation will provide that our board of directors will be divided into three classes of directors serving staggered three-year terms. As a result, only one of the three classes of our board of directors will be elected each year. The classification system of electing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may maintain the incumbency of our board of directors, as the classification of the board generally increases the difficulty of replacing a majority of the directors. Our directors will be removable only for cause upon the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of voting stock, voting as a single class. Our board of directors has the exclusive right to set the authorized number of directors and to fill vacancies on our board of directors. Our certificate of incorporation requires that any action required or permitted to be taken by stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, special meetings of the stockholders may be called only by our board of directors, the Chairman of our board of directors, or our chief executive officer or by the holders of not less than ten percent of all of the shares entitled to vote at the meeting. Advance notice must be given by stockholders of any stockholder proposals or director nominations or other business to be brought by stockholders at stockholders' meetings. Our certificate of incorporation authorizes undesignated preferred stock, which makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences that could discourage potential acquisition proposals and could delay or prevent a change in our control or management. These provisions may be amended only by the affirmative vote of at least two-thirds of all the outstanding voting stock. These provisions may have the effect of deferring hostile takeovers or delaying changes in our control or management.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our common stock is BankBoston, N.A., whose address is 150 Royall Street, Canton, Massachusetts 02021 and whose telephone number is (781) 434-2200.

Shares Eligible for Future Sale

Prior to this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market, including shares issued upon exercise of outstanding options or warrants, could adversely affect the market price of our common stock.

Upon completion of this offering, we will have shares of common stock outstanding, assuming no exercise of options after June 30, 1999. Of these shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by affiliates of Calico as that term is defined in Rule 144 under the Securities Act. Shares purchased by affiliates may generally only be sold pursuant to an effective registration statement under the Securities Act or in compliance with the limitations of Rule 144 as described below.

We issued and sold the remaining 18,080,115 shares of common stock held by existing stockholders in reliance on exemptions from the registration requirements of the Securities Act and are "restricted securities" as that term is defined in Rule 144 under the Securities Act. All of these restricted securities will be subject to lock-up agreements generally providing that the stockholder will not offer, sell, or otherwise dispose of any of the shares of common stock owned by them, for a period of 180 days after the date of this offering, without the prior written consent of Goldman, Sachs & Co. Following the expiration of the lock-up period, 15,634,818 restricted shares will be available for sale in the public market, all of which are subject to limitations under Rule 144, except for 724,985 shares eligible for sale under Rule 144(k) and 3,549,802 shares eligible for sale under Rule 701, subject in some cases to repurchase rights in favor of Calico.

Immediately after the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for future issuance under our 1997 Stock Option Plan and our 1999 employee stock purchase plan. Based upon the number of shares subject to outstanding options as of June 30, 1999 and currently reserved for issuance under both of these plans, this registration statement would cover approximately 5,927,537 shares. Shares registered under the registration statement will generally be available for sale in the open market immediately after the 180 day lock-up agreements expire.

Also beginning six months after the date of this offering, holders of 13,729,543 shares of our common stock, including shares issuable upon conversion of preferred stock and warrants and of options to purchase preferred stock will be entitled to certain rights with respect to registration of these shares for sale in the public market. See "Description of Capital Stock -- Registration Rights". Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon effectiveness of the registration.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year, including a person who may be deemed an affiliate, is entitled to sell in "brokers' transactions" or to market makers, within any three-month period, a number of shares that does not exceed the greater of:

- - 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or

- - the average weekly trading volume of our common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to restrictions relating to the manner of sale, notice and the availability of current public information about us.

Rule 144(K)

Under Rule 144(k), a person who is not deemed to have been an affiliate of Calico at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701 as currently in effect, any of our employees, directors, officers, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering is entitled to sell the shares 90 days after the effective date of this offering in reliance on Rule 144 without having to comply with the holding period and notice requirements of Rule 144 and, in the case of non-affiliates, without having to comply with the public information, volume limitation or notice provisions of Rule 144.

The SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Securities Exchange Act of 1934, along with the shares acquired upon exercise of the options, including exercises after the date of this prospectus. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one year minimum holding period requirements.

Legal Matters

The validity of the common stock offered hereby will be passed upon for Calico by Gray Cary Ware & Freidenrich LLP, Palo Alto, California. As of June 30, 1999, an investment partnership of Gray Cary Ware & Freidenrich owned an aggregate of 3,657 shares of our Series E Preferred Stock, which was purchased on September 4, 1998 for $6.837 per share. Certain legal matters in connection with this offering will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

Experts

The consolidated financial statements of Calico Commerce, Inc. as of March 31, 1998 and 1999 and for each of the three years in the period ended March 31, 1999 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of FirstFloor Software, Inc. at December 31, 1996 and 1997, and for each of the two years in the period ended December 31, 1997, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon, appearing elsewhere in this prospectus, which contains an explanatory paragraph describing conditions that raise substantial doubt about FirstFloor's ability to continue as a going concern as described in note 1 to the financial statements, and are included in reliance upon such report, given upon the authority of such firm as experts in accounting and auditing.

Where You Can Find More Information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedule filed with it. For further information with respect to Calico and the common stock offered in this offering, please read the registration statement and the exhibits and schedules that we have filed. A copy of the registration statement and the exhibits and schedules filed with it may be inspected without charge at the public reference facilities maintained by the SEC in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices located at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048, and copies of all or any part of the registration statement may be obtained from these offices upon the payment of the fees prescribed by the SEC. The SEC maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, and will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the regional offices, public reference facilities and Web site of the SEC referred to above.

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Report of Independent Accountants

The recapitalization and reincorporation described in Note 1 to the consolidated financial statements has not been consummated at July 13, 1999. When it has been consummated, we will be in a position to furnish the following report:

"To the Board of Directors and Stockholders of Calico Commerce, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' deficit and of cash flows present fairly, in all material respects, the financial position of Calico Commerce, Inc. and its subsidiaries at March 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above."

PricewaterhouseCoopers LLP San Jose, California July 13, 1999

Calico Commerce, Inc.

Consolidated Balance Sheet (In Thousands, Except Per Share Amounts)

	MARCH 31,		PRO FORMA STOCKHOLDERS' EQUITY AT MARCH 31, 1999 (UNAUDITED)
	1998	1999	
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,514	$ 15,441	
Accounts receivable, net	2,952	7,443	
Other current assets	379	1,417	
Total current assets	5,845	24,301	
Property and equipment, net	1,847	2,532	
Intangible and other assets, net	--	4,535	
	$ 7,692	$ 31,368	
LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 1,197	$ 1,728	
Accrued liabilities	1,813	5,448	
Deferred revenue	2,361	6,054	
Current portion of notes payable	330	628	
Current portion of capital lease obligations	100	256	
Total current liabilities	5,801	14,114	
Notes payable, non-current	644	700	
Capital lease obligations, non-current	170	177	
Other liabilities	--	622	
	6,615	15,613	
Mandatorily Redeemable Convertible Preferred Stock (Note 6)	14,505	32,535	
Commitments and contingencies (Note 10)			
Stockholders' equity (deficit):			
Preferred Stock; $0.001 par value; 10,000 shares authorized; no shares issued and outstanding actual and pro forma (unaudited)	--	--	$ --
Common Stock; $0.001 par value; 100,000 shares authorized; 6,332 and 7,624 shares issued and outstanding; 100,000 shares authorized; 18,041 shares issued and outstanding, pro forma (unaudited)	6	8	18
Additional paid-in capital	3,661	17,880	50,405
Notes receivable from stockholders	(712)	(2,211)	(2,211)
Unearned compensation	(1,966)	(2,779)	(2,779)
Accumulated deficit	(14,417)	(29,678)	(29,678)
Total stockholders' equity (deficit)	(13,428)	(16,780)	$ 15,755
	$ 7,692	$ 31,368	

The accompanying notes are an integral part of these consolidated financial statements. F-3

Calico Commerce, Inc.

Consolidated Statement of Operations (In Thousands, Except Per Share Amounts)

Year Ended March 31, 1997 1998 1999

Net revenue:			
License	$ 3,940	$ 6,965	$ 10,482
Services	1,963	4,894	10,931
Total net revenue	5,903	11,859	21,413
Cost of net revenue:			
License	178	265	1,179
Services	2,122	3,115	7,272
Total cost of net revenue	2,300	3,380	8,451
Gross profit	3,603	8,479	12,962
Operating expenses:			
Sales and marketing	5,950	7,593	14,138
Research and development	2,224	3,342	5,677
General and administrative	1,486	2,222	3,988
Stock compensation (Notes 8 and 9)	864	780	2,007
Acquired in-process research and development (Note 2)	--	--	1,840
Amortization of goodwill (Note 2)	--	--	550
Total operating expenses	10,524	13,937	28,200
Loss from operations	(6,921)	(5,458)	(15,238)
Interest expense	(40)	(154)	(314)
Interest income and other	61	113	291
Net loss	$(6,900)	$(5,499)	$(15,261)
Net loss per share:			
Basic and diluted	$ (3.19)	$ (1.62)	$ (3.41)
Weighted average shares	2,165	3,386	4,473
Pro forma net loss per share:			
Basic and diluted			$ (1.11)
Weighted average shares			13,793

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

Calico Commerce, Inc.

Consolidated Statement of Stockholders' Deficit (In Thousands)

	COMMON STOCK		ADDITIONAL	NOTES RECEIVABLE			TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	FROM STOCKHOLDERS	UNEARNED COMPENSATION	ACCUMULATED DEFICIT	STOCKHOLDERS' DEFICIT
Balance at March 31, 1996	2,944	$ 3	$ 3	$ --	$ --	$ (2,018)	$ (2,012)
Exercise of stock options	1,882	2	187	(166)	--	--	23

Exchange of founder's Common Stock for Preferred Stock (Note 9).....	(400)	--	--	--	--	--	--
Issuance of Common Stock.....	145	--	35	--	--	--	35
Net loss.....	--	--	--	--	--	(6,900)	(6,900)
Balance at March 31, 1997....	4,571	5	225	(166)	--	(8,918)	(8,854)
Exercise of stock options....	1,957	1	709	(574)	--	--	136
Repayments of notes receivable.....	--	--	(16)	28	--	--	12
Issuance of Common Stock.....	6	--	2	--	--	--	2
Repurchase of Common Stock...	(202)	--	(5)	--	--	--	(5)
Unearned compensation (Note 8).....	--	--	2,746	--	(2,746)	--	--
Amortization of unearned compensation (Note 8).....	--	--	--	--	780	--	780
Net loss.....	--	--	--	--	--	(5,499)	(5,499)
Balance at March 31, 1998....	6,332	6	3,661	(712)	(1,966)	(14,417)	(13,428)
Exercise of stock options....	1,017	1	1,812	(1,660)	--	--	153
Issuance of Common Stock.....	702	1	9,999	--	--	--	10,000
Repayments of notes receivable.....	--	--	(92)	161	--	--	69
Repurchase of Common Stock...	(427)	--	(502)	--	--	--	(502)
Issuance of Common Stock options to non-employees...	--	--	148	--	--	--	148
Unearned compensation (Note 8).....	--	--	2,854	--	(2,854)	--	--
Amortization of unearned compensation (Note 8).....	--	--	--	--	2,041	--	2,041
Net loss.....	--	--	--	--	--	(15,261)	(15,261)
Balance at March 31, 1999....	7,624	$ 8	$17,880	$(2,211)	$(2,779)	$(29,678)	$(16,780)

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

Calico Commerce, Inc.

Consolidated Statement of Cash Flows (In Thousands)

Year Ended March 31, 1997 1998 1999

Cash flows from operating activities:			
Net loss	$(6,900)	$(5,499)	$(15,261)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts	200	200	200
Provision for sales returns	500	200	330
Depreciation, amortization and other	350	664	2,641
Stock compensation and other	899	780	2,189
Loss on disposal of assets	--	--	260
Acquired in-process research and development	--	--	1,840
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(1,214)	(2,248)	(4,904)
Other current assets	(9)	(103)	(1,072)
Accounts payable	496	786	531
Accrued liabilities	422	822	2,662
Deferred revenue	915	1,062	3,130
Other liabilities	--	--	91
Net cash used in operating activities	(4,341)	(3,336)	(7,363)
Cash flows from investing activities:			
Purchases of property and equipment	(930)	(1,403)	(1,829)
Net cash used in investing activities	(930)	(1,403)	(1,829)
Cash flows from financing activities:			
Proceeds from issuance of Common Stock	23	133	10,153
Common stock repurchases	--	--	(502)
Proceeds from repayments of stockholder loans	--	12	69
Net proceeds from issuance of preferred stock	4,769	4,952	12,217
Proceeds from issuance of notes payable	702	443	763
Repayments of notes payable	(27)	(144)	(409)
Principal payments under capital lease obligations	(55)	(64)	(172)
Net cash provided by financing activities	5,412	5,332	22,119
Net increase in cash and cash equivalents	141	593	12,927
Cash and cash equivalents at beginning of period	1,780	1,921	2,514
Cash and cash equivalents at end of period	$ 1,921	$ 2,514	$ 15,441
Supplemental cash flow disclosures:			
Cash paid for interest	$ 40	$ 154	$ 192
Non cash transactions:			
Issuance of Common Stock for notes receivable	$ 166	$ 574	$ 1,660
Cancellation of notes receivable related to forfeited unvested restricted Common Stock	$ --	$ 16	$ 92
Equipment acquired through capital lease obligations	$ 287	$ --	$ 136
Issuance of Series B Mandatorily Redeemable Convertible Preferred Stock warrants	$ 25	$ 53	$ --

Acquired net assets associated with FirstFloor acquisition includes:

Fair value of tangible assets	$ 360
Fair value of existing products and core technology	1,547
Acquired in-process research and development	1,840
Goodwill	4,266
Fair value of liabilities assumed	(1,951)
	$ 6,062

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

Calico Commerce, Inc.

Notes to Consolidated Financial Statements

Note 1 -- the Company and Summary of Significant Accounting Policies:

The Company

Calico Commerce, Inc. ("Calico" or the "Company") was incorporated on April 14, 1994 as an S-corporation. In May 1995, the Company was reorganized as a C-corporation under California law.

Calico Commerce, Inc., headquartered in San Jose, California, is a leading provider of advanced eCommerce software and services that enable the interactive buying and selling of complex products and services over the Internet and other platforms. Calico's products enable companies to create a guided selling experience that allows their customers to interactively affect the on-line purchasing process.

Reincorporation

In March 1999, the Company's Board of Directors authorized the reincorporation of the Company in the State of Delaware. The reincorporation will occur immediately prior to the consummation of the Company's initial public offering (see Note 12). As a result of the reincorporation, the Company is authorized to issue 100,000,000 shares of $0.001 par value Common Stock and 10,000,000 shares of $0.001 par value Preferred Stock. The Board of Directors has the authority to issue the undesignated Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. Shares and per share information for each of the three years in the period ended March 31, 1999 has been retroactively adjusted to reflect the reincorporation.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Calico Technology UK Limited, which commenced operations in April 1998, and FirstFloor Software, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds that are stated at cost.

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and accounts receivable.

The Company by policy and practice maintains its cash and cash equivalents with financial institutions the Company believes are of high credit quality. The Company generally requires no collateral from its customers. To reduce its risk, the Company periodically reviews the credit worthiness of its customers. The Company establishes reserves for potential credit losses, when deemed necessary, and such losses have been within management's estimations.

The following table sets forth customers comprising 10% or more of the Company's net revenue for each of the periods indicated:

Year Ended March 31, Customer 1997 1998 1999

A	22%	--%	--%
B	19	--	--
C	12	--	--
D	--	11	--
E	--	--	22
F	--	--	13

At March 31, 1998, three customers represented 27%, 14% and 12%, respectively, of gross accounts receivable. At March 31, 1999, three customers represented 32%, 12% and 11%, respectively, of gross accounts receivable.

Fair Value of Financial Instruments

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to five years. The cost of equipment acquired under a capital lease is amortized over the life of the lease, or the estimated useful life of the assets. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon are removed from the accounts with any gain or loss realized upon sale or disposal credited or charged to operations, respectively.

Intangible Assets

Goodwill represents the excess of the purchase price of the acquired business over the fair value of the identifiable net costs acquired and is amortized using the straight-line method over an estimated useful life of four years. Acquired existing products and core technology are being amortized over the period of benefit ranging from seven to 36 months.

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

Foreign Currency

The functional currency of the Company's subsidiaries is the local currency. The balance sheet accounts are translated into United States dollars at the exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into United States dollars at average rates for the periods. Gains and losses resulting from translation are accumulated as a component of stockholder's deficit. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not significant during any of the periods presented.

Revenue Recognition

During 1999, the Company recognized revenues in accordance with Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP No. 97-2") and Statement of Position No. 98-4, "Deferral of the Effective Date of a Provision of SOP No. 97-2" ("SOP No. 98-4"). Prior to 1999, the Company recognized revenues in accordance with Statement of Position No. 91-1, "Software Revenue Recognition." In December 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position No. 98-9, "Modification of SOP No. 97-2 with Respect to Certain Transactions" ("SOP No. 98-9"), which is effective for transactions entered into after March 31, 1999. The adoption of SOP No. 98-9 is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

The Company's revenues are derived from licenses for its software and related services, which include implementation and integration, technical support, training and consulting. Revenue is recognized for the various contract elements based upon vendor-specific objective evidence of fair value for each element.

Revenue from license fees is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant Company obligations with regard to implementation or integration exist, the fee is fixed or determinable and collectibility is probable. Provisions for sales returns are provided at the time of revenue recognition based upon estimated returns.

Services revenue primarily comprises revenue from consulting fees, maintenance contracts and training. Services revenue from consulting and training is recognized as the service is performed. Maintenance contracts include the right to unspecified upgrades and ongoing support. Maintenance revenue is deferred and recognized on a straight-line basis as services revenue over the life of the related contract, which is typically one year.

License and services revenue on contracts involving significant implementation, customization or services which are essential to the functionality of the software is recognized over the period of each engagement, primarily using the percentage-of-completion method. Labor hours incurred is generally used as the measure of progress towards completion. A provision for estimated losses

on engagements is made in the period in which the loss becomes probable and can be reasonably estimated.

Customer billing occurs in accordance with contract terms. Customer advances and amounts billed to customers in excess of revenue recognized are recorded as deferred revenue. Amounts recognized as revenue in advance of billing (typically under percentage-of-completion accounting) are recorded as unbilled receivables.

Research and Development Costs

Expenditures for research and development are charged to expense as incurred. Under Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" certain software development costs are capitalized after technological feasibility has been established. Development costs incurred in the period between achievement of technological feasibility, which the Company defines as the establishment of a working model, until the general availability of such software to customers, has been short and software development costs qualifying for capitalization have been insignificant. Accordingly, the Company has not capitalized any software development costs as of March 31, 1999.

Stock-based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company's stock and the exercise price. Unearned compensation is amortized and expensed in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 28. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

The Company uses the Black-Scholes option pricing model to value options granted to consultants. The related expense is recorded on the option grant date as the options are fully vested at such time.

Advertising Expense

Advertising costs are expensed as incurred and totaled $238,000, $92,000, and $339,000 during the years ended March 31, 1997, 1998 and 1999, respectively.

Income Taxes

Income taxes are accounted for using an asset and liability approach, which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of current and deferred tax liabilities and assets are based on provisions of the enacted tax law; the effects of future changes in tax laws

or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Comprehensive Income

Effective April 1, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. To date, the Company has not had any significant transactions that are required to be reported in comprehensive income.

Net Loss Per Share

The Company computes net loss per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128") and SEC Staff Accounting Bulletin No. 98 ("SAB No. 98"). Under the provisions of SFAS No. 128 and SAB No. 98, basic and diluted net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of shares of Common Stock outstanding during the period. The calculation of diluted net loss per share excludes potential shares of Common Stock if the effect is antidilutive. Potential shares of Common Stock consist of unvested restricted Common Stock, incremental shares

of Common Stock issuable upon the exercise of stock options and warrants and shares issuable upon conversion of the Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock.

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share amounts):

Year Ended March 31, 1997 1998 1999

Numerator:			
Net loss	$(6,900)	$(5,499)	$(15,261)
Denominator:			
Weighted average shares	3,836	5,424	6,884
Weighted average unvested shares of Common Stock subject to repurchase	(1,671)	(2,038)	(2,411)
Denominator for basic and diluted calculation	2,165	3,386	4,473
Net loss per share:			
Basic and diluted	$ (3.19)	$ (1.62)	$ (3.41)

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

The following table sets forth potential shares of Common Stock that are not included in the diluted net loss per share calculation above because to do so would be anti-dilutive for the periods indicated:

Year Ended March 31, 1997 1998 1999

Weighted average effect of Common Stock equivalents:			
Series A Preferred Stock	4,000	4,000	4,000
Series B Preferred Stock	1,960	2,400	2,400
Series C Preferred Stock	--	961	1,390
Series D Preferred Stock	--	--	511
Series E Preferred Stock	--	--	1,020
Preferred Stock warrants	32	82	89
Preferred Stock options	--	--	16
Unvested shares of Common Stock subject to repurchase	1,671	2,038	2,411
Common Stock options	1,358	1,097	1,497
	9,021	10,578	13,334

Pro Forma Net Loss Per Share (Unaudited)

Pro forma net loss per share for the year ended March 31, 1999 is computed using the weighted average number of shares of Common Stock outstanding, including the pro forma effects of the automatic conversion of the Company's Series A, Series B, Series C, Series D (excluding approximately 2,948 weighted average repurchasable shares) and Series E Mandatorily Redeemable Convertible Preferred Stock into shares of the Company's Common Stock effective upon the closing of the

Company's initial public offering as if such conversion occurred on April 1, 1998, or at the date of original issuance, if later. The resulting pro forma adjustment includes an increase of 9,321,000 in the weighted average shares used to compute basic net loss per share for the year ended March 31, 1999. The calculation of diluted net loss per share excludes potential shares of Common Stock as their effect would be antidilutive. Pro forma potential shares of Common Stock consist of unvested Common Stock subject to repurchase rights and incremental shares of Common Stock issuable upon the exercise of stock options and warrants.

Pro Forma Stockholders' Equity (Unaudited)

Effective upon the closing of the initial public offering of the Company's Common Stock, the outstanding shares of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock will automatically convert into 4,000,000, 2,400,000, 1,388,889, 836,101 and 1,791,725 shares, respectively, of Common Stock. The pro forma effects of these transactions are unaudited and have been reflected in the accompanying pro forma consolidated balance sheet at March 31, 1999.

Reclassifications

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

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Recent Accounting Pronouncements

In March 1998, the AICPA issued Statement of Position No. 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP No. 98-1"). SOP No. 98-1 will become effective during the year ending March 31, 2000. SOP No. 98-1 provides guidance on accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. The Company does not expect the adoption of SOP No. 98-1 to have a material effect on the Company's results of operations, financial position or cash flows.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS No. 133"). This statement establishes accounting and reporting standards of derivative instruments, including certain derivative instruments embedded in

other contracts, and for hedging activities. SFAS No. 133 will become effective during the year ending March 31, 2001. The adoption of SFAS No. 133 is not expected to have a material effect on the Company's results of operations, financial position or cash flows.

Note 2 -- Acquisition of Firstfloor Software, Inc.:

As discussed in Note 1, the Company completed the acquisition of all outstanding capital stock of FirstFloor on August 21, 1998. The transaction was completed pursuant to the Agreement and Plan of Reorganization, dated as of June 23, 1998 among the Company, Calico Acquisition Corporation, FirstFloor and certain stockholders of Calico and certain shareholders of FirstFloor. The acquisition was accounted for using the purchase method of accounting and, accordingly, the net assets and results of operations of FirstFloor have been included in the Company's consolidated financial statements since the acquisition date.

The purchase consideration included 832,297 shares of Series D Mandatorily Redeemable Convertible Preferred Stock valued at approximately $5,695,000. In addition, all of the outstanding stock options granted under the FirstFloor 1993 Stock Option Plan were converted into stock options to purchase 31,474 shares of the Company's Series D Mandatorily Redeemable Convertible Preferred Stock at $6.837 per share. The Black-Scholes option pricing model was used to determine the fair value of the converted options. The fair value of the stock options, of approximately $122,000, was included as a component of the purchase price. The Company also incurred approximately $250,000 in acquisition expenses.

The total purchase price of $6.1 million was allocated to assets acquired, including tangible and intangible assets, and liabilities assumed, based on their respective estimated fair values at the acquisition date. The estimate of fair value of the net assets acquired is based on an independent appraisal and management estimates.

The total purchase price was allocated as follows (in thousands):

Fair value of tangible assets	$ 360
Fair value of existing products and core technology	1,547
Acquired in-process research and development	1,840
Goodwill	4,266
Fair value of liabilities assumed	(1,951)
	$ 6,062

The acquisition was structured as a tax free exchange of stock, therefore, the differences between the recognized fair values of acquired net assets, and their historical tax bases are not deductible for tax purposes. Accordingly, a deferred tax liability has been recognized for the differences between the

assigned value of intangible assets (excluding goodwill) for book purposes and the tax basis of such assets in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

Acquired In-process Research and Development

In connection with the acquisition, the Company recorded a $1.8 million charge in the year ended March 31, 1999 for acquired in-process research and development. This represents the value of purchased in-process research and development on projects that have not yet reached technological feasibility and have no alternative future use.

The amount of purchase price allocated to in-process research and development was determined using appropriate valuation techniques, including percentage-of-completion which utilizes the key milestones to estimate the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenues generated from such projects, and discounting the net cash flows back to their present value. The discount rate includes a factor that takes into account the uncertainty surrounding the successful development of the purchased in-process technology. The remaining identified intangibles, including the value of acquired existing products and core technology, will be amortized over the periods of benefit ranging from seven to 36 months.

The value assigned to acquired in-process research and development was determined by identifying two specific research and development projects in areas including (1) a marketing information delivery system and (2) a personalization solution, for which technological feasibility had not been established. The first project reached technological feasibility and was commercially released in December 1998. The second project reached technological feasibility and was commercially released in May 1999. The value of the in-process projects was adjusted to reflect the relative value and contribution of the acquired research and development. In doing so, consideration was given, as appropriate, to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred and the projected cost to complete the projects. The value assigned to acquired in-process research and development was based on the assumptions set forth in the following paragraph.

Net cash flows from such projects were determined based on the Company's estimates of revenues, cost of sales, research and development costs, selling, general and administrative costs, and income taxes associated with such projects. Revenue growth rates for each technology was developed considering, among other things, the current and expected industry trends, acceptance of the technologies and historical growth rates for similar industry products. Estimated total revenue from the acquired in-process research and development projects generally peak in fiscal year 2000 and decline through fiscal year 2001 as other new products are expected to be introduced. These revenue projections were based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. The estimated net cash flows of each project were discounted back to their present value using discount rates of 30% and 40%, respectively, which represent

premiums over the Company's cost of capital of 20% to reflect the risk associated with the stage of completion of the in-process technologies. The estimated percentage-of-completion of the in-process research and development projects were 82% and 47%, respectively.

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Core Technology

The amount of purchase price allocated to acquired core technology was determined based upon royalty streams that were assigned as revenue to such technology, recognizing the value of that core technology to the expected product resulting from the in-process research and development. Royalty rates were developed based on published documentation of royalty rates and the specific facts and circumstances, and in Calico's view, are considered reasonable approximations of fair value rates for the respective types of technology under exclusive, perpetual, worldwide licenses.

Unaudited Pro Forma Consolidated Results of Operations

The following table presents the unaudited pro forma consolidated results of operations of the Company for the years ended March 31, 1998 and 1999 as if the acquisition had been consummated at the beginning of each fiscal year. The pro forma consolidated results of operations include certain pro forma adjustments, including the amortization of intangible assets and the elimination of the charge related to in-process research and development.

Pro forma basic net loss per share for each year presented is computed using the weighted average number of common shares outstanding, including the pro forma effects of the automatic conversion of the Company's Series A, Series B, Series C and Series E Mandatorily Redeemable Convertible Preferred Stock into shares of the Company's Common Stock effective upon the closing of the Company's initial public offering as if such conversion occurred at the beginning of each fiscal year, or at date of original issuance, if later. The shares of Series D Mandatorily Redeemable Convertible Preferred Stock, issued as consideration for the acquisition, are assumed to be converted into the Company's Common Stock under the automatic conversion feature and outstanding at the beginning of each fiscal year. Pro forma diluted net loss per share excludes potential shares of Common Stock, consisting of options and warrants, as their effect would be antidilutive.

The unaudited pro forma consolidated results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the periods presented or the results which may occur in the future (in thousands, except per share amounts):

YEAR ENDED MARCH 31,	1998	1999
Net revenues	$ 13,577	$ 21,737
Net loss	(12,221)	(16,305)
Net loss per share:		
Basic and diluted	(1.08)	(1.18)

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 3 -- Balance Sheet Components (In Thousands):

March 31, 1998 1999

ACCOUNTS RECEIVABLE, NET:		
Accounts receivable	$2,518	$ 8,561
Unbilled receivables	1,714	571
Allowance for doubtful accounts	(580)	(659)
Allowance for sales returns	(700)	(1,030)
	$2,952	$ 7,443
PROPERTY AND EQUIPMENT, NET:		
Computer equipment and software	$2,534	$ 3,878
Furniture, fixtures and leasehold improvements	291	1,223
	2,825	5,101
Less: Accumulated depreciation and amortization	(978)	(2,569)
	$1,847	$ 2,532

Property and equipment includes $395,000 and $700,000 of computer and office equipment under capital leases at March 31, 1998 and 1999, respectively. Accumulated depreciation of assets under capital leases totaled $209,000 and $564,000 at March 31, 1998 and 1999, respectively.

March 31, 1998 1999

INTANGIBLE AND OTHER ASSETS, NET:		
Existing and core technology	$ --	$ 1,547
Goodwill	--	4,329
	--	5,876
Less: Accumulated amortization	--	(1,341)
	$ --	$ 4,535
ACCRUED LIABILITIES:		
Accrued compensation and benefits	$ 379	$ 1,149
Accrued commissions	540	1,573
Other	894	2,726
	$1,813	$ 5,448

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 4 -- Borrowings:

Notes Payable

Notes payable consist of amounts payable to an equipment financing company and bank and are collateralized by the underlying assets as follows (in thousands):

March 31,	*1998*	*1999*
7% note; principal and interest payable monthly; matures June 2000	$ 368	$ 236
7% note; principal and interest payable monthly; matures August 2000	179	120
7% note; principal and interest payable monthly; matures October 2000	90	63
Bank prime (7.75% at March 31, 1999) plus 0.5% note; principal and interest payable monthly; matures March 2001	337	230
Bank prime (7.75% at March 31, 1999) plus 0.5% note; principal and interest payable monthly; matures May 2001	--	121
Bank prime (7.75% at March 31, 1999) plus 0.5% note; principal and interest payable monthly; matures September 2001	--	218
Bank prime (7.75% at March 31, 1999) plus 0.5% note; principal and interest payable monthly; matures February 2002	--	340
	974	1,328
Less: current portion of notes payable	(330)	(628)
Notes payable, non-current	$ 644	$ 700

Under the bank prime plus 0.5% notes above, the Company is required to meet certain quarterly financial tests, including minimum operating results and certain liquidity, leverage and debt service ratios. At March 31, 1999 and June 30, 1999, the Company was not in compliance with the minimum operating results covenant. The Company obtained a waiver for the periods in which it was in default.

Future minimum principal payments under the notes at March 31, 1999 are as follows (in thousands):

Year Ending March 31,	
2000	$ 628
2001	538
2002	162
2003	--
Total payments	$1,328

Note 5 -- Income Taxes:

At March 31, 1999, the Company had approximately $12,093,000 of federal and $9,731,000 of state net operating loss carryforwards available to offset future taxable income which expire in varying amounts beginning in 2011 and 2003, respectively. At March 31, 1999, the Company had approximately $389,000 of federal and $301,000 of state research and development credit carryforwards available to offset future taxable income which expire in varying amounts beginning in

2011 and indefinitely, respectively. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating loss carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three year period. Due to cumulative ownership changes, at March 31, 1999, the net operating loss carryforwards will be limited to approximately $6,000,000 annually to offset future taxable income.

Deferred taxes are composed of the following (in thousands):

March 31, 1998 1999

Deferred tax assets:		
Depreciation	$ --	$ 250
Other accruals and liabilities	725	3,146
Net operating loss and credit carryforwards	4,460	5,399
	5,185	8,795
Less: Valuation allowance	(5,134)	(8,795)
	$ 51	$ --
Deferred tax liabilities:		
Non-deductible intangible assets	$ --	$ 531
Depreciation	51	--
	$ 51	$ 531

The acquisition of FirstFloor was structured as a tax-free exchange of stock, therefore, the differences between the recognized fair values of acquired net assets and their historical tax bases are not deductible for tax purposes. A deferred tax liability has been recognized for the differences between the assigned fair values of intangible assets (excluding goodwill) for book purposes and the tax bases of such assets.

For financial reporting purposes the Company has incurred a loss in each period since its inception. Based on the available objective evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets at March 31, 1998 and 1999.

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 6 -- Mandatorily Redeemable Convertible Preferred Stock:

Mandatorily Redeemable Convertible Preferred Stock ($0.001 par value) at March 31, 1999 was comprised of the following (in thousands):

	SHARES			
	AUTHORIZED	OUTSTANDING	LIQUIDATION AMOUNT	REDEMPTION AMOUNT
Series A	4,030	4,000	$16,000	$ 3,942
Series B	2,461	2,400	23,040	5,729
Series C	1,389	1,389	13,334	4,952
Series D	865	836	8,035	5,695
Series E	1,796	1,792	17,203	12,217
Undesignated	25	--	--	--
	10,566	10,417	$77,612	$32,535

Of the 836,101 shares of Series D Mandatorily Redeemable Convertible Preferred Stock outstanding at March 31, 1999, 2,510 were subject to repurchase.

The holders of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock, have certain rights as follows:

Voting

Each share of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock has voting rights equal to an equivalent number of shares of Common Stock into which it is convertible and votes together as one class with the Common Stock.

Dividends

Holders of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock are entitled to receive noncumulative annual dividends of $0.05, $0.12, $0.18 , $0.30 and $0.34 per share, respectively, when and if declared by the Board of Directors. The holders of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock will also be entitled to participate in dividends on Common Stock, when and if declared by the Board of Directors, based on the number of shares of Common Stock into which the Mandatorily Redeemable Convertible Preferred Stock is convertible. As of March 31, 1999, no dividends on Mandatorily Redeemable Convertible Preferred Stock or Common Stock have been declared or paid.

Liquidation

In the event of any liquidation, dissolution, winding up of affairs, merger or other business combination where the stockholders of the Company retain less than a majority of the voting power in the surviving entity, the holders of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Common Stock, the amounts of $1.00, $2.40, $3.60, $6.837 and $6.837 per share, respectively, adjusted for any stock split, stock dividends, or the like, plus all declared but unpaid dividends. Thereafter, the holders of Mandatorily Redeemable Convertible Preferred Stock and Common Stock share proceeds pro rata, on an as-converted basis, until holders of Series A

Mandatorily Redeemable Convertible Preferred Stock have recovered an amount of $4.00 per share and holders of Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock have recovered an amount of $9.60 per share. All further proceeds shall be distributed to the holders of Common Stock.

Redemption

Holders of two-thirds of the Series A, Series B, Series C and Series E Mandatorily Redeemable Convertible Preferred Stock may require the Company to redeem the respective series of Mandatorily Redeemable Convertible Preferred Stock at any time. The redemption price for the Series A, Series B, Series C and Series E Mandatorily Redeemable Convertible Preferred Stock shall be $1.00, $2.40, $3.60 and $6.837 per share, respectively, adjusted for any stock split, stock dividends, or the like, plus all declared but unpaid dividends.

Holders of two-thirds of the Series D Mandatorily Redeemable Convertible Preferred Stock may require the Company to redeem the respective series of Mandatorily Redeemable Convertible Preferred Stock if the requisite percentage of Series A, Series B, Series C, and Series E Mandatorily Redeemable Convertible Preferred Stock have previously requested redemption. The redemption price for the Series D Mandatorily Redeemable Convertible Preferred Stock shall be $6.837 per share adjusted for any stock split, stock dividends, or the like, plus all declared but unpaid dividends.

Conversion

Each share of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock is convertible, at the option of the stockholder, into the number of shares of Common Stock according to a conversion ratio, subject to antidilution. The initial share price of the Mandatorily Redeemable Convertible Preferred Stock used in the conversion ratio shall be $1.00, $2.40, $3.60, $6.837 and $6.837 per share for Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock, respectively.

Automatic conversion will occur upon the consummation of an underwritten public offering priced in excess of $7.20 per share and with total proceeds in excess of $15,000,000. The Series A, Series B, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock shall automatically convert upon written consent of a majority of the holders of Series A, Series B, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock, together. The Series C Mandatorily Redeemable Convertible Preferred Stock shall automatically convert upon written consent of a majority of the Series C stockholders.

Mandatorily Redeemable Convertible Preferred Stock Options and Warrants

In connection with certain financing arrangements, the Company issued warrants to purchase shares of the Company's Mandatorily Redeemable Convertible Preferred Stock to a capital lessor and lender. These warrants were immediately exercisable after issuance. The Company estimated the fair value of the warrants using the Black-Scholes option pricing model. The Company records the expense related to the warrants over the life of the associated financing

instrument as additional interest expense. The following table summarizes the outstanding warrants:

	DATE OF GRANT	SHARES	EXERCISE PRICE	ESTIMATED FAIR VALUE	FISCAL YEAR OF EXPIRATION
Series A Preferred Stock warrants	December 1995	28,000	$1.00	$10,000	2003
Series B Preferred Stock warrants	January 1997	23,333	2.40	25,000	2005
Series B Preferred Stock warrants	June 1997	37,500	2.40	53,000	2008

In connection with the acquisition of FirstFloor in August 1998, the Company exchanged the options granted under the FirstFloor 1993 Stock Option Plan into options to purchase 31,474 shares of Company's Series D Mandatorily Redeemable Convertible Preferred Stock. These options had a

weighted average exercise price of $3.94 per share. At March 31, 1999, 22,240 of such options were outstanding with a weighted average exercise price of $4.06 per share. The options expire upon the earlier of the respective employee termination or 10 years from grant date. See Note 2.

Note 7 -- Common Stock:

The Company's Certificate of Incorporation, as amended, authorizes the Company to issue 100,000,000 shares of $0.001 par value Common Stock.

On March 5, 1999, the Company sold 701,755 shares of Common Stock to a third party for $14.25 per share.

Certain Common Stock option holders have the right to exercise unvested options, subject to a repurchase right held by the Company, in the event of voluntary or involuntary termination of employment of the stockholder. As of March 31, 1999, approximately 1,780,477 shares of outstanding Common Stock were subject to repurchase by the Company at the original exercise price. Of the 1,780,477 shares of unvested restricted Common Stock repurchaseable, 1,722,144 are available for reissuance under the 1997 Stock Option Plan.

At March 31, 1999, the Company had reserved shares of Common Stock for future issuance as follows (in thousands):

March 31, 1999

Conversion of Series A Preferred Stock and warrants.....	4,030
Conversion of Series B Preferred Stock and warrants.....	2,461
Conversion of Series C Preferred Stock.....	1,389
Conversion of Series D Preferred Stock and options.....	865
Conversion of Series E Preferred Stock.....	1,796
Exercise of options under stock option plans.....	5,466
Undesignated.....	83,993

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8 -- Employee Benefit Plans:

401(K) Savings Plan

The Company sponsors a 401(k) defined contribution plan covering eligible employees who elect to participate. The Company may elect to contribute matching and discretionary contributions to the plan; however, no contributions were made by the Company since the inception of the plan.

Stock Option Plans

In July 1995 and April 1997, the Board of Directors adopted the 1995 Stock Option Plan and 1997 Stock Option Plan, respectively, (collectively, the "Plans") which provide for the issuance of incentive and nonstatutory stock options to employees, officers, directors, and consultants of the Company. The Company has reserved 9,810,000 shares of Common Stock for issuance under the Plans. The share reserve will automatically be increased on the first day of each fiscal year beginning on or after April 1, 2001 by an amount equal to 5% of the number of shares of the Company's Common Stock which were issued and outstanding on the last day of the preceding fiscal year.

Options under the Plans are generally for periods not to exceed ten years, and must be issued at prices not less than 100% and 85%, for incentive and nonstatutory stock options, respectively, of the estimated fair value of the underlying shares of Common Stock on the date of grant as determined by the Board of Directors. Options granted to stockholders who own greater than 10% of the outstanding stock are for periods not to exceed five years, and must be issued at prices not less than 110% of the estimated fair value of the underlying shares of Common Stock on the date of grant. The plan provides for grants of immediately exercisable options, however, the Company has the right to repurchase any unvested Common Stock upon termination of employment at the original exercise price. Options become exercisable at such times and under such conditions as determined by the Board of Directors. Options generally vest over four years. The Board of Directors has determined that no further options will be granted under the 1995 Option Plan.

Employee Stock Purchase Plan

In July 1999, the Board of Directors adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan"), subject to stockholder approval. There are 500,000 shares of Common Stock reserved for issuance under the Purchase Plan, none of which has yet been issued. Employees generally will be

eligible to participate in the Purchase Plan if they are customarily employed by the Company for more than 20 hours per week and more than five months in a fiscal year. Under the Purchase Plan, eligible employees may select a rate of payroll deduction up to 15% of their compensation, but may not purchase more than 500 shares on any purchase date or stock having a value measured at the beginning of the offering period greater than $25,000 in any calendar year. The first Offering Period commences on the date of the prospectus, will run for approximately 24 months and will be divided into four consecutive purchase periods of approximately six months. Offering Periods and Purchase Periods thereafter will begin on May 1 and November 1 of each year. The price at which the Common Stock is purchased under the Purchase Plan is 85% of the lower of the fair market value of the Company's Common Stock on the first day of the applicable Offering Period or on the last day of that Purchase Period.

The following table summarizes stock option activity under the Plans (shares in thousands):

		OPTIONS OUTSTANDING	
	OPTIONS AVAILABLE FOR GRANT	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance at March 31, 1996.....	446	2,582	$0.10
Additional shares authorized.....	210	--	--
Options granted.....	(536)	536	0.18
Options exercised.....	--	(1,882)	0.10
Options canceled.....	276	(276)	0.14
Balance at March 31, 1997.....	396	960	0.14
Additional shares authorized.....	2,262	--	--
Options granted.....	(2,564)	2,564	0.62
Repurchase of restricted Common Stock.....	202	--	0.11
Options exercised.....	--	(1,957)	0.36
Options canceled.....	274	(274)	0.21
Balance at March 31, 1998.....	570	1,293	0.74
Additional shares authorized.....	4,310	--	--
Options granted.....	(2,458)	2,458	6.88
Repurchase of restricted Common Stock.....	310	--	0.34
Options exercised.....	--	(1,017)	1.78
Options canceled.....	403	(403)	1.03
Balance at March 31, 1999.....	3,135	2,331	6.71

The following table summarizes the information about stock options outstanding and exercisable as of March 31, 1999 (shares in thousands):

OPTIONS OUTSTANDING			OPTIONS VESTED AND EXERCISABLE	
	WEIGHTED AVERAGE	WEIGHTED		WEIGHTED

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	REMAINING CONTRACTUAL LIFE (YEARS)	AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING	AVERAGE EXERCISE PRICE
$0.10 - 1.25	288	7.9	$0.50	143	$0.35
1.50 - 3.95	536	8.9	3.46	9	1.79
4.00 - 4.75	440	9.4	4.52	7	4.67
6.75 - 14.25	1,067	9.8	10.92	41	7.84
	2,331	9.3	6.71	200	2.10

Fair Value Disclosure

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

Year Ended March 31, 1997 1998 1999

Stock option plans:			
Dividend yield	0%	0%	0%
Expected volatility	0%	0%	0%
Average risk free interest rate	5.87%	6.06%	4.57%
Expected life (in years)	4	4	4
Weighted average fair value of options granted	$0.05	$0.16	$1.66

Pro Forma Net Loss

Had the Company recorded compensation based on the estimated grant date fair value, as defined by SFAS No. 123, for awards granted under its Plans, the Company's net loss would have been increased to the pro forma amounts below for the fiscal years ended March 31, 1997, 1998 and 1999, respectively, (in thousands, except per share amounts):

Year Ended March 31, 1997 1998 1999

Net loss as reported	$(6,900)	$(5,499)	$(15,261)
Pro forma net loss	(6,914)	(5,546)	(16,207)
Net loss per share as reported	(3.19)	(1.62)	(3.41)
Pro forma net loss per share	(3.19)	(1.64)	(3.62)

Because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects of option grants on reported net income for future years.

Unearned Stock-based Compensation

In connection with certain stock option grants during the year ended March 31, 1998, and 1999, the Company recorded unearned compensation cost totaling $2,746,000 and $2,854,000, respectively, which is being recognized over the vesting periods of the related options, usually four years.

During the period from April 1, 1999 through July 13, 1999, the Company granted stock options to purchase an aggregate of 1,559,350 shares of Common Stock.

Note 9 -- Related Party Transactions:

In exchange for the issuance of Common Stock upon the exercise of options in the years ended March 31, 1998 and 1999, the Company received notes receivable from certain employees of the Company which bear simple interest at various rates ranging from 5.54% to 6.65% per annum. The notes, which are collateralized by the underlying shares of Common Stock, are full recourse and mature on various dates through fiscal 2002.

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

In connection with the offering of the Series B Mandatorily Redeemable Convertible Preferred Stock, a founder exchanged 400,000 shares of Common Stock for 400,000 shares of Series B Mandatorily Redeemable Convertible Preferred Stock. The Company recognized the difference between the original issue price of the Series B Mandatorily Redeemable Convertible Preferred Stock and the estimated fair value of the shares of Common Stock on the date of exchange of $864,000 as compensation expense for the year ended March 31, 1997.

Note 10 -- Commitments and Contingencies:

Capital Leases

In January 1996, the Company entered into a lease financing agreement that provides for the lease of computers and office equipment up to $400,000, collateralized by the underlying assets. Equipment financed under this agreement is subject to repayment at various times through October 2000. At March 31, 1999, purchases of computers and office equipment under this agreement totaled $395,000.

In September 1998, the Company entered into a lease financing agreement that provides for the lease of office equipment of $136,000, collateralized by the underlying assets. Equipment financed under this agreement is subject to repayment through January 2003. At March 31, 1999, purchases of office

equipment under this agreement totaled $136,000.

In connection with the FirstFloor acquisition, the Company assumed an equipment financing agreement entered into in March 1997 which provides for the lease of office equipment of up to $360,000, in one or more leases. Each lease is repayable over 36 months and is secured by a first priority security interest in certain assets of the Company. At March 31, 1999, the fair value of office equipment purchased under this agreement totaled $169,000.

Operating Leases

The Company leases office space and equipment under certain noncancellable operating leases expiring through the year 2004. Total rent expense was $286,000, $580,000, and $1,141,000 for the years ended March 31, 1997, 1998 and 1999, respectively.

In August 1998, the Company relocated its corporate headquarters to a new leased facility. As a result, the Company recorded a charge of approximately $660,000 for excess lease payments and losses on the disposal of certain fixed assets in the quarter ended September 30, 1998.

Letter of Credit

At March 31, 1999, the Company maintained a $296,000 letter of credit to secure the lease deposit on its corporate headquarters. The letter of credit expires on October 31, 1999, and is included in other current assets.

Calico Commerce, Inc.

Notes to Consolidated Financial Statements (Continued)

Future minimum payments under noncancelable operating and capital leases at March 31, 1999 are as follows (in thousands):

YEAR ENDING MARCH 31,	CAPITAL LEASES	OPERATING LEASES
2000	$ 265	$1,129
2001	122	374
2002	34	52
2003	31	7
2004	--	5
Total minimum lease obligations	452	$1,567
Less: Amount representing interest	(19)	
Present value of minimum lease obligations	433	
Less: Current portion	(256)	
Capital lease obligations, non-current	$ 177	

Contingencies

From time to time, in the normal course of business, various claims are made against the Company. In the opinion of management, based on consultation with legal counsel, there are no pending claims for which the outcome is expected to result in a material adverse effect on the financial position or results of operations of the Company.

Note 11 -- Information Concerning Business Segments:

The Company operates in one single industry segment. The Company does not have separate operating segments for which discrete financial statements are prepared. The Company's management makes operating decisions and assesses performance primarily based upon product revenues and related gross margins.

The majority of the Company's sales to other foreign countries are originated in the United States and therefore represent export sales. The following is a breakdown of revenues by shipment destination for the years ended March 31, 1997, 1998 and 1999, respectively:

Year Ended March 31, 1997 1998 1999

United States	$5,903	$11,827	$20,108
Other foreign countries	--	32	1,305
	$5,903	$11,859	$21,413

Note 12 -- Subsequent Events:

Initial Public Offering

In July 1999, the Company's Board of Directors authorized management to file a registration statement with the Securities and Exchange Commission to permit the Company to sell shares of its Common Stock to the public.

Calico Commerce, Inc.

Pro Forma Combined Consolidated Financial Information

Overview

The Company completed the acquisition of all outstanding capital stock of FirstFloor Software, Inc. ("FirstFloor") on August 21, 1998. The transaction was completed pursuant to the Agreement and Plan of Reorganization, dated as of June 23, 1998 among the Company, Calico Acquisition Corporation, FirstFloor and certain stockholders of the Company and certain shareholders of FirstFloor. The acquisition was accounted for using the purchase method of accounting and, accordingly, the net assets and results of operations of FirstFloor have been included in the Company's consolidated financial statements since the acquisition date.

The purchase consideration included 832,297 shares of Series D Mandatorily Redeemable Convertible Preferred Stock, valued at $6.837 per share based on the value of the Series E Mandatorily Redeemable Convertible Preferred Stock which were sold to third party investors shortly after the acquisition, at approximately $5,690,000. In addition, all of the outstanding options granted under the FirstFloor 1993 Stock Option Plan were converted into options to purchase 31,474 shares of the Company's Series D Mandatorily Redeemable Convertible Preferred Stock. The Black-Scholes option pricing model was used to determine the fair value of the converted options. The fair value, of approximately $122,000, was included as a component of the purchase price. The Company also incurred approximately $250,000 in acquisition expenses.

The total purchase price of $6.1 million was allocated to assets acquired, including tangible and intangible assets, and liabilities assumed, based on their respective estimated fair values at the acquisition date. The estimate of fair value of the net assets acquired is based on an independent appraisal and management estimates.

The total purchase price was allocated as follows (in thousands):

Fair value of tangible assets	$ 360
Fair value of existing products and core technology	1,547
Acquired in-process research and development	1,840
Goodwill	4,266
Fair value of liabilities assumed	(1,951)
	$ 6,062

The acquisition has been structured as a tax-free exchange of stock, therefore, the differences between the recognized fair values of required assets, including tangible and intangible assets, and their historical tax bases are not deductible for tax purposes.

The following unaudited pro forma consolidated statement of operations gives effect to this acquisition as if it had occurred as of April 1, 1998, by consolidating the results of operations of FirstFloor with the operations of Calico.

The unaudited pro forma consolidated statement of operations is not necessarily indicative of the operating results that would have been achieved had the transaction been in effect as of the beginning of the period presented and should not be construed as being a representation of future operating results.

The historical consolidated financial statements for the Company and FirstFloor are included elsewhere in this prospectus and the unaudited pro forma consolidated financial information presented herein should be read in conjunction with those consolidated financial statements and related notes. F-27

Calico Commerce, Inc.

PRO FORMA COMBINED CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Year Ended March 31, 1999 Calico Firstfloor Adjustments Pro Forma

Revenues				
License	$ 10,482	$ 283	$ (21)(A)	$ 10,744
Services	10,931	150	(88)(A)	10,993
Net revenues	21,413	433	(109)	21,737
Cost of net revenues				
Licenses	1,179	3	196(A)(B)	1,378
Services	7,272	295	(88)(A)	7,479
Cost of net revenues	8,451	298	108	8,857
Gross profit	12,962	135	(217)	12,880
Operating expenses:				
Sales and marketing	14,138	574	--	14,712
Research and development	5,677	774	--	6,451
General and administrative	3,988	1,058	--	5,046
Stock compensation	2,007	--	--	2,007
Acquired in-process research and development	1,840	--	(1,840)(C)	--
Amortization of goodwill	550	--	401(B)	951
Total operating expenses	28,200	2,406	(1,439)	29,167
Loss from operations	(15,238)	(2,271)	1,222	(16,287)
Interest and other income, net	(23)	5	--	(18)
Net loss	$(15,261)	$(2,266)	$ 1,222	$(16,305)
Pro forma net loss per share(D):				
Basic and diluted				$ (1.18)
Weighted average shares				13,793

See accompanying notes to Pro Forma Combined Consolidated Financial Information F-28

Calico Commerce, Inc.

Notes to Pro Forma Combined Consolidated Financial Information (Unaudited)

Note 1 -- Basis of Presentation:

The unaudited pro forma combined consolidated statement of operations has been prepared to reflect the acquisition of FirstFloor Software, Inc. by Calico as if the acquisition had occurred as of April 1, 1998. The pro forma combined consolidated statement of operations for the year ended March 31, 1999 reflects the combination of the separate historical statement of operations of Calico for the year ended March 31, 1999, which include the results of FirstFloor subsequent to its acquisition, and of FirstFloor for the period from April 1, 1998 through the date of acquisition. Revenues of approximately $329,000 and net loss of approximately $1.4 million of FirstFloor for the period of January 1, 1998 through March 31, 1998 are not included in the pro forma combined consolidated statement of operations.

Note 2 -- Pro Forma Adjustments:

The following adjustments were applied to the historical statements of operations to arrive at the pro forma combined consolidated statement of operations:

(A) Reflects the elimination of license revenues recognized by FirstFloor related to royalty payments paid by Calico to FirstFloor for sub-licensing of FirstFloor's products, prior to the Company's acquisition of FirstFloor. Additionally, the related cost of license revenues recognized by Calico has been eliminated.

(B) Reflects the amortization expense related to existing products and core technology and goodwill acquired in the acquisition for the period April 1, 1998 through the date of acquisition.

(C) The in-process research and development charge related to the acquisition has been reflected in the historical statements of operations on the date upon which the acquisition was consummated. The pro forma combined consolidated statement of operations excludes the nonrecurring charge for acquired in-process research and development totaling $1.8 million.

(D) Pro forma basic net loss per share for the year ended March 31, 1999 is computed using the weighted average number of common shares outstanding, including the pro forma effects of the automatic conversion of the Company's Series A, Series B, Series C and Series E Mandatorily Redeemable Convertible Preferred Stock into shares of the Company's Common Stock effective upon the closing of the Company's initial public offering as if such conversion occurred on April 1, 1998, or at date of original issuance, if later. The shares of Series D Mandatorily Redeemable Convertible

Preferred Stock, issued as consideration for the acquisition, are assumed to be converted into the Company's Common Stock under the automatic conversion feature and outstanding as of April 1, 1998.

Pro forma diluted net loss per share excludes potential shares of Common Stock, consisting of options and warrants, as their effect would be antidilutive.

Report of Independent Auditors

The Board of Directors and Shareholders FirstFloor Software, Inc.

We have audited the accompanying balance sheets of FirstFloor Software, Inc. (the "Company") as of December 31, 1996 and 1997 and the related statements of operations, shareholders' equity (net capital deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FirstFloor Software, Inc. at December 31, 1996 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring losses from operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans as to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Ernst & Young Llp

Palo Alto, California April 10, 1998

Firstfloor Software, Inc.

Balance Sheets

December 31, 1996 1997

ASSETS:		
Current assets:		
Cash and cash equivalents	$ 4,883,027	$ 2,119,784
Short-term investments	1,987,171	--
Accounts receivable	99,628	78,233
Prepaid expenses and other current assets	44,366	48,163
Total current assets	7,014,192	2,246,180
Property and equipment, net	257,812	311,201
Other assets	15,956	18,554
	$ 7,287,960	$ 2,575,935
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 87,357	$ 66,135
Accrued compensation and related liabilities	108,012	110,588
Accrued royalties	55,470	--
Other accrued liabilities	96,559	145,416
Current portion of deferred revenue	320,699	219,901
Current portion of capital leases	--	79,431
Total current liabilities	668,097	621,471
Deferred revenue	229,163	--
Noncurrent portion of capital leases	--	172,545
Commitments		
SHAREHOLDERS' EQUITY:		
Convertible preferred stock, no par value, 15,000,000 shares authorized, issuable in series:		
Series A, 750,000 shares designated, issued and outstanding; aggregate liquidation preference of $750,000	740,493	740,493
Series B, 1,794,117 shares designated, issued and outstanding; aggregate liquidation preference of $3,050,000	3,033,754	3,033,754
Series C, 3,000,000 shares designated, issued and outstanding; aggregate liquidation preference of $1,500,000	1,490,985	1,490,985
Series D, 4,000,000 shares designated, 3,588,898 and 3,567,143 shares issued and outstanding in 1997 and 1996, respectively; aggregate liquidation preference of $10,228,359	9,647,105	9,709,107
Common stock, no par value, 30,000,000 shares authorized, 3,254,904 and 3,055,481 shares issued and outstanding in 1997 and 1996, respectively	196,080	256,909
Accumulated deficit	(8,717,717)	(13,449,329)
Total shareholders' equity	6,390,700	1,781,919
	$ 7,287,960	$ 2,575,935

See accompanying notes.

Firstfloor Software, Inc.

Statements of Operations

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1996	1997	1997	1998
			(UNAUDITED)	
Revenue:				
License and product	$ 2,251,311	$ 1,581,577	$ 906,644	$ 517,791
Contract and service	205,000	158,655	79,790	184,139
Total revenue	2,456,311	1,740,232	986,434	701,930
Costs and expenses:				
Royalties	257,764	--	--	--
Research and development	2,311,178	2,895,805	1,324,550	1,575,250
Marketing and sales	2,471,827	2,634,378	1,344,678	1,166,648
General and administrative	966,368	1,191,809	561,497	636,095
Total costs and expenses	6,007,137	6,721,992	3,230,725	3,377,993
Loss from operations	(3,550,826)	(4,981,760)	(2,244,291)	(2,676,063)
Interest income, net	114,929	250,148	158,948	17,777
Net loss	$(3,435,897)	$(4,731,612)	$(2,085,343)	$(2,658,286)

See accompanying notes.

Firstfloor Software, Inc.

Statements of Shareholders' Equity (Net Capital Deficiency)

	CONVERTIBLE PREFERRED STOCK							
	SERIES A		SERIES B		SERIES C		SERIES D	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
Balance at December 31, 1995	750,000	$740,493	1,794,117	$3,033,754	3,000,000	$1,490,985	--	$ --
Issuance of Series D convertible preferred stock for cash and conversion of notes payable and accrued interest, net of issuance costs of $519,252	--	--	--	--	--	--	3,567,143	9,647,105
Issuance of common stock for the exercise of stock options	--	--	--	--	--	--	--	--
Repurchase of unvested shares	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
Balance at December 31, 1996	750,000	740,493	1,794,117	3,033,754	3,000,000	1,490,985	3,567,143	9,647,105
Issuance of Series D convertible preferred stock to consultants for services rendered	--	--	--	--	--	--	21,755	62,002
Issuance of common stock for the exercise of stock options	--	--	--	--	--	--	--	--
Repurchase of unvested shares	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
Balance at December 31, 1997	750,000	$740,493	1,794,117	$3,033,754	3,000,000	$1,490,985	3,588,898	$9,709,107

	COMMON STOCK	TOTAL SHAREHOLDERS' EQUITY

	SHARES	AMOUNT	ACCUMULATED DEFICIT	(NET CAPITAL DEFICIENCY)
Balance at December 31, 1995	1,298,642	$ 14,242	$ (5,281,820)	$ (2,346)
Issuance of Series D convertible preferred stock for cash and conversion of notes payable and accrued interest, net of issuance costs of $519,252	--	--	--	9,647,105
Issuance of common stock for the exercise of stock options	1,926,503	206,930	--	206,930
Repurchase of unvested shares	(169,664)	(25,092)	--	(25,092)
Net loss	--	--	(3,435,897)	(3,435,897)
Balance at December 31, 1996	3,055,481	196,080	(8,717,717)	6,390,700
Issuance of Series D convertible preferred stock to consultants for services rendered	--	--	--	62,002
Issuance of common stock for the exercise of stock options	216,561	63,203	--	63,203
Repurchase of unvested shares	(17,138)	(2,374)	(2,374)	
Net loss	--	--	(4,731,612)	(4,731,612)
Balance at December 31, 1997	3,254,904	$256,909	$(13,449,329)	$ 1,781,919

See accompanying notes.

Firstfloor Software, Inc.

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1996	1997	1997	1998
			(UNAUDITED)	
OPERATING ACTIVITIES				
Net loss	$(3,435,897)	$(4,731,612)	$(2,085,343)	$(2,658,286)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	137,245	182,008	105,644	88,919
Issuance of Series D preferred stock to consultants for services rendered	--	62,002	--	--
(Gain) loss on disposal of capital equipment	21,214	(5,865)	8,205	--
Accrued interest on convertible notes payable converted to preferred stock	20,938	--	--	--
Changes in assets and liabilities:				
Accounts receivable	285,926	21,395	94,628	(223,680)
Prepaid expenses and other current assets	(15,713)	(3,797)	(20,804)	24,318
Other assets	(6,081)	(2,598)	(59,857)	(12,482)
Accounts payable	9,067	(21,222)	(57,951)	(4,067)
Accrued compensation and related liabilities	78,828	2,576	98,113	4,590
Accrued royalties	5,470	(55,470)	(55,470)	--
Other accrued liabilities	28,393	48,857	112,351	(62,490)
Deferred revenue	(74,537)	(329,961)	173,518	375,079
Net cash used in operating activities	(2,945,147)	(4,833,687)	(1,686,966)	(2,468,099)
INVESTING ACTIVITIES				
Sales (purchases) of short-term investments	(1,987,171)	1,987,171	(19,716)	--

Capital expenditures.....	(239,616)	(27,961)	(165,523)	(119,123)
Net cash provided by (used in) investing activities.....	(2,226,787)	1,959,210	(185,239)	(119,123)
FINANCING ACTIVITIES				
Payments under capital lease obligations.....	--	(42,703)	183,167	(39,752)
Proceeds from issuance of convertible notes payable.....	2,000,000	--	--	1,150,000
Net proceeds from issuance of preferred stock.....	7,626,167	--	--	--
Proceeds from issuance of common stock, net of repurchases.....	181,838	60,829	4,261	10,092
Proceeds from sale of capital equipment.....	--	93,108	--	--

Firstfloor Software, Inc.

Statements of Cash Flows (Continued)

YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
1996	1997	1997	1998
		(UNAUDITED)	

Cash flows provided by financing activities..... 9,808,005 111,234 187,428 1,120,340 Net increase (decrease) in cash and cash equivalents..... 4,636,071 (2,763,243) (1,684,777) (1,466,882) Cash and cash equivalents at beginning of period..... 246,956 4,883,027 4,883,027 2,119,783 Cash and cash equivalents at end of period..... $ 4,883,027 $ 2,119,784 $ 3,198,250 $ 652,901 SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES Equipment acquired under capital leases..... $ -- $ 201,571 $ 17,262 $ 93,107 Conversion of notes payable to preferred stock..... $ 2,000,000 $ -- $ -- $ -- SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid for interest..... $ -- $ 18,236 $ 5,605 $ 15,079 See accompanying notes.

Firstfloor Software, Inc.

Notes to Financial Statements December 31, 1997

1. Summary of Significant Accounting Policies

Organization and Business

FirstFloor Software, Inc. (the "Company"), formerly FirstFloor, Inc., was incorporated in the state of California on October 19, 1992. The Company develops and markets interactive marketing systems for business-to-business communications.

At December 31, 1997, the Company has recorded cumulative operating losses of $13,449,329 including losses of $4,731,612 and $3,435,897 for the years ended December 31, 1997 and 1996, respectively. The Company will need to obtain additional funds from existing or new investors to continue building production, sales and marketing capabilities, continue its research and development activities and fund operating expenses, as necessary. Management believes that it will be able to obtain additional funds through equity or debt financing. If adequate funds are not available, the Company may be required to reduce its level of spending, eliminate one of more of its research and development programs or obtain funds through arrangements with corporate partners or others which may require the Company to relinquish certain rights of its technologies or product candidates.

Interim Financial Data

The accompanying interim financial statements for the six months ended June 30, 1997 and 1998 are unaudited. In the opinion of management, the unaudited interim financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the results of the Company's operations for the six months ended June 30, 1997 and 1998.

The results of operations for the six months ended June 30, 1997 and 1998 are not necessarily indicative of results to be expected for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts reported in the financial statements as of December 31, 1996 have been reclassified to conform with the presentation adopted by the Company to report its 1997 financial results.

Customer Concentration

A limited number of customers historically have accounted for a substantial portion of the Company's revenues. Sales of the Company's products and contracts for its technology will vary as a result of fluctuations in market demand for such products and technology. Further, the markets in which the Company competes are characterized by rapid technological change and increased competition.

Firstfloor Software, Inc.

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

CUSTOMER CONCENTRATION (CONTINUED) Revenues from customers representing 10% or more of total revenue during fiscal 1996 and 1997 are as follows:

1996 1997

Customer:		
A	48%	46%
B	24	17
C	6	11
D	0	11
E	15	3

Cash Equivalents and Short-term Investments

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents and short-term investments consist of money market funds, commercial paper, corporate notes, and auction rate preferred stock. The fair market value, based on quoted market prices of the cash equivalents and short-term investments, is substantially equal to their carrying value at December 31, 1996 and 1997.

Under FAS 115, management classifies investments as available-for-sale at the time of purchase and periodically reevaluates such designation. Debt securities are classified as available-for-sale and are reported at fair value. Unrecognized gains or losses on available-for-sale securities are included, net of

tax, in shareholders' equity until their disposition. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income. The cost of securities sold is based on specific identification.

All cash equivalents and short-term investments are classified as available-for-sale securities and consist of the following:

December 31,	1996	1997
Cash and cash equivalents:		
Bank and money market funds	$ 350,430	$2,119,784
Commercial paper	2,494,447	--
Corporate notes/bonds	2,038,150	--
Total	$4,883,027	$2,119,784
Short-term investments:		
Commercial paper	$ 987,004	$ --
Auction rate preferred stock	1,000,167	--
Total	$1,987,171	$ --

Unrealized holding gains and losses on available-for-sale securities at December 31, 1996 and 1997 and gross realized gains and losses on sales of available-for-sale securities during the year ended December 31, 1996 and 1997 were immaterial.

1. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is stated at cost and consists of the following:

December 31,	1996	1997
Computer equipment and software	$ 405,235	$ 627,380
Furniture and fixtures	37,793	37,793
Leasehold improvements	51,555	51,555
	494,583	716,728
Less accumulated depreciation and amortization	(236,771)	(405,527)
	$ 257,812	$ 311,201

Depreciation is provided using the straight line method over the shorter of the estimated useful lives or lease term of the respective assets, generally three years. Property and equipment financed under a capital lease were $294,679 at December 31, 1997. There were no capital leases at December 31, 1996.

Accumulated amortization related to leased assets was $59,906 at December 31, 1997. Amortization related to capital leases is included in depreciation expense.

Concentration of Credit Risk

The Company's concentration of credit risk consists principally of cash, cash equivalents, short-term investments, and receivables. The Company's investment policy restricts investments to high-credit quality investments and limits the amounts invested with any one issuer. The Company sells primarily to original equipment manufacturers in the United States, performs ongoing credit evaluations of its customers' financial condition, and generally requires no collateral.

Stock-based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). The Company has elected to account for employee stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25) and to adopt the "disclosure only" alternative described in FAS 123.

Revenue Recognition

License fees for the Company's products are generally recognized ratably over the initial or subsequent renewal periods as unspecified future deliverables, including product enhancements and new products, are included in such license agreements. For transactions that do not involve such unspecified future deliverables, product revenues are recognized at the time of shipment of the products and fulfillment of acceptance terms, if any, and when no significant contractual obligations remain outstanding and collection of the resulting receivable is deemed probable.

Contracts involving custom software development are accounted for using the percentage-of-completion method. Revenues from services are recognized when the services are performed. Maintenance contract revenue is recognized ratably over the term of the maintenance contract.

Firstfloor Software, Inc.

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

REVENUE RECOGNITION (CONTINUED) Amounts received in advance of satisfying revenue recognition criteria are classified as deferred revenue in the accompanying balance sheets.

Research and Development

Research and development expenditures are generally charged to operations as incurred. Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires the capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model. Costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly, the Company has charged all such cost to research and development expenses in the accompanying statements of operations.

Advertising Expense

The cost of advertising is expensed as incurred. The Company incurred approximately $155,000 and $195,000 in advertising costs during 1996 and 1997, respectively.

New Accounting Pronouncements

In 1997, the American Institute of Certified Public Accountants issued Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-4 ("SOP 98-4," collectively the "SOPs"). The SOPs supersede SOP 91-1 and are effective for transactions entered into for fiscal years beginning after December 15, 1997. Based upon its reading and interpretation of the SOPs, the Company believes its current revenue recognition policies and practices are materially consistent with the SOPs. However, implementation guidelines for this standard have not yet been issued. Once available, such implementation guidance could lead to changes in the Company's current revenue accounting practices.

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes rules for reporting and displaying comprehensive income and is effective for the Company during 1998. The Company does not believe

that the adoption of SFAS 130 will have a material impact on the Company's results of operations, cash flows or financial position.

2. Commitments

Capital Lease

In March 1997, the Company entered into an Equipment Financing Agreement which allows the Company to lease up to $360,000 of equipment, in one or more leases. Each lease is repayable over 36 months and is secured by a first priority security interest in certain assets of the Company. At December 31, 1997, the Company has borrowed $294,679 against this financing agreement. In connection with the equipment financing agreement the Company issued a warrant to the financing company (see Note 3).

Firstfloor Software, Inc.

Notes to Financial Statements (Continued)

2. Commitments (Continued) Operating Leases

The Company leases its corporate offices under operating lease agreements that expire in 2000. In February 1998, the Company renegotiated and amended certain of these agreements. The result of these amended agreements is reflected in the following table.

Capital and Operating Leases

Future minimum lease payments under capital leases and operating leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
YEARS ENDING DECEMBER 31,		
1998	$106,656	$253,840
1999	106,656	365,327
2000	85,281	278,816
2001	833	--
Total minimum lease and principal payments, respectively	299,426	$897,983
Amount representing interest	47,450	
Present value of future lease payments	251,976	
Current portion of capital lease obligations	79,431	
Noncurrent portion of capital lease obligations	$172,545	

Rent expense was approximately $122,000 and $157,000 for 1996 and 1997, respectively.

3. Convertible Promissory Notes and Warrants

During 1996, the Company issued $2,000,000 in convertible promissory notes. The notes bore interest at a rate of 6% per annum, compounded annually, and all principal and accrued interest were due and payable on September 30, 1996 unless earlier converted. Upon closing of the Series D convertible preferred stock offering in August 1996, $2,020,938 of principal and related accrued but unpaid interest were converted into approximately 709,100 shares of Series D convertible preferred stock. In connection with the issuance of these convertible notes payable, the Company issued warrants to purchase 42,094 shares of Series D convertible preferred stock at an exercise price of $2.85 per share. The warrants are exercisable through April 30, 1999.

In connection with an equipment financing agreement, the Company issued a warrant to a financing company which permits the purchase of up to 6,300 shares of Series D preferred stock at a price per share of $2.85. The warrant was issued in March 1997 and expires in March 2002.

4. Shareholders' Equity (Net Capital Deficiency)

Convertible Preferred Stock

Series A, B, C, and D preferred stock have a liquidation preference of $1.00, $1.70, $0.50, and $2.85 per share, respectively, plus all declared but unpaid dividends. Series A, B, C, and D preferred shareholders are entitled to noncumulative dividends at the rate of $0.08, $0.14, $0.04, and $0.23 per share, per annum, respectively, payable quarterly when and if declared by the board of directors and in preference to common stock dividends. No dividends have been declared or paid by the Company.

4. Shareholders' Equity (Net Capital Deficiency) (Continued)

CONVERTIBLE PREFERRED STOCK (CONTINUED) The holders of each share of Series A, B, C, and D preferred stock are entitled to one vote for each share of common stock into which such share may be converted. The holders of Series A, B, C, and D preferred stock have the right, at the option of the holder, at any time to convert their shares into common stock at a price of approximately $0.793, $1.203, $0.50, and $2.85 per share, subject to adjustments for future dilution. Series A, B, C, and D preferred stock automatically convert into common stock, at the then applicable conversion rate, upon a public offering of the Company's common stock at a per share price of not less than $6.00, with aggregate proceeds in excess of $5,000,000 or upon the consent of the holders of a majority of the

then outstanding shares of preferred stock. The conversion rate of the Series A, B, C, and D preferred stock is subject to adjustment in the event of, among other things, certain dilutive issuances of stock, business combinations, stock splits, and stock dividends.

Common Stock

In December 1992, 1,333,333 shares of common stock were issued to the Company's founders at $0.0075 per share. Thereafter, 80,000 shares were returned to the Company without consideration. The outstanding shares are subject to certain transfer restrictions. Certain of these shares are subject to repurchase at the issuance price upon the occurrence of certain events, including termination of employment. The Company's right of repurchase expires ratably over five and one-half years. At December 31, 1997, 94,949 shares remain subject to repurchase.

Shares Reserved

Common stock reserved for future issuance is as follows:

December 31, 1997

Stock option plan:	
Outstanding	1,087,764
Available for grant	154,118
	1,241,882
Common stock warrants	48,394
Conversion of preferred stock	10,068,774
Authorized but unissued preferred stock	5,866,985
Total common stock reserved for future issuances	17,226,035

1993 Stock Option/stock Issuance Plan

The Company has elected to follow APB Opinion No. 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB Opinion No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

In July 1993, the board of directors adopted the 1993 Stock Option/Stock Issuance Plan (the "Plan").

4. Shareholders' Equity (Net Capital Deficiency) (Continued)

1993 STOCK OPTION/STOCK ISSUANCE PLAN (CONTINUED) The Plan provides for the direct issuance of common stock and grants of both incentive and nonqualified stock options to eligible participants. The Plan provides that direct issuances of stock and grants of incentive stock options will be made at no less than the fair value of the Company's common stock (no less than 85% of the fair value for nonqualified stock options), as determined by the board of directors at the date of the issuance or grant. If, at the time the Company issues stock or grants an option, the holder owns more than 10% of the total combined voting power of all the classes of stock of the Company, the stock or option price shall be at least 110% of the fair value. Options are exercisable upon grant. No option shall have a term in excess of ten years from the grant date (five years in the case of an option granted to a 10% shareholder). Stock issued under the Plan may be, as determined by the board of directors, subject to repurchase by the Company. This right to repurchase generally lapses over four years from the original date of issuance or grant.

Activity under the stock option plan is as follows:

		OPTIONS OUTSTANDING	
	SHARES AVAILABLE FOR GRANT	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1995.....	101,480	1,376,968	$0.08
Additional shares authorized.....	1,906,498	--	--
Options granted.....	(1,675,684)	1,675,684	0.20
Options exercised.....	--	(1,926,503)	0.11
Options canceled.....	276,366	(276,366)	0.12
Balance at December 31, 1996.....	608,660	849,783	0.24
Options granted.....	(631,409)	631,409	0.30
Options exercised.....	--	(216,561)	0.29
Options canceled.....	176,867	(176,867)	0.24
Balance at December 31, 1997.....	154,118	1,087,764	0.27

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

	OPTIONS OUTSTANDING AND EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
$0.05 - $0.05.....	61,041	7.56	$0.05
$0.15 - $0.15.....	32,500	8.52	0.15
$0.17 - $0.17.....	114,375	6.58	0.19
$0.30 - $0.30.....	879,848	9.17	0.30
Total.....	1,087,764	8.79	0.27

4. Shareholders' Equity (Net Capital Deficiency) (Continued)

1993 STOCK OPTION/STOCK ISSUANCE PLAN (CONTINUED) The weighted average fair value of options granted in 1996 and 1997 was $0.04 and $0.05, respectively.

During 1997, the Company repurchased 17,138 shares previously exercised under the Plan. At December 31, 1997, 702,302 shares remain subject to repurchase.

Pro forma information regarding net loss is required by FAS 123 which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method. For all grants subsequent to December 31, 1994, the fair value of these options was determined using the minimum value method with the following weighted-average assumptions for 1995, 1996 and 1997, respectively: risk-free interest rates of 6.04%, 6.29% and 6.17%, no dividend yield, no volatility factors of the expected market price of the Company's common stock, and expected life of the options of 4, 3.5 and 3.4 years for 1995, 1996 and 1997, respectively.

Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The effect of determination of the compensation expense was immaterial to the Company's statement of operations for the years ended December 31, 1997, 1996 and 1995. Because FAS 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

5. Income Taxes

As of December 31, 1997, the Company had federal net operating loss carryforwards of approximately $13,100,000. The Company also had federal research and development tax credit carryforwards of approximately $300,000. The net operating loss and credit carryforwards will expire at various dates beginning in 2008 through 2012, if not utilized.

Utilization of the net operating losses may be subject to a substantial limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

As of December 31, 1996 and 1997, the Company had deferred tax assets of approximately $3,500,000 and $5,500,000, respectively. The net deferred tax asset has been fully offset by a valuation allowance. The valuation allowance increased by $1,449,000 during the year ended December 31, 1996. Deferred tax assets relate primarily to net operating loss carryforwards, research credits, and capitalized research and development costs.

6. Year 2000 Issue (Unaudited)

The Company is aware of the issues associated with the programming code in existing computer systems as the Year 2000 approaches. The "Year 2000 problem" is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to "00". The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. Management does not F-43

6. YEAR 2000 ISSUE (UNAUDITED) (CONTINUED) anticipate that the Company will incur significant operating expenses or be required to invest heavily in computer systems improvements to be Year 2000 compliant. However, significant uncertainty exists concerning the potential costs and effects associated with any Year 2000 compliance. Any Year 2000 compliance problems of either the Company or its vendors could adversely affect the Company's business, results of operations, financial condition and prospects.

7. Events Subsequent to Date of Auditors' Report (Unaudited)

On August 21, 1998, the acquisition of the Company was completed pursuant to the agreement and plan of reorganization with Calico Technology, Inc. ("Calico"). Under the terms of the agreement, shareholders of the Company exchanged all outstanding common stock, preferred stock and common stock options for 832,297 shares of Calico Series D Mandatorily Redeemable Convertible Preferred Stock and options to purchase 31,474 shares of Calico Series D Mandatorily Redeemable Convertible Preferred Stock.

Underwriting

Calico and the Underwriters for the offering named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each Underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Hambrecht & Quist LLC are the representatives of the Underwriters.

Underwriters Number of Shares Goldman, Sachs & Co. ..... Merrill Lynch, Pierce, Fenner & Smith Incorporated ..... Hambrecht & Quist LLC.....

Total.....

If the Underwriters sell more shares than the total number set forth in the table above, the Underwriters have an option to purchase up to an additional shares from Calico to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the Underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the Underwriters by Calico. Such amounts are shown assuming both no exercise and full exercise of the Underwriters' option to purchase additional shares.

Paid by Calico No Exercise Full Exercise

```
Per Share.............  $       --     $       --
Total.................  $       --     $       --
```

Shares sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the Underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any of these securities dealers may resell any shares purchased from the Underwriters to other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial offering price, the representatives may change the offering price and the other selling terms.

Calico has agreed with the Underwriters not to dispose of or hedge any of its common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. See "Shares Eligible for Future Sale" for a discussion of restrictions on transfer of Calico's shares.

Prior to this offering, there has been no public market for the shares. The initial public offering price has been negotiated between Calico and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions,

will be Calico's historical performance, estimates of Calico's business potential and earnings prospects, an assessment of Calico's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

The common stock is expected to be quoted on the Nasdaq National Market under the symbol "CLIC".

In connection with the offering, the Underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

The Underwriters also may impose a penalty bid. This occurs when a particular Underwriter repays to the Underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such Underwriter in stabilizing or short covering transactions.

These activities by the Underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

The Underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

At our request, the Underwriters have reserved up to shares of common stock for sale, at the initial public offering price, to directors, officers, employees and friends through a directed share program. The number of shares of common stock available for sale to the general public in the public offering will be reduced to the extent these persons purchase these reserved shares.

Calico estimates that its share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $.

Calico has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act.

In September 1998, an entity affiliated with Merrill Lynch, Pierce, Fenner & Smith Incorporated purchased 146,263 shares of Calico's preferred stock at a purchase price of $6.837 per share, for an aggregate amount of approximately $1,000,000. These shares will convert into 146,263 shares of common stock upon the completion of this offering.

In September 1998, certain entities and persons affiliated with Hambrecht & Quist LLC purchased an aggregate of 92,219 shares of Calico's preferred stock at a purchase price of $6.837 per share, for an aggregate amount of approximately $630,000. These shares will convert into 92,219 shares of common stock upon the completion of this offering.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including , 1999, (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

Shares

Calico Commerce, Inc.

Common Stock

[Calico Logo]

Goldman, Sachs & Co.

Merrill Lynch & Co. Hambrecht & Quist

Representatives of the Underwriters

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth all expenses to be paid by Calico, other than the underwriting discounts and commissions payable by Calico in connection with the sale of the common stock being registered. All amounts shown are estimates except for the SEC registration fee and the NASD filing fee.

Amount to Be Paid

SEC registration fee	$15,985
NASD filing fee	5,500
Nasdaq National Market Listing Fee	*
Blue sky qualification fees and expenses	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Director and Officer liability insurance	*
Transfer agent and registrar fees	*
Miscellaneous expenses	*
Total	$ *

* To be supplied by amendment.

Item 14. Indemnification of Officers and Directors.

Section 145 of the Delaware General Corporation Law permits indemnification of officers, directors and other corporate agents under certain circumstances and subject to certain limitations. Our certificate of incorporation and bylaws provide that we shall indemnify our officers, directors, employees and agents to the full extent permitted by the Delaware General Corporation Law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, we intend to enter into separate indemnification agreements with our officers, directors and certain

employees which would require us, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service as directors, officers or employees. We also intend to maintain director and officer liability insurance, if available on reasonable terms.

These indemnification provisions and the indemnification agreements that we intend to enter into with our officers and directors may be sufficiently broad to permit indemnification of our officers and directors for liabilities, including reimbursement of expenses incurred, arising under the Securities Act.

We intend to obtain in conjunction with the effectiveness of the registration statement a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

The form of underwriting agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the underwriters of Calico and our officers and directors for certain liabilities arising under the Securities Act, or otherwise.

Item 15. Recent Sales of Unregistered Securities.

Since January 1, 1996, we have sold and issued the following unregistered securities:

(a) On July 1, 1996, we issued and sold an aggregate of 120,000 shares of common stock to 10 individuals at a price of $0.24 per share for an total offering price of $28,800.

(b) On July 3, 1997, we issued to one of the founders, 25,000 shares of common stock, valued at $0.24 per share, in exchange for services rendered to us.

(c) From July 21, 1995 to March 31, 1999, we granted options to purchase 7,500,387 shares of common stock pursuant to our 1997 Stock Option Plan and our 1995 Stock Option Plan at exercise prices ranging from $0.10 per share to $6.75 per share.

(d) On January 29, 1997, in connection with a loan agreement, we issued a warrant to an equipment lender to purchase 23,333 shares of Series B Preferred Stock at an exercise price of $2.40 per share and on June 2, 1997, in connection with a revolving credit agreement, we issued a warrant to a bank to purchase 37,500 shares of Series B Preferred Stock at an exercise price of $2.40 per share.

(e) On June 7, 1996, William Paseman, one of our founders, exchanged 2,900,000 shares of Common Stock, par value $0.001 for 400,000 shares of Series B Preferred Stock, and 2,500,000 shares of common stock, par value $0.0001 per share, and sold the 400,000 shares of Series B Preferred Stock to 2 private investors.

(f) On June 7, 1996, we sold an aggregate of 2,000,000 shares of Series B Preferred Stock to 8 private investors at a price of $2.40 per share for a total offering price of $5,760,000.

(g) On July 23, 1997, we sold an aggregate of 1,388,889 shares of Series C Preferred Stock to 8 private investors at a price of $3.60 per share for a total offering price of $5,000,000.

(h) On August 21, 1998, in connection with an Agreement and Plan of Reorganization dated as of June 23, 1998 between Calico and FirstFloor, certain shareholders of Calico and certain shareholders of FirstFloor, we issued 832,297 shares of Series D Preferred Stock and options to acquire 31,494 shares of Series D Preferred Stock, in exchange for all of the issued and outstanding capital stock and options to purchase common stock of FirstFloor.

(i) From September 4, 1998 through September 23, 1998, we sold an aggregate of 1,791,725 shares of Series E Preferred Stock to 25 private investors at a price of $6.837 per share for a total offering price of $12,250,023.

(j) On March 5, 1999, we sold an aggregate of 701,755 shares of common stock to one investor at a price of $14.25 per share for a total purchase price of $10,000,008.75.

There were no underwriters employed in connection with any of the transactions set forth in Item 15.

The issuances of securities described in Items 15(a) and 15(d) through 15(g) and 15(i) through 15(j) were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. The issuance of securities described in Item 15(h) was deemed to be exempt from registration under the Securities Act in reliance on Section 3(a)(10) as a transaction involving a security which is issued in exchange for a security where the terms and conditions of such securities are approved after a hearing on the fairness of such terms and conditions. The issuances of securities described in Items 15(b) and 15(c) were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) or Rule 701 promulgated thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about us or had access, through employment or other relationships, to this information.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits.

Exhibit Number Description of Document

1.1	Form of Underwriting Agreement
2.1	Agreement and Plan of Reorganization dated as of June 23, 1998 by and among Calico Technology, Inc., Calico Acquisition Corporation, FirstFloor Software, Inc., Certain Shareholders of FirstFloor Software, Inc., and Certain Shareholders of Calico Technology, Inc.
2.2*	Form of Agreement and Plan of Merger between Calico Technology, Inc., a California corporation, and Calico Commerce, Inc., a Delaware corporation
3.1*	Certificate of Incorporation
3.2*	Bylaws

4.1*	Form of Registrant's Specimen Common Stock Certificate
5.1*	Opinion of Gray Cary Ware & Freidenrich
10.1	Sublease Agreement dated July 31, 1998 by and between Adobe Systems Inc. and Calico Technology, Inc.
10.2*	1997 Stock Option Plan and forms of agreements thereunder
10.3	1995 Stock Option Plan and forms of agreements thereunder
10.4*	1999 Employee Stock Purchase Plan
10.5*	Form of Indemnity Agreement for directors and officers
10.6	Investors' Rights Agreement, dated as of May 26, 1995, as amended, among Calico Technology, Inc. William G. Paseman, and the persons identified on the schedules attached thereto
21.1	List of Subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP, Independent Accountants
23.2	Consent of Ernst & Young LLP, Independent Auditors
23.3*	Consent of Counsel (included in Exhibit 5.1)
24.1	Power of Attorney (see page II-5 of the Registration Statement)
27.1	Financial Data Schedule (in EDGAR format only)

* To be filed by amendment.

(b) Financial Statement Schedules.

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

Item 17. Undertakings

We hereby undertake to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in the denominations and registered in the names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the provisions referenced in Item 14 of this registration statement or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by us of expenses incurred or paid by our directors, officers or controlling persons in the successful defense of any action, suit or proceeding, is asserted by the director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our 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.

We hereby undertake that:

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

Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

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

Signatures

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, County of Santa Clara, State of California, on the 15th day of July 1999.

Calico Commerce, Inc.

By: /s/ ALAN P. NAUMANN Alan P. Naumann President and Chief Executive Officer (Principal Executive Officer)

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Alan P. Naumann and Arthur F. Knapp, Jr., and each of them acting individually, as his true and lawful attorneys-in-fact and agents, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signatures Title Date

/s/ ALAN P. NAUMANN Alan P. Naumann	President, Chief Executive Officer and Director (Principal Executive Officer)	July 15, 1999

/s/ ARTHUR F. KNAPP, JR. Arthur F. Knapp, Jr.	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	July 15, 1999

/s/ WILLIAM PASEMAN Chairman of the Board July 15, 1999 William Paseman /s/ BERNARD J. LACROUTE Director July 15, 1999 Bernard J. Lacroute /s/ WILLIAM D. UNGER Director July 15, 1999 William D. Unger

Index to Exhibits

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