FORM S-1 · REGISTRATION STATEMENT

Matrixone Inc

IPO priced 2000-03-01 · $25.00 a share · MONE



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 14, 1999 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 MATRIXONE, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER) DELAWARE 7372 02-0372301 (STATE OR OTHER (PRIMARY STANDARD (I.R.S. EMPLOYER JURISDICTION INDUSTRIAL IDENTIFICATION NUMBER) OF INCORPORATION OR CLASSIFICATION CODE ORGANIZATION) NUMBER) TWO EXECUTIVE DRIVE CHELMSFORD, MA 01824 (978) 322-2000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) MARK F. O'CONNELL PRESIDENT AND CHIEF EXECUTIVE OFFICER MATRIXONE, INC. TWO EXECUTIVE DRIVE CHELMSFORD, MA 01824 (978) 322-2000 (NAME, ADDRESS INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE) COPIES TO: GORDON H. HAYES, JR., ESQ. MARK G. BORDEN, ESQ. BARBARA M. JOHNSON, ESQ. SUSAN W. MURLEY, ESQ. TESTA, HURWITZ & THIBEAULT, LLP HALE AND DORR LLP 125 HIGH STREET 60 STATE STREET BOSTON, MASSACHUSETTS 02110 BOSTON, MASSACHUSETTS 02109 TELEPHONE: (617) 248-7000 TELEPHONE: (617) 526-6000 TELECOPY: (617) 248-7100 TELECOPY: (617) 526-5000 APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE HEREOF.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [_] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, CHECK THE FOLLOWING BOX. [_]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
COMMON STOCK, $.01 PAR VALUE....	$75,000,000	$19,800

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

+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 December 14, 1999.

SHARES

MATRIXONE, INC.

[LOGO]

COMMON STOCK

THIS IS AN INITIAL PUBLIC OFFERING OF SHARES OF COMMON STOCK OF MATRIXONE, INC. ALL OF THE SHARES OF COMMON STOCK ARE BEING SOLD BY MATRIXONE.

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR THE 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 "MONE".

SEE "RISK FACTORS" BEGINNING ON PAGE 6 TO READ ABOUT 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 ACCURACY OR ADEQUACY 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 MatrixOne	$	$

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 MatrixOne at the initial price to public less the underwriting discount.

THE UNDERWRITERS EXPECT TO DELIVER THE SHARES AGAINST PAYMENT IN NEW YORK, NEW YORK ON , 2000.

GOLDMAN, SACHS & CO. DAIN RAUSCHER WESSELS SOUNDVIEW TECHNOLOGY GROUP U.S. BANCORP PIPER JAFFRAY PROSPECTUS DATED , 2000.

Prospectus Summary

This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially "Risk Factors" beginning on page 6.

Our Business

We are a leading provider of Internet business collaboration software. Our eMatrix suite of products serves as an Internet platform facilitating collaboration among different departments and geographic locations of global organizations. Our software is also designed to serve as a backbone for an enterprise to collaborate through the Internet with its customers, suppliers and other business partners. Our eMatrix line of products integrates different business processes and facilitates the exchange of information and ideas on activities such as conceptual planning and design of new products, design for manufacturability, plant resource utilization, new product introduction and customer service and support. Additionally, we provide a full line of services, including implementation, training, maintenance and customer support, designed to ensure that our customers successfully utilize our eMatrix products.

The emergence of a global economy over the last several decades and the rapid growth of the Internet are requiring organizations to rapidly respond to a constantly changing business environment. Today, companies understand the need for greater and tighter integration and collaboration among all

departments, including engineering, manufacturing, sales and marketing and customer support, to efficiently bring feature-rich products and services to market at competitive prices. Organizations may be hindered in their abilities to interact and exchange information internally and with their customers, suppliers and other business partners due to disparate business processes, differing information technology systems, language barriers, the lack of a reliable and secure environment, network constraints and the prospect of long implementation times for new software solutions. Our eMatrix suite of software products is designed to address these issues.

Our products provide companies with an Internet platform for collaboration within their organizations and with their customers, suppliers and other business partners and allow companies the flexibility and agility to rapidly respond to changing business conditions. Our product features enable our customers to dynamically model, continuously re-evaluate, change and optimize their business processes and content with minimal programming. Customers are also able to define business processes in multiple languages or dialects, thereby facilitating collaboration around the world, while minimizing the problems of misinterpretation or misunderstanding. In addition, we offer our customers off-the-shelf integrations to a wide variety of software products, which allows our customers to leverage their corporate knowledge and existing technology infrastructures and continue to use other best-of-breed applications and point solutions.

Our open-standards Internet architecture that includes extensible markup language technology, or XML, enables our customers to exchange large volumes of different types of data, information, ideas and knowledge regardless of their information technology infrastructures, systems or software. Our eMatrix products provide dynamic access control and high-integrity encryption to protect the confidentiality and integrity of the data, information and ideas being exchanged. Although implementation times for our products vary with the scope of the project, our customers are able to implement specific applications in as little as two weeks, which allows our customers to rapidly realize the benefits of our software.

Our installed customer base represents a wide variety of industries, including aerospace/ defense, automotive, communications, high technology, machinery and medical equipment. Over 300 companies in more than 40 countries worldwide use our eMatrix product suite, including Celestica, Honda, Honeywell, John Deere, Scania, Siemens and 3Com. For the three months ended October 2, 1999, we achieved revenues of $13.9 million and reported an operating loss of $1.2 million and for the year ended July 3, 1999, we had revenues of $41.3 million and an operating loss of $7.2 million.

Our Strategy

We seek to be the world's leading provider of Internet business collaboration software. To accomplish this goal, we intend to:

. extend our technology leadership by accelerating research and development investments;

. expand our business-to-business collaboration capabilities by continuing to enhance the scope of the features and functionality of our eMatrix product line;

. develop business process and industry-focused applications which capture and automate particular business processes;

. broaden our business alliances with systems integrators and distributors and with enterprise, Internet and application software companies;

. leverage our customer base to sell additional products and services, to access our customers' suppliers, customers and other business partners, and to further penetrate our customers' industries; and . expand our global presence to increase our ability to provide our customers with high-quality service in any of their locations.

Our History

We incorporated in Delaware under the name Adra Systems, Inc. in July 1983. We commercially shipped the first version of our business collaboration software in November 1993 and released our first Internet business collaboration software product in March 1997. In October 1997, we changed our name to MatrixOne, Inc., and in May 1998, we sold our legacy design and manufacturing software business, Adra Systems, to focus on our Internet suite of products. We released the current version of our business collaboration suite of products, eMatrix, in June 1999. Our principal executive offices are located at Two Executive Drive, Chelmsford, Massachusetts 01824, and our telephone number is (978) 322-2000. Our Internet address is www.matrixone.com. The information contained on our website is not incorporated by reference in this prospectus.

MatrixOne, eMatrix, eMatrix Advantage, Adaplet, eMatrix Integrations, Matrix Global Advantage, Matrix Systems Administrator, Matrix Business Administrator, MatrixWeb User, Matrix Application Development Kit ADK, CSM and Customer Success Model are trademarks of MatrixOne. All other trademarks or trade names referenced in this prospectus are the property of their respective owners.

The Offering

Shares offered by MatrixOne..... shares Shares to be outstanding after the offering.. shares Proposed Nasdaq National Market symbol..... MONE Use of proceeds..... For general corporate purposes, including working capital and possible acquisitions.

The shares of common stock to be outstanding after the offering exclude:

. 4,261,179 shares issuable upon the exercise of outstanding stock options as of October 2, 1999 at a weighted average exercise price of $1.69; and . 56,250 shares issuable upon the exercise of an outstanding warrant as of October 2, 1999 at an exercise price of $1.33 per share.

Unless otherwise specifically stated, information throughout this prospectus assumes:

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

. the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 8,920,927 shares of common stock immediately prior to the closing of the offering;

. the effectiveness of a -for- stock split of the common stock immediately prior to the date of this prospectus; and . the effectiveness of our Second Amended and Restated Certificate of Incorporation to increase our authorized common stock to 100,000,000 shares and to authorize 5,000,000 shares of undesignated preferred stock and the adoption of our Amended and Restated By-laws as of the closing of the offering.

Summary Consolidated Financial Data The following table summarizes our consolidated statements of operations data. In May 1998, we sold our legacy design and manufacturing software business, Adra Systems, to focus on our Internet-enabled suite of software products. The financial results of this divested business are reflected in our consolidated financial statements as discontinued operations.

Shares used in computing pro forma basic and diluted net income (loss) per share give effect to the conversion of all outstanding shares of our convertible preferred stock into shares of common stock, as if the conversion had occurred on the original date of issuance.

	Year Ended				Three Months Ended	
July 1, 1995	June 29, 1996	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998	October 2, 1999
(in thousands, except per share data)						

Consolidated Statements of Operations Data: Total revenues..... $ 1,885 $ 6,130 $12,275 $ 21,179 $41,346 $ 8,200 $13,881 Gross profit..... 521 3,608 8,469 13,351 23,556 4,760 7,849 Total operating expenses..... 4,692 10,243 12,873 26,203 31,035 6,812 9,142 Net loss from continuing operations..... (4,171) (6,635) (3,669) (10,876) (7,235) (1,947) (1,195) Net income (loss) from discontinued operations..... 3,816 (319) 1,777 8,684 -- -- -- Net loss..... $ (355) $(6,954) $(1,892) $ (2,192) $(7,235) $(1,947) $(1,195) Basic and diluted net income (loss) per share: Continuing operations... $ (3.56) $ (5.52) $ (2.95) $ (8.64) $ (4.90) $ (1.53) $ (0.69) Discontinued operations..... 3.26 (0.27) 1.43 6.90 -- -- -- Net loss..... $ (0.30) $ (5.79) $ (1.52) $ (1.74) $ (4.90) $ (1.53) $ (0.69) Shares used in computation..... 1,172 1,202 1,243 1,259 1,476 1,276 1,734 Pro forma basic and diluted net income (loss) per share: Continuing operations... $ (0.67) $ (1.05) $ (0.58) $ (1.30) $ (0.78) $ (0.21) $ (0.11) Discontinued operations..... 0.61 (0.05) 0.28 1.04 -- -- -- Net loss..... $ (0.06) $ (1.10) $ (0.30) $ (0.26) $ (0.78) $ (0.21) $ (0.11) Shares used in computation..... 6,262 6,291 6,333 8,350 9,323 9,072 10,655 The following table presents a summary of our balance sheet as of October 2, 1999:

. on an actual basis;

. on a pro forma basis after giving effect to the conversion of our outstanding convertible preferred stock into 8,920,927 shares of common stock immediately prior to the closing of the offering and the filing of our Second Amended and Restated Certificate of Incorporation as of the closing of the offering authorizing 100,000,000 shares of common stock and 5,000,000 shares of undesignated preferred stock; and . on a pro forma as adjusted basis to reflect the sale of shares of common stock at an assumed initial public offering price of $ per share, after deducting the estimated underwriters' discounts and commissions and estimated offering expenses.

As of October 2, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands)

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Consolidated Balance Sheet Data:
Cash and equivalents.............................. $ 7,594   $ 7,594     $
Working capital.................................    7,047     7,047
Total assets of continuing operations.............  27,140    27,140
Redeemable convertible preferred stock............  17,015       --
Total stockholders' equity (deficit).............  (6,710)   10,305
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Risk Factors

This offering involves a high degree of risk. You should carefully consider the risks described below before purchasing our common stock. If any of the following risks were to occur, our business, financial condition or results of operations would likely suffer. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business Our Future Success Is Uncertain Because We Have Significantly Changed Our Business We commercially shipped the first version of our business collaboration software in November 1993, released our first Internet business collaboration software product in March 1997 and released the current version of our eMatrix product line in June 1999. In May 1998, we sold our legacy design and manufacturing software business, Adra Systems, to focus on our eMatrix suite of products. To date, our customers have used our eMatrix suite of products primarily for linking geographically dispersed departments and divisions within their organizations. Our strategy is to add new customers and have our current customers expand their use of our eMatrix product line. Our new business focus and strategy may not be successful. In addition, because we have only recently begun to focus our business on the development, sale and marketing of our eMatrix line of products, we may have limited insight into trends that may emerge and affect our business. We face the many challenges, risks and difficulties frequently encountered by companies transitioning to a new product line and using a new business strategy in a rapidly evolving market. If we are unable to successfully implement our business strategy, our operating results will suffer.

We May Not Achieve Anticipated Revenues if Market Acceptance of Our eMatrix Line of Software Products Is Not Forthcoming We believe that revenues from licenses of our eMatrix suite of products, together with revenues from related professional services and training, maintenance and customer support services, will account for substantially all of our revenues for the foreseeable future. Our future financial performance will depend on market acceptance of our eMatrix line of products, including our integration products, and any upgrades or enhancements that we may make to our products in the future. As a result, if our eMatrix line of products does not achieve widespread market acceptance, we may not achieve anticipated revenues. In addition, if our competitors release new products that are superior to our eMatrix line of products, demand for our products may not accelerate and could decline. If we are unable to increase the number and scope of our integration products or ship or implement any upgrades or enhancements to our products when planned, or if the introduction of upgrades or enhancements causes customers to defer orders for our existing products, we also may not achieve anticipated revenues.

The Market for Our eMatrix Software Products Is Newly Emerging and Demand for Business Collaboration Software May Not Evolve and Could Decline The market for Internet business collaboration software is newly emerging. We cannot be certain that this market will continue to develop and grow or that companies will choose to use our eMatrix products rather than attempting to develop alternative platforms and applications internally or through other sources. If we fail to establish a significant base of customer references, our ability to market and license our eMatrix product suite successfully may be reduced. Companies that have already invested substantial resources in other methods of sharing information during the design, manufacturing and supply process may be reluctant to adopt new technology or infrastructures that may replace, limit or compete with their existing systems or methods. We expect that we will continue to need to pursue intensive marketing and selling efforts to educate prospective customers about the uses and benefits of our eMatrix product line. Therefore, demand for and market acceptance of our software products is subject to a high level of uncertainty.

We Have a History of Losses, Expect to Incur Substantial Losses in the Future and May Not Achieve or Maintain Profitability We have incurred substantial net losses from continuing operations in each of the past five fiscal years and for the three months ended October 2, 1999. We incurred net losses from continuing operations of approximately $1.2 million for the three months ended October 2, 1999, $7.2 million for fiscal 1999, $10.9 million for fiscal 1998 and $3.7 million for fiscal 1997. As of October 2, 1999, we had an accumulated deficit of approximately $33.1 million. We expect to substantially increase our selling and marketing and research and development expenses, and as a result, we anticipate incurring significant net losses for the foreseeable future. We will need to generate significant increases in revenues to achieve and maintain profitability, and we may not be able to do so. If our revenues grow more slowly than we anticipate or if our operating expenses increase more than we expect or cannot be reduced in the event of lower revenues, our business will be significantly and adversely affected. Even if we achieve profitability in the future on a quarterly or annual basis, we may not be able to sustain or increase profitability. Failure to become profitable within the time frame expected by investors or to sustain profitability may adversely affect the market price of our common stock.

Our Quarterly Revenues and Operating Results Are Likely to Fluctuate and if We Fail to Meet the Expectations of Securities Analysts or Investors, Our Stock Price Could Decline Our quarterly revenues and operating results are difficult to predict, have varied significantly in the past and are likely to fluctuate significantly in the future. We typically realize a significant percentage of our revenues for a fiscal quarter in the second half of the third month of the quarter. Accordingly, our quarterly results may be difficult or impossible to predict prior to the end of the quarter. Any inability to obtain sufficient orders or to fulfill shipments in the period immediately preceding the end of any particular quarter may cause the results for that quarter to fall short of our revenues targets. In addition, we base our current and future expense levels in part on our estimates of future revenues. Our expenses are largely fixed in the short term. We may not be able to adjust our spending quickly if our revenues fall short of our expectations. Accordingly, a revenues shortfall in a particular quarter would have an adverse effect on our operating results for that quarter.

In addition, our quarterly operating results may fluctuate for many reasons, including, without limitation:

. changes in demand for our eMatrix products and services, including seasonal differences;

. changes in the mix of our software licensing and services;

. variability in the mix of professional services performed by us and systems integrators;

. the amount of training we provide to systems integrators and other business partners related to our eMatrix product line and its implementation;

. the level of royalty payments on licensed, third-party software and our integration products and applications; and . our ability to accurately estimate costs associated with fixed-price professional services projects.

For these reasons, you should not rely on period-to-period comparisons of our financial results to forecast our future performance. It is likely that in some future quarter or quarters our operating results will be below the expectations of securities analysts or investors. If a shortfall in revenues occurs, the market price of our common stock may decline significantly.

Our Lengthy and Variable Sales Cycle Makes it Difficult for Us to Predict When or if Sales Will Occur and Therefore We May Experience an Unplanned Shortfall in Revenues Our products have a lengthy and unpredictable sales cycle that contributes to the uncertainty of our operating results. Customers view the purchase of our eMatrix line of Internet business collaboration software as a significant and strategic decision. As a result, customers generally evaluate our software products and determine their impact on existing infrastructure over a lengthy period of time. Our sales cycle has historically ranged from approximately one to nine months based on the customer's need to rapidly implement a solution and whether the customer is new or is extending an existing implementation. The license of our software products may be subject to delays if the customer has lengthy internal budgeting, approval and evaluation processes. We may incur significant selling and marketing expenses during a customer's evaluation period, including the costs of developing a full proposal and completing a rapid proof of concept or custom demonstration, before the customer places an order with us. Customers may also initially purchase a limited number of server and user licenses before expanding their implementations. Larger customers may purchase our software products as part of multiple simultaneous purchasing decisions, which may result in additional unplanned administrative processing and other delays in the recognition of our license revenues. If revenues forecasted from a specific customer for a particular quarter are not realized or are delayed to another quarter, we may experience an unplanned shortfall in revenues, which could significantly and adversely affect our operating results.

We May Not Achieve Our Anticipated Revenues if Large Software and Service Orders Expected in a Quarter Are Not Placed or Are Delayed Although we license our eMatrix software products to numerous customers in any quarter, a single customer often represents more than 10% of our quarterly revenues. Two customers accounted for approximately 24% and 10%, respectively, of our revenues for the three months ended October 2, 1999. We expect that revenues from large orders will continue to account for a large percentage of our total revenues in future quarters. A customer may determine to

increase its number of licenses and expand its implementation of our eMatrix product suite throughout its organization and to its customers, suppliers and other business partners only after a successful initial implementation. Therefore, the timing of these large orders is often unpredictable. If any large order anticipated for a particular quarter is not realized or is delayed to another quarter, we may experience an unplanned shortfall in revenues, which could significantly and adversely affect our operating results.

We Will Not Succeed Unless We Can Compete in Our Markets The markets in which we offer our eMatrix line of software products and services are intensely competitive and rapidly changing. Furthermore, we expect competition to intensify given the newly emerging nature of the market for Internet business collaboration software and consolidation in the software industry in general. We will not succeed if we cannot compete effectively in these markets. Competitors vary in size and in the scope and breadth of the products and services they offer. Many of our actual or potential competitors have significant advantages over us, including, without limitation:

. larger and more established selling and marketing capabilities;

. significantly greater financial and engineering personnel and other resources;

. greater name recognition and a larger installed base of customers; and . well-established relationships with our existing and potential customers, systems integrators, complementary technology vendors and other business partners.

As a result, our competitors may be in a stronger position to respond quickly to new or emerging technologies and changes in customer requirements. Our competitors may also be able to devote greater resources to the development, promotion and sale of their products and services than we can. Accordingly, we may not be able to maintain or expand our revenues if competition increases and we are unable to respond effectively.

As competition in the business collaboration software market intensifies, new solutions will come to market. Our competitors may bundle their products in a manner that may discourage users from purchasing our eMatrix products. Also, current and potential competitors may establish cooperative relationships among themselves or with third parties. Increased competition could result in reductions in price and revenues, lower profit margins, loss of customers and loss of market share. Any one of these factors could materially and adversely affect our business and operating results.

If We Are Not Successful in Developing New Products and Services that Keep Pace with Technology, Our Operating Results Will Suffer The market for our eMatrix product line is new and emerging, and is characterized by rapid technological advances, changing customer needs and evolving industry standards. Accordingly, to realize our expectations regarding our operating results, we depend on our ability to:

. develop, in a timely manner, new software products and services that keep pace with developments in technology;

. meet evolving customer requirements; and . enhance our current product and service offerings and deliver those products and services through appropriate distribution channels.

We may not be successful in developing and marketing, on a timely and cost- effective basis, either enhancements to our eMatrix line of software products or new products which respond to technological advances and satisfy increasingly sophisticated customer needs. If we fail to introduce new products, our operating results will suffer. In addition, if new industry standards emerge that we do not anticipate or adapt to, our software products could be rendered obsolete and our business could be materially harmed.

If Our Existing Customers Do Not License Additional Software Products From Us, We May Not Achieve Growth in Our Revenues Our customers' initial implementations of our eMatrix line of software products often include a limited number of server and user licenses. Customers may subsequently add server and user licenses as they expand the implementations of our products throughout their enterprises or add software applications designed for specific functions. Therefore, it is important that our customers are satisfied with their initial product implementations. If we do not increase licenses to existing customers, we may not be able to achieve anticipated growth in our revenues.

Our Revenues Could Decline if We Do Not Develop and Maintain Successful Relationships with Systems Integrators and Complementary Technology Vendors We pursue business alliances with systems integrators and complementary technology vendors to endorse our eMatrix line of software products, implement our software, provide customer support services, promote and resell products that integrate with our products and develop industry-specific software products. These alliances provide an opportunity to license our eMatrix products to our partners' installed customer bases. In many cases, these parties have established relationships with our existing and potential customers and can influence the decisions of these customers. We rely upon these companies for recommendations of our eMatrix line of products during the evaluation stage of the purchasing process, as well as for implementation and customer support services. A number of our competitors have stronger relationships with these systems integrators and complementary technology vendors who, as a result, may be more likely to recommend our competitors' products and services. In addition, some of our competitors have relationships with a greater number of these systems integrators and complementary technology vendors and, therefore, have access to a broader base of enterprise customers. If we are unable to establish, maintain and strengthen these relationships, we will have to devote substantially more resources to the selling and marketing, implementation and support of our products. Our efforts may not be as effective as these systems integrators and complementary technology vendors, which could significantly harm our operating results.

Our International Operations and Planned Expansion Expose Us to Business Risks Which Could Cause Our Operating Results to Suffer We generated approximately 26.1% of our revenues in fiscal 1999 and 51.2% in the three months ended October 2, 1999 from operations outside North America. We face a number of risks associated with conducting business internationally, which could negatively impact our operating results, including, without limitation:

. difficulties relating to the management and administration of a globally-dispersed business;

. longer sales cycles associated with educating foreign customers on the benefits of our products and services;

. difficulties in providing customer support for our products in multiple time zones;

. currency fluctuations and exchange rates;

. limitations on repatriation of earnings of our foreign operations;

. the burdens of complying with a wide variety of foreign laws;

. reductions in business activity during the summer months in Europe and certain other parts of the world;

. multiple and possibly overlapping tax structures;

. changes in import/export duties, quotas and controls; and . economic or political instability in some international markets.

We believe that expansion of our international operations will be necessary for our future success. Therefore, a key aspect of our strategy is to continue to expand our presence in foreign markets. We may not succeed in our efforts to enter new international markets and expand our international operations. If we fail to do so, we may not be able to achieve anticipated growth in our revenues. This international expansion may be more difficult or time-consuming than we anticipate. It is also costly to establish international facilities and operations and promote our eMatrix products internationally. Thus, if revenues from international activities do not offset the expenses of establishing and maintaining foreign operations, our operating results will suffer.

We Depend on Licensed Third-Party Technology, the Loss of Which Could Result in Increased Costs of or Delays in Licenses of Our Products We license technology from several companies on a non-exclusive basis that is integrated into our eMatrix product suite, including database technology from Oracle, Common Object Request Broker Architecture technology, or CORBA, from IONA Technologies, and security and encryption technology software from RSA Security. We also license from third parties our eMatrix integration products and applications. 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, or at all. Some of the software we license from third parties would be difficult and time-consuming to replace. The loss of any of these technology licenses could result in delays in the licensing of our eMatrix software products until equivalent technology, if available, is identified, licensed and integrated. In addition, the effective implementation of our products may depend upon the successful operation of third-party licensed products in conjunction with our products, and therefore any undetected errors in these licensed products may prevent the implementation or impair the functionality of our products, delay new product introductions and/or injure our reputation.

If Systems Integrators Are Not Available or Fail to Perform Adequately, Our Customers May Suffer Implementation Delays and a Lower Quality of Customer Service, and We May Incur Increased Expenses Systems integrators often are retained by our customers to implement our eMatrix line of software products. If experienced systems integrators are not available to implement our eMatrix products, we will be required to provide these services internally, and we may not have sufficient resources to meet our customers' implementation needs on a timely basis. Use of our professional services personnel to implement our eMatrix product line would also increase our expenses. In addition, we cannot control the level and quality of service provided by our current and future implementation partners. If these systems integrators do not perform to the satisfaction of our customers, our customers could become dissatisfied with our products, which could adversely affect our business and operating results.

We May Not Be Able to Increase Revenues if We Do Not Expand Our Sales and Distribution Channels We will need to significantly expand our direct and indirect global sales operations in order to increase market awareness and acceptance of our eMatrix line of products and generate increased revenues. We market and license our products directly through our sales organization and indirectly through our global partner and distributor network. Our ability to increase our global direct sales organization will depend on our ability to recruit, train and retain sales personnel with advanced sales skills and technical knowledge. Competition for qualified sales personnel is intense in our industry. In addition, it may take up to nine months for a new sales person to become fully productive. If we are unable to hire or retain qualified sales personnel, or if newly hired sales personnel fail to develop the necessary skills or reach productivity more slowly than anticipated, we may have difficulty licensing our eMatrix software products, and we may experience a shortfall in anticipated revenues.

In addition, we believe that our future success is dependent upon expansion of our indirect global distribution channel, which consists of our relationships with a variety of systems integrators, complementary technology vendors and distributors. We cannot be certain that we will be able to maintain our current relationships or establish relationships with additional distribution partners on a timely basis, or at all. Our distribution partners may not devote adequate resources to promoting or selling our eMatrix line of products and may not be successful. In addition, we may also face potential conflicts between our direct sales force and third-party reselling efforts. Any failure to expand our indirect global distribution channel or increase the productivity of this distribution channel could result in lower than anticipated revenues.

We Currently Perform Many Implementations of Our Software Products on a Fixed- Price Basis, Which Could Cause a Decline in Our Gross Margins We currently perform many implementations of our eMatrix software products on a fixed-price basis. Prior to performing professional services, we estimate the amount of work involved for a particular implementation project. We may from time to time underestimate the amount of time or resources required to implement our products. If we do not correctly estimate the amount of time or resources required for implementations, our gross margins could decline.

Our Rapid Growth Is Placing a Significant Strain on Our Resources, and Our Business Will Suffer if We Fail to Manage Our Growth Properly We have rapidly expanded our revenues and operations over the past five years, which has placed a significant strain on our resources. We have substantially increased, and plan to further increase, both the number of our employees and the geographic scope of our operations. In addition, we have hired several of our key executives in the last two years. Our management team has had limited experience managing a rapidly growing company. We expect our anticipated growth will further strain our management, operational and financial resources. Moreover, our ability to successfully offer our eMatrix line of software products and services and implement our business strategy in a new and rapidly evolving market requires effective planning and management. To accommodate our growth, we must:

. improve existing and implement new management, information, operational and financial systems, procedures and controls;

. hire, train, manage, retain and motivate qualified personnel; and . effectively manage relationships with our customers, suppliers and other business partners.

We may not be able to install and implement additional management, information, operational and financial systems, procedures and controls in an efficient and timely manner to support our future operations. The difficulties associated with installing and implementing these new systems, procedures and controls may place a significant burden on our management and our internal resources. In addition, if we continue to grow internationally, we will have to expand our worldwide operations and enhance our communications infrastructure. Any delay in the implementation of, or any disruption in the transition to, new or enhanced systems, procedures or controls could adversely affect our ability to accurately forecast sales demand, manage our partner relationships, and record and report financial and management information on a timely and accurate basis. If we cannot manage our expanding operations, we may not be able to continue to grow or we may grow at a slower pace. Furthermore, our operating costs may escalate faster than planned, which would negatively impact our operating results.

We Depend on Our Key Personnel to Manage Our Business Effectively, and if We Are Unable to Retain Key Personnel, Our Ability to Compete Could Be Harmed Our ability to implement our business strategy and our future success depends largely on the continued services of our executive officers and other key engineering, sales, marketing and support personnel who have critical industry or customer experience and relationships. None of our key personnel, other than Johannes T.J. Ruigrok, our Vice President of Sales, Europe, Middle East and Africa, is bound by an employment agreement. We do not have key-man life insurance on any of our employees. The loss of the technical knowledge and management and industry expertise of any of these key personnel could result in delays in product development, loss of customers and sales and diversion of management resources, which could materially and adversely affect our operating results. In addition, our future performance depends upon our ability to attract and retain highly qualified sales, engineering, marketing, services and managerial personnel, and there is intense competition for such personnel. If we do not succeed in retaining our personnel or in attracting new employees, our business could suffer significantly.

Future Acquisitions May Negatively Affect Us We may expand our operations or market presence by acquiring or investing in businesses, products or technologies that complement our business, increase our market coverage, enhance our technical capabilities and otherwise offer opportunities for growth. These transactions create risks such as:

. difficulty assimilating the operations, technology, products and personnel we acquire;

. disruption of our ongoing business;

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

. one-time charges and expenses associated with amortization of goodwill and other purchased intangible assets; and . potential dilution to our stockholders.

Our inability to address these risks could negatively impact our operating results. Moreover, any future acquisitions, even if successfully completed, may not generate any additional revenues or provide any benefit to our business.

Our Products May Contain Defects that Could Harm Our Reputation, Be Costly to Correct, Delay Revenues and Expose Us to Litigation Despite testing by us, our partners and our customers, errors may be found in our products after commencement of commercial shipments. We and our customers have from time to time discovered errors in our software products. In the future, there may be additional errors and defects in our software. If errors are discovered, we may not be able to successfully correct them in a timely manner or at all. Errors and failures in our products could result in loss of or delay in market acceptance of our products and damage to our reputation and our ability to convince commercial users of the benefits of our products. In addition, we may need to make significant expenditures of capital resources in order to eliminate errors and failures. Since our products are used by customers for mission-critical applications, errors, defects or other performance problems could also result in financial or other damages to our customers, who could assert warranty and other claims for substantial damages against us. Although our license agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims, it is possible that such provisions may not be effective or enforceable under the laws of certain jurisdictions. In addition, our insurance policies may not adequately limit our exposure with respect to such claims. A product liability claim, even if unsuccessful, would be costly and time-consuming to defend and could harm our business.

Risks Related to Legal Uncertainty Failure to Protect Our Intellectual Property Could Harm Our Name Recognition Efforts and Ability to Compete Effectively To protect our intellectual property rights, we rely on a combination of patents, trademarks, copyrights and common law safeguards, including trade secret protection. We also rely on restrictions on use, confidentiality and nondisclosure agreements and other contractual arrangements with our employees, affiliates, customers, alliance partners and others. The protective steps we have taken may be inadequate to deter misappropriation of our intellectual property and proprietary information. A third party could obtain our proprietary information or develop products or technology competitive with ours. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. We have registered some of

our trademarks in the United States and have other trademark and patent applications pending. Effective patent, trademark, copyright and trade secret protection may not be available in every country in which we offer or intend to offer our products and services to the same extent as in the United States. Failure to adequately protect our intellectual property could harm or even destroy our brands and impair our ability to compete effectively. Further, enforcing our intellectual property rights could result in the expenditure of significant financial and managerial resources and may not prove successful.

We Could Incur Substantial Costs Defending Our Intellectual Property from Claims of Infringement The software industry is characterized by frequent litigation regarding copyright, patent and other intellectual property rights. We may be subject to future litigation based on claims that our products infringe the intellectual property rights of others or that our own intellectual property rights are invalid. We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry grows and the functionality of products overlaps. Claims of infringement could require us to reengineer or rename our products or seek to obtain licenses from third parties in order to continue offering our products. Licensing or royalty agreements, if required, may not be available on terms acceptable to us or at all. Even if successfullly defended, claims of infringement could also result in significant expense to us and the diversion of our management and technical resources.

We May Be Adversely Impacted by the Year 2000 Problem We believe that all versions of our eMatrix line of products after Version 6.0.3, including the versions of our products that we currently ship, when configured and used in accordance with the related documentation, are Year 2000 compliant, as discussed in Management's Discussion and Analyses of Financial Condition and Results of Operations - Year 2000 Readiness Disclosure Statement, but that prior versions of our software are not Year 2000 compliant. We have notified our customers that versions of our software prior to Version 6.0.4 are not Year 2000 compliant and encouraged them to upgrade to the latest version. There is, however, still a small number of our customers using a non-Year 2000 compliant version of our software products. While we believe that third-party software incorporated in the current versions of our products is Year 2000 compliant, we have not been able to obtain assurances from all our vendors. Despite testing by us, our products may contain undetected errors or defects associated with Year 2000 date compliance. Errors or defects in our products caused by Year 2000 issues could result in delays or loss of revenues, diversion of development resources, damage to our reputation, increased service and warranty costs, or liability to our customers, any of which could significantly and negatively impact our operating results. We have conducted a review of and are testing our internal information technology and other systems and software to identify functions that need correction to be Year 2000 compliant. We are taking corrective actions as we believe necessary in an effort to ensure that systems and software used in our business will continue to function properly in the year 2000. However, if our testing is incomplete or faulty, or our corrective actions are unsuccessful or not completed in time, we may encounter material unanticipated Year 2000 problems with our business operations. Any material interruption in our business caused by Year 2000 problems could materially and adversely affect our operating results.

Additionally, the Year 2000 problem may affect us by causing disruptions in the business operations of, or delaying technology purchases by, companies with whom we do business, such as customers and suppliers.

Risks Related to This Offering Management May Use the Proceeds of the Offering in Ways that Do Not Increase Our Profits or Our Market Value The primary purposes of the offering are to obtain additional capital, create a public market for our common stock and facilitate future access to public markets. We expect to use the net proceeds from the offering for general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire or invest in complementary businesses, products or technologies. We have not designated the proceeds for any particular purpose. Accordingly, our management will have broad discretion as to the application of the net proceeds. Our management may spend these proceeds in ways with which our stockholders may not agree. Moreover, our net proceeds may be used for corporate purposes that do not increase our profitability or our market value.

Our Stock Price Could be Volatile which May Lead to Losses by Investors Before the offering, there was no public market for our common stock. An active public market for our common stock may not develop or be sustained after the offering. The underwriters and we will determine the initial public offering price of our common stock based on negotiations concerning the valuation of our common stock. The public market may not agree with or accept this valuation. After the offering, therefore, you may not be able to resell your shares at or above the initial public offering price. The trading price of our common stock is likely to be volatile. The stock market in general, and the market for technology companies in particular, has experienced extreme volatility. This volatility has often been unrelated to the operating performance of particular companies. Volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the initial public offering price.

We Are at Risk of Securities Class Action Litigation Due to Our Expected Stock Price Volatility In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Securities litigation could result in substantial costs and divert management's attention and resources from our business. Due to the potential volatility of our stock price, we may be the target of securities litigation in the future.

Our Executive Officers and Directors and Their Affiliates Will Retain Significant Control over Us after the Offering, Which May Lead to Conflicts with Other Stockholders over Corporate Governance Matters After the offering, executive officers and directors and their affiliates will, in the aggregate, own approximately % of our outstanding common stock. These stockholders would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of significant corporate transactions. This concentration of ownership may also delay, deter or prevent a change in our control and may make some transactions more difficult or impossible to complete without the support of these stockholders.

Future Sales by Existing Stockholders Could Depress the Market Price of our Common Stock Once a trading market develops for our common stock, many of our stockholders will have an opportunity to sell their common stock for the first time. Sales of a substantial number of shares of common stock in the public market after the offering, or the threat that substantial sales might occur, could cause the market price of our common stock to decrease. These factors could also make it difficult for us to raise capital by selling additional equity services.

Anti-Takeover Provisions in our Organizational Documents and Delaware Law Could Prevent or Delay a Change in Control of Our Company Provisions of our certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable. These provisions may also prevent changes in our management. These provisions include, without limitation:

. authorizing the issuance of undesignated preferred stock;

. providing for a classified board of directors with staggered, three-year terms;

. requiring super-majority voting to effect certain amendments to our certificate of incorporation and by-laws;

. limiting the persons who may call special meetings of stockholders;

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

Some provisions of Delaware law may also discourage, delay or prevent someone from acquiring or merging with us. See "Description of Capital Stock-- Delaware Law and Certain Charter and By-law Provisions and Anti-Takeover Effects".

You Will Experience Immediate and Substantial Dilution of Your Investment Purchasers of common stock in the offering will pay a price per share which substantially exceeds the per share value of our assets after subtracting our liabilities. In addition, purchasers of common stock in the offering will have contributed approximately % of the aggregate price paid by all purchasers of our stock but will own only approximately % of our common stock outstanding after the offering.

Special Note Regarding Forward-looking Statements

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties. All statements, other than statements of historical facts included or incorporated in this prospectus, regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, the words "will", "believe", "anticipate", "intend", "estimate", "project", "could", "expect", "plan", "may" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. All forward-looking statements speak only as of the date of this prospectus. You should not place undue reliance on these forward-looking

statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under "Risk Factors" and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Use of Proceeds

We estimate that the net proceeds we will receive from our sale of shares of common stock in the offering will be approximately $ based on 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. If the underwriters' over-allotment option is exercised in full, we estimate that the net proceeds will be $.

We expect to use the net proceeds from the offering for general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire or invest in complementary businesses, products or technologies. Currently, we have no specific understandings, commitments or agreements with respect to any such acquisition or investment. Pending these uses, the net proceeds of the offering will be invested in short-term, interest-bearing, investment-grade securities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We presently intend to retain future earnings, if any, to finance the expansion and growth of our business and do not expect to pay any cash dividends in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion. Our credit facility currently prohibits the payment of cash dividends on our capital stock.

Capitalization

The following table sets forth our capitalization as of October 2, 1999:

. on an actual basis;

. on a pro forma basis after giving effect to the conversion of our outstanding convertible preferred stock into 8,920,927 shares of common stock immediately prior to the closing of the offering and filing of our Second Amended and Restated Certificate of Incorporation as of the closing of the offering authorizing 100,000,000 shares of common stock and 5,000,000 shares of undesignated preferred stock; and.

. on a pro forma as adjusted basis to reflect the sale of shares of common stock at an assumed initial public offering price of $ per share, after deducting the estimated underwriters' discounts and commissions and estimated offering expenses.

The shares of common stock to be outstanding after the offering exclude 4,261,179 shares issuable upon the exercise of outstanding stock options as of October 2, 1999 and 56,250 shares issuable upon the exercise of an outstanding warrant as of October 2, 1999.

As of October 2, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands) Redeemable convertible preferred stock..... $17,015 $ -- $ Stockholders' equity (deficit): Convertible preferred stock, $1.00 par value, 3,552 shares authorized, 3,547 issued and 3,393 shares outstanding (actual); $.01 par value, 5,000 shares authorized and no shares issued or outstanding (pro forma and pro forma as adjusted)..... 3,393 -- Common stock, $.01 par value, 40,000 shares authorized, 1,908 shares issued and outstanding (actual); 100,000 shares authorized and 10,829 shares issued and outstanding (pro forma); 100,000 shares authorized, and shares issued and outstanding (pro forma as adjusted)..... 19 108 Additional paid-in capital..... 31,867 52,186 Notes receivable from stockholders..... (362) (362) Deferred stock-based compensation..... (8,400) (8,400) Accumulated deficit..... (33,099) (33,099) Accumulated other comprehensive loss..... (128) (128) Total stockholders' equity (deficit)..... (6,710) 10,305 Total capitalization..... $10,305 $10,305 $

Dilution

Our pro forma net tangible book value as of October 2, 1999 was approximately $10.3 million, or $0.95 per share. Our pro forma net tangible book value per share as of October 2, 1999 represents the amount of our total tangible assets less our total liabilities, divided by the total number of shares of common stock outstanding. Dilution per share represents the difference between the amount per share paid by investors of shares of common stock in the offering and the pro forma net tangible book value per share of common stock immediately after the completion of the offering. After giving effect to the sale of the common stock offered by us in the offering 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 as adjusted net tangible book value as of October 2, 1999 would have been approximately $ million or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors of common stock. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price..... $ Pro forma net tangible book value per share as of October 2, 1999..... $0.95 Increase per share attributable to new investors..... Pro forma as adjusted net tangible book value per share after the offering..... Dilution per share to new investors..... $ The following table summarizes, on a pro forma as adjusted basis after giving effect to the offering, as of October 2, 1999, the differences between the existing stockholders and new investors with respect to

the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid at an assumed initial public offering price of $ per share, and before deducting the estimated underwriters' discounts and commissions and estimated offering expenses payable by us.

Shares Purchased Total Consideration Average Price Number Percent Amount Percent Per Share

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Existing stockholders...... 10,829,370       % $43,333,137       %     $4.01
New investors..............
  Total.....................             100.0% $            100.0%     $
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In the preceding tables, the shares of common stock outstanding exclude:

. 6,000,000 shares of common stock reserved for issuance under our stock plans, of which 4,261,179 shares at a weighted average exercise price of $1.69 were subject to outstanding options as of October 2, 1999; and . 56,250 shares of common stock issuable upon exercise of an outstanding warrant at an exercise price of $1.33 per share as of October 2, 1999.

To the extent outstanding options or warrants are exercised, there will be further dilution to new investors.

Selected Consolidated Financial Data

You should read the data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing elsewhere in this prospectus. The selected consolidated financial data set forth below for the fiscal years ended June 28, 1997, June 27, 1998 and July 3, 1999 and the consolidated balance sheet data as of June 27, 1998 and July 3, 1999 are derived from our consolidated financial statements, which have been audited by Arthur Andersen LLP, independent public accountants, and are included elsewhere in this prospectus. The selected consolidated financial data for the fiscal years ended July 1, 1995 and June 29, 1996 and the consolidated balance sheet data as of July 1, 1995, June 29, 1996 and June 28, 1997 are derived from our audited consolidated financial statements that are not included in this prospectus. In May 1998, we sold our legacy design and manufacturing software business, Adra Systems, to focus on our Internet-enabled suite of software products. The financial results of this divested business are reflected in our consolidated financial statements as discontinued operations. The selected consolidated financial data for the three-month periods ended October 3, 1998 and October 2, 1999 and the consolidated balance sheet data as of October 2, 1999 are derived from our unaudited consolidated financial statements and the related notes included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on substantially the same basis as the audited financial statements and include, in the opinion of our management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the information set forth therein. The selected consolidated financial data for the three months ended October 2, 1999 are not necessarily indicative of the results that may be expected for the year ended July 1, 2000 or any other future period.

Shares used in computing pro forma basic and diluted net income (loss) per share give effect to the conversion of all outstanding shares of our convertible preferred stock into shares of common stock, as if the conversion had occurred on the original date of issuance.

	Year Ended					Three Months Ended	
	July 1, 1995	June 29, 1996	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998	October 2, 1999
	(in thousands, except per share data)						
Consolidated Statements of Operations Data:							
Revenues:							
Software license	$1,485	$ 4,420	$ 8,450	$11,836	$21,851	$ 4,528	$ 7,460
Service	400	1,710	3,825	9,343	19,495	3,672	6,421
Total revenues	1,885	6,130	12,275	21,179	41,346	8,200	13,881
Cost of revenues:							
Software license	654	359	725	1,237	3,323	778	1,005
Service	710	2,163	3,081	6,591	14,467	2,662	5,027
Total cost of revenues	1,364	2,522	3,806	7,828	17,790	3,440	6,032
Gross profit	521	3,608	8,469	13,351	23,556	4,760	7,849
Operating expenses:							
Selling and marketing	3,818	4,944	6,883	15,369	20,611	4,287	6,171
Research and development	738	4,953	4,267	7,242	5,792	1,556	1,480
General and administrative	136	346	1,723	3,592	4,479	969	1,082
Stock-based compensation	--	--	--	--	153	--	409
Total operating expenses	4,692	10,243	12,873	26,203	31,035	6,812	9,142
Loss from operations	(4,171)	(6,635)	(4,404)	(12,852)	(7,479)	(2,052)	(1,293)
Other income (expense), net	--	--	(140)	48	244	105	98
Benefit from income taxes	--	--	875	1,928	--	--	--
Net loss from continuing operations	(4,171)	(6,635)	(3,669)	(10,876)	(7,235)	(1,947)	(1,195)
Net income (loss) from discontinued operations	3,816	(319)	1,777	8,684	--	--	--
Net loss	$ (355)	$(6,954)	$(1,892)	$(2,192)	$(7,235)	$(1,947)	$(1,195)

	Year Ended					Three Months Ended	
	July 1, 1995	June 29, 1996	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998	October 2, 1999
	(in thousands, except per share data)						

Basic and diluted net income (loss) per share: Continuing operations.. $(3.56) $(5.52) $(2.95) $(8.64) $(4.90) $(1.53) $(0.69) Discontinued operations..... 3.26 (0.27) 1.43 6.90 -- -- -- Net loss..... $(0.30) $(5.79) $(1.52) $(1.74) $(4.90) $(1.53) $(0.69) Shares used in computation..... 1,172 1,202 1,243 1,259 1,476 1,276 1,734 Pro forma basic and diluted net income (loss) per share: Continuing operations.. $(0.67) $(1.05) $(0.58) $(1.30) $(0.78) $(0.21) $(0.11) Discontinued operations..... 0.61 (0.05) 0.28 1.04 -- -- -- Net loss..... $(0.06) $(1.10) $(0.30) $(0.26) $(0.78) $(0.21) $(0.11) Shares used in computation..... 6,262 6,291 6,333 8,350 9,323 9,072 10,655 As of July 1, June 29, June 28, June 27, July 3, October 2, 1995 1996 1997 1998 1999 1999 (in thousands)

Consolidated Balance Sheet Data:						
Cash and equivalents....	$1,822	$1,089	$ 897	$8,123	$11,036	$7,594
Working capital (deficit).....	1,520	210	(848)	8,826	7,892	7,047
Total assets of continuing operations..	9,659	6,329	8,478	22,912	29,887	27,140
Long-term debt, net of current portion.....	--	302	248	--	--	--
Redeemable convertible preferred stock.....	--	--	--	11,015	17,015	17,015
Total stockholders' equity (deficit).....	12,062	4,998	3,072	843	(6,042)	(6,710)

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

You should read the following discussion and analysis together with our consolidated financial statements and related notes to those statements and other financial information appearing elsewhere in this prospectus. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements due to various factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We are a leading provider of Internet business collaboration software. Our eMatrix suite of products serves as an Internet platform facilitating collaboration among different departments and geographic locations of global organizations. Our eMatrix software products also serve as a backbone for an enterprise to collaborate through the Internet with its customers, suppliers and other business partners. Enterprises use our eMatrix product line to integrate different business processes and facilitate the exchange of information, ideas and knowledge among parties collaborating on business activities, such as conceptual planning for new products, product design, design for manufacturability, plant resource utilization, new product introduction and customer service and support. This collaboration allows our customers to quickly and cost-effectively bring the right products and services to market.

Our installed base of customers represents a wide variety of industries, including aerospace/defense, automotive, communications, high technology, machinery and medical equipment. Over 300 companies located in over 40 countries worldwide use our eMatrix Internet business collaboration software, including Celestica, Honda, Honeywell, John Deere, Scania, Siemens and 3Com. We provide professional services and training, maintenance and customer support services to our customers directly through our offices in the United States, Austria, Canada, England, France, Germany, Italy, Japan and The Netherlands and indirectly through our partner network throughout Europe and Asia/Pacific.

We generate revenues from licensing our eMatrix software products and providing professional services and training, maintenance and customer support services. We derive our software license revenues principally from the licensing of our eMatrix suite of products, including software applications and integration products developed jointly with third parties, and, to a lesser extent, from providing Oracle database licenses. Typically, our customers initially acquire a limited number of server and user licenses, and subsequently add licenses as they expand the implementation of our eMatrix products throughout their organizations and to their customers, suppliers and other business partners. We license software through our direct sales force and through a network of domestic and international distributors and systems integrators. Although we license our eMatrix software products to numerous customers in any quarter, a single customer often represents more than 10% of our quarterly revenues. Two customers accounted for approximately 24% and 10%, respectively, of our revenues for the three months ended October 2, 1999. However, no single customer has accounted for more than 10% of our annual revenues in any of the last five fiscal years. We recognize revenues from software licensing upon shipment or distribution over the Internet to a customer.

We also provide services to our customers and systems integrators, consisting of professional services and training, maintenance and customer support services. Our professional services, which include implementation and consulting services, are provided on a time and materials or on a fixed-price basis. Our larger implementation projects are generally provided on a fixed- price basis. We recognize professional service revenues as the services are performed, on a percentage-of-completion basis, or upon customer acceptance. Our professional service revenues have increased each quarter due to the growth in our customer base, expansion of our professional services organization and improvements in the utilization of our professional services personnel. We also offer training services to our customers, distributors and systems integrators either in our offices throughout the world or at customer locations. We recognize revenues from training services upon completion of the training. Customers that license our products generally purchase annually renewable maintenance contracts, which provide customers with the right to receive unspecified software upgrades and technical support over the term of the contract without additional charge. Revenues from maintenance contracts are recognized over the term of the contract on a straight-line basis.

Our cost of software licenses consists of royalties paid to Oracle for Oracle database licenses and to other third parties for integration products and applications licensed to our customers. Cost of software licenses also includes the cost of manuals and product documentation, production media used to deliver our products, shipping costs and related labor. Our cost of software licenses fluctuates from period to period due to changes in the mix of software licenses and the extent to which we pay royalties to third parties on integration products and applications. In order to accelerate the market acceptance of our eMatrix product suite, we have increased the number of integration products we offer from nine to 28 in the last 18 months.

Our cost of services includes salaries and related expenses for services personnel and costs of contracting with third parties to provide implementation services. Typically, our customers reimburse us for the majority of our out-of- pocket expenses incurred during the course of a project, which are recorded as a reduction in cost of services. Cost of services fluctuates based on the mix of internal

professional services personnel and more expensive systems integrators used for implementation projects. Recently, we have increased both the use of systems integrators to provide implementation services for our customers and the amount of training we provide these systems integrators in an effort to increase the number of systems integrators with relevant eMatrix implementation expertise. We generally offer professional services on a fixed- price basis, and our gross margin may fluctuate based on the actual costs incurred to provide services under these contracts.

In connection with certain stock option grants during fiscal 1999 and the three months ended October 2, 1999, we recorded deferred stock-based compensation totaling approximately $9.0 million. We have recorded additional deferred stock-based compensation related to stock options granted subsequent to October 2, 1999 of approximately $0.8 million. Deferred stock-based compensation represents the difference between the option exercise price and the deemed fair value of our common stock on the date of the option grant. Deferred stock-based compensation is reported as a component of stockholders' equity (deficit) and is amortized through charges to operations over the vesting period of the options, which is generally four years. Stock-based compensation was $0.4 million for the three months ended October 2, 1999 and $0.2 million for the year ended July 3, 1999. We expect to record stock-based compensation of $2.1 million, $2.3 million, $2.3 million, $2.1 million and $0.2 million in fiscal 2000, 2001, 2002, 2003 and 2004, respectively.

We have incurred significant costs to develop our technology and products, recruit, hire and train personnel for our engineering, selling and marketing and services departments, and establish a corporate infrastructure. These costs have exceeded total revenues. As a result, we have incurred net losses from continuing operations in each of the past five fiscal years and for the three months ended October 2, 1999. As of October 2, 1999, we had an accumulated deficit of approximately $33.1 million. We anticipate that our operating expenses will substantially increase in future periods and will exceed projected increases in revenues. We expect to expand our selling and marketing and services organizations, develop new distribution channels for our products and services, fund greater levels of research and development, and improve our operational and financial systems. Accordingly, we anticipate incurring significant net losses for the foreseeable future.

MatrixOne was incorporated in July 1983 as Adra Systems, Inc. We commercially shipped the first version of our business collaboration software in November 1993, released our first Internet business collaboration software product in March 1997 and released the current version of our eMatrix product line in June 1999. In October 1997, we changed our name to MatrixOne, Inc. and in May 1998, we sold our legacy design and manufacturing software business, Adra Systems, to focus on our Internet suite of products. The financial results of this divested business are reflected in our consolidated financial statements as discontinued operations.

Results of Operations The following table sets forth consolidated statement of operations data expressed as a percentage of total revenues for each period indicated. The historical results are not necessarily indicative of results to be expected for any future period.

Year Ended	Three Months Ended

	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998	October 2, 1999
Revenues:					
Software license	68.8 %	55.9 %	52.8 %	55.2 %	53.7 %
Service	31.2	44.1	47.2	44.8	46.3
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenues:					
Software license	5.9	5.8	8.0	9.5	7.3
Service	25.1	31.1	35.0	32.5	36.2
Total cost of revenues	31.0	36.9	43.0	42.0	43.5
Gross profit	69.0	63.1	57.0	58.0	56.5
Operating expenses:					
Selling and marketing	56.1	72.6	49.9	52.3	44.4
Research and development	34.8	34.2	14.0	18.9	10.7
General and administrative	14.0	17.0	10.8	11.8	7.8
Stock-based compensation	--	--	0.4	--	2.9
Total operating expenses	104.9	123.8	75.1	83.0	65.8
Loss from operations	(35.9)	(60.7)	(18.1)	(25.0)	(9.3)
Other income (expense), net	(1.1)	0.2	0.6	1.3	0.7
Benefit from income taxes	7.1	9.1	--	--	--
Net loss from continuing operations	(29.9)	(51.4)	(17.5)	(23.7)	(8.6)
Net income from discontinued operations	14.5	41.1	--	--	--
Net loss	(15.4)%	(10.3)%	(17.5)%	(23.7)%	(8.6)%

Three Months Ended October 2, 1999 and October 3, 1998 Software license revenues. Software license revenues increased 64.8% to $7.5 million for the three months ended October 2, 1999 from $4.5 million for the three months ended October 3, 1998. The increase in software license revenues was due to software licenses to new customers as a result of increased acceptance of our products in domestic and international markets and additional software licenses to our existing customers.

Service revenues. Service revenues increased 74.9% to $6.4 million for the three months ended October 2, 1999 from $3.7 million for the three months ended October 3, 1998. The increase in service revenues was primarily due to increased professional services and maintenance revenues from the growth in our software licenses.

Cost of software licenses. Cost of software licenses increased 29.2% to $1.0 million for the three months ended October 2, 1999 from $0.8 million for the three months ended October 3, 1998. The increase in cost of software licenses was primarily due to higher aggregate royalties resulting from increased licensing of third-party software.

Cost of services. Cost of services increased 88.8% to $5.0 million for the three months ended October 2, 1999 from $2.7 million for the three months ended October 3, 1998 primarily due to increased personnel costs to support the growth in our services organization. We also increased both the use of systems integrators to provide implementation services for our customers and the amount of training we provided these systems integrators in an effort to increase the number of systems integrators with relevant eMatrix implementation expertise.

Gross profit. Gross profit increased 64.9% to $7.8 million for the three months ended October 2, 1999 from $4.8 million for the three months ended October 3, 1998. Gross profit as a percentage of total revenues, or gross margin, decreased to 56.5% for the three months ended October 2, 1999 from 58.0% for the three months ended October 3, 1998. Gross margin fluctuates from period to period due to changes in the mix of software license and service revenues, royalties for licensed third-party software, costs associated with the expansion of our worldwide services organization, and the use of systems integrators, which are generally more expensive than our own professional services personnel, to provide implementation services. Gross margin on software licenses increased to 86.5% for the three months ended October 2, 1999 from 82.8% for the three months ended October 3, 1998 due to a decrease in the relative proportion of software we licensed from third parties. Gross margin from services decreased to 21.7% for the three months ended October 2, 1999 from 27.5% for the three months ended October 3, 1998 due to the increased use in the 1999 period of systems integrators to provide implementation services and costs associated with training both new personnel in our services organization and systems integrators.

Selling and marketing. Selling and marketing expenses include marketing costs, such as public relations and advertising, trade shows, marketing materials and customer user group meetings, and selling costs such as sales training events and commissions. Selling and marketing costs may fluctuate based on the timing of trade shows and user group events and the amount of sales commissions, which vary based on revenues. Selling and marketing expenses increased 43.9% to $6.2 million for the three months ended October 2, 1999 from $4.3 million for the three months ended October 3, 1998 due to higher commission expense related to the growth in our revenues and increased personnel costs related to the expansion of our worldwide sales organization. Selling and marketing expenses as a percentage of total revenues decreased to 44.4% for the three months ended October 2, 1999 from 52.3% for the three months ended October 3, 1998 primarily due to increased productivity of our sales organization and a larger revenues base.

Research and development. Research and development expenses include costs incurred to develop our intellectual property and are expensed as incurred. To date, software development costs have been expensed as incurred, because the costs incurred from the attainment of technological feasibility to general product release have not been significant. Research and development costs may fluctuate based on the utilization of domestic and foreign third-party contractors, which are generally more expensive than our internal engineering personnel, and the use of third parties to develop specific software applications and integration products. Research and development expenses decreased 4.9% to $1.5 million for the three months ended October 2, 1999 from $1.6 million for the three months ended October 3, 1998 due to a decrease in the use of third-party contractors to assist in the development of our software. Research and development expenses as a percentage of total revenues decreased to 10.7% for the three months ended October 2, 1999 from 18.9% for the three months ended October 3, 1998 for the reasons set forth above and due to a larger revenues base.

General and administrative. General and administrative expenses consist primarily of compensation of executive, finance, human resource and administrative personnel, legal and accounting services and allocation of related facility expenses. General and administrative expenses increased 11.7% to $1.1

million for the three months ended October 2, 1999 from $1.0 million for the three months ended October 3, 1998 due to an increase in personnel costs to support the growth in our business. General and administrative expenses as a percentage of total revenues decreased to 7.8% for the three months ended October 2, 1999 from 11.8% for the three months ended October 3, 1998 primarily due to a larger revenues base.

Stock-based compensation. Stock-based compensation relates to the issuance of stock options with exercise prices below the deemed fair value of our common stock on the date of grant. Stock-based compensation was $0.4 million for the three months ended October 2, 1999.

Other income (expense), net. Other income (expense), net fluctuates based on the amount of cash balances available for investment, borrowings under our line of credit, interest expense related to our term loan and realized and unrealized gains and losses on foreign currency transactions. Other income, net remained relatively constant at $0.1 million for the three months ended October 2, 1999 and the three months ended October 3, 1998.

Income taxes. No provision for income taxes has been recorded for either the three months ended October 2, 1999 or the three months ended October 3, 1998 due to accumulated net losses. We did not record any tax benefits relating to these losses or other tax benefits due to the uncertainty surrounding the timing of the realization of these future tax benefits.

Year Ended July 3, 1999, June 27, 1998 and June 28, 1997 Software license revenues. Software license revenues increased 84.6% to $21.9 million for fiscal 1999 from $11.8 million for fiscal 1998. Software license revenues increased 40.1% in fiscal 1998 from $8.5 million in fiscal 1997. The increase in software license revenues in each year was due to software licenses to new customers as a result of increased acceptance of our products in domestic and international markets and additional software licenses to our existing customers.

Service revenues. Service revenues increased 108.7% to $19.5 million in fiscal 1999 from $9.3 million in fiscal 1998. Service revenues increased 144.3% in fiscal 1998 from $3.8 million in fiscal 1997. The increase in service revenues in each year was primarily due to increased professional services and maintenance revenues from the growth in our software licenses.

Cost of software licenses. Cost of software licenses increased 168.6% to $3.3 million in fiscal 1999 from $1.2 million in fiscal 1998. Cost of software licenses increased 70.6% in fiscal 1998 from $0.7 million in fiscal 1997. The increase in cost of software licenses in each year was primarily due to higher aggregate royalties from increased licensing of third-party software. We began licensing a significant amount of Oracle and third-party integration software during fiscal 1998.

Cost of services. Cost of services increased 119.5% to $14.5 million in fiscal 1999 from $6.6 million in fiscal 1998. Cost of services increased 113.9% in fiscal 1998 from $3.1 million in fiscal 1997. The increase in cost of services in each year was primarily due to increased personnel costs to support the growth in our services organization. We also increased in each year both the use of systems integrators

to provide implementation services for our customers and the amount of training we provide these systems integrators in an effort to increase the number of systems integrators with relevant eMatrix implementation expertise.

Gross profit. Gross profit increased 76.4% to $23.6 million in fiscal 1999 from $13.4 million in fiscal 1998. Gross profit increased 57.6% in fiscal 1998 from $8.5 million in fiscal 1997. Gross margin was 57.0%, 63.1% and 69.0% in fiscal 1999, 1998 and 1997, respectively. The decrease in gross margin in each year was attributable to lower margin service revenues growing faster than software license revenues during these periods. Gross margin on software licenses was 84.8%, 89.5% and 91.4% in fiscal 1999, 1998 and 1997, respectively. The decrease in gross margin on software licenses in each year was due to an increase in the relative proportion of software licensed from third parties. Gross margin on services decreased to 25.8% in fiscal 1999 from 29.5% in fiscal 1998 due to our increased use of systems integrators to provide implementation services to our customers. Gross margin on services increased in fiscal 1998 from 19.5% in fiscal 1997 due to higher margin maintenance revenues as licenses for our software products increased.

Selling and marketing. Selling and marketing expenses increased 34.1% to $20.6 million in fiscal 1999 from $15.4 million in fiscal 1998 and increased 123.3% in fiscal 1998 from $6.9 million in fiscal 1997. The increase in selling and marketing expenses in each year was primarily due to increased personnel costs relating to the growth in our worldwide sales organization and higher commission expense related to the growth in our revenues. Selling and marketing expenses as a percentage of total revenues decreased to 49.9% in fiscal 1999 from 72.6% in fiscal 1998 due primarily to a larger revenues base. Selling and marketing expenses as a percentage of total revenues increased in fiscal 1998 from 56.1% in fiscal 1997 primarily for the reasons that caused selling and marketing expenses to increase.

Research and development. Research and development expenses decreased 20.0% to $5.8 million in fiscal 1999 from $7.2 million in fiscal 1998 and increased 69.7% in fiscal 1998 from $4.3 million in fiscal 1997. Research and development expenses as a percentage of total revenues decreased to 14.0% in fiscal 1999 from 34.2% in fiscal 1998, and from 34.8% in fiscal 1997, primarily due to our replacement of outside domestic contractors with our internal engineering organization, the increased use of partners to more efficiently develop applications and integration products and the replacement of some third-party contractors with a contract research and development group in India in fiscal 1999 and 1998.

General and administrative. General and administrative expenses increased 24.7% to $4.5 million in fiscal 1999 from $3.6 million in fiscal 1998 and increased 108.5% in fiscal 1998 from $1.7 million in fiscal 1997. The increase in general and administrative expenses in each year was primarily due to increases in personnel costs to support the growth in our business and additional provisions for accounts receivable. General and administrative expenses as a percentage of total revenues decreased to 10.8% in fiscal 1999 from 17.0% in fiscal 1998 due primarily to a larger revenues base. General and administrative expenses as a percentage of total revenues increased in fiscal 1998 from 14.0% in fiscal 1997 primarily for the reasons that caused general and administrative expenses to increase.

Stock-based compensation. Stock-based compensation was $0.2 million for fiscal 1999.

Other income (expense), net. Other income, net increased to $0.2 million in fiscal 1999 from $48,000 in fiscal 1998 due to higher cash balances available for investment and related interest income. Other income, net increased in fiscal 1998 from an expense of $0.1 million in fiscal 1997 due to higher interest income and lower interest expense due to lower borrowings under our line of credit.

Discontinued operations. During fiscal 1998, we decided to focus our business on our eMatrix suite of software products and services. On May 7, 1998, we sold substantially all of the net assets of our legacy design and manufacturing software business, Adra Systems, to SofTech, Inc. The purchase price consisted of $7.0 million of cash, a $4.4 million promissory note which was paid in full in July 1998, and contingent payments of up to $2.2 million based on SofTech's revenues after the acquisition. SofTech has notified us that no contingent payments were due. We recorded a $6.7 million gain on the sale of the net assets of Adra Systems, comprised of the cash and promissory note proceeds of $11.4 million less estimated transaction costs of $2.3 million, income taxes of $1.5 million and net assets sold of $0.9 million. The transaction costs consisted principally of investment banking, legal and accounting fees, and bonus and severance arrangements with some employees. Revenues from Adra Systems were approximately $12.4 million for the period through May 7, 1998 and $15.9 million for fiscal 1997. At October 2, 1999, July 3, 1999 and June 27, 1998, accrued transaction costs relating to the sale of the net assets of Adra Systems, included in accrued expenses, were $0.7 million, $1.0 million and $2.0, respectively.

Income taxes. No provision for income taxes was recorded in fiscal 1999, 1998 or 1997 due to accumulated net losses. We did not record any tax benefits relating to these losses or other tax benefits due to the uncertainty surrounding the timing of the realization of these future tax benefits, which were $9.9 million in the aggregate at July 3, 1999.

Quarterly Results of Operations The following table sets forth selected consolidated statement of operations data for each of the nine quarters through October 2, 1999, as well as that data expressed as a percentage of our total revenues. This information has been derived from our unaudited consolidated financial statements. We have prepared this unaudited quarterly consolidated statement of operations data on substantially the same basis as our audited consolidated financial statements and it includes, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth therein. You should read this information in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

	Three Months Ended								
	Sept. 27, 1997	Jan. 3, 1998	Mar. 28, 1998	June 27, 1998	Oct. 3, 1998	Jan. 2, 1999	April 3, 1999	July 3, 1999	Oct. 2, 1999
	(in thousands)								
Revenues:									
Software license.....	$ 2,544	$ 2,316	$ 3,490	$ 3,486	$ 4,528	$ 5,274	$ 4,862	$ 7,187	$ 7,460
Service.....	1,572	2,019	2,165	3,587	3,672	4,257	5,606	5,960	6,421

Total revenues.....	4,116	4,335	5,655	7,073	8,200	9,531	10,468	13,147	13,881			
Cost of revenues:												
Software license.....	444	208	368	217	778	746	703	1,096	1,005			
Service.....	1,095	1,766	1,679	2,051	2,662	3,412	4,277	4,116	5,027			
Total cost of revenues.....	1,539	1,974	2,047	2,268	3,440	4,158	4,980	5,212	6,032			
Gross profit.....	2,577	2,361	3,608	4,805	4,760	5,373	5,488	7,935	7,849			
Operating expenses:												
Selling and marketing..	3,088	3,734	4,065	4,482	4,287	4,900	5,351	6,073	6,171			
Research and development.....	1,309	1,767	2,090	2,076	1,556	1,422	1,346	1,468	1,480			
General and administrative.....	677	753	837	1,325	969	1,121	1,249	1,140	1,082			
Stock-based compensation.....	--	--	--	--	--	8	55	90	409			
Total operating expenses.....	5,074	6,254	6,992	7,883	6,812	7,451	8,001	8,771	9,142			
Loss from operations....	(2,497)	(3,893)	(3,384)	(3,078)	(2,052)	(2,078)	(2,513)	(836)	(1,293)			
Other income (expense), net.....	(85)	52	15	66	105	95	34	10	98			
Benefit from income taxes.....	389	578	507	454	--	--	--	--	--			
Net loss from continuing operations.....	(2,193)	(3,263)	(2,862)	(2,558)	(1,947)	(1,983)	(2,479)	(826)	(1,195)			
Net income from discontinued operations.....	1,250	453	563	6,418	--	--	--	--	--			
Net income (loss).....	$ (943)	$(2,810)	$(2,299)	$ 3,860	$(1,947)	$(1,983)	$(2,479)	$ (826)	$(1,195)			

	Three Months Ended								
	Sept. 27, 1997	Jan. 3, 1998	Mar. 28, 1998	June 27, 1998	Oct. 3, 1998	Jan. 2, 1999	April 3, 1999	July 3, 1999	Oct. 2, 1999
	(as a percentage of total revenues)								
Revenues:									
Software license.....	61.8%	53.4%	61.7%	49.3%	55.2%	55.3%	46.4%	54.7%	53.7%
Service.....	38.2	46.6	38.3	50.7	44.8	44.7	53.6	45.3	46.3
Total revenues.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenues:									
Software license.....	10.8	4.8	6.5	3.1	9.5	7.8	6.7	8.3	7.3
Service.....	26.6	40.7	29.7	29.0	32.5	35.8	40.9	31.3	36.2
Total cost of									

revenues.....	37.4	45.5	36.2	32.1	42.0	43.6	47.6	39.6	43.5
Gross profit.....	62.6	54.5	63.8	67.9	58.0	56.4	52.4	60.4	56.5
Operating expenses:									
Selling and marketing..	75.1	86.1	71.9	63.4	52.3	51.4	51.1	46.2	44.4
Research and development.....	31.8	40.8	36.9	29.3	18.9	14.9	12.9	11.2	10.7
General and administrative.....	16.4	17.4	14.8	18.7	11.8	11.8	11.9	8.7	7.8
Stock-based compensation.....	--	--	--	--	--	0.1	0.5	0.7	2.9
Total operating expenses.....	123.3	144.3	123.6	111.4	83.0	78.2	76.4	66.8	65.8
Loss from operations....	(60.7)	(89.8)	(59.8)	(43.5)	(25.0)	(21.8)	(24.0)	(6.4)	(9.3)
Other income (expense), net.....	(2.1)	1.2	0.2	0.9	1.3	1.0	0.3	0.1	0.7
Benefit from income taxes.....	9.5	13.4	8.9	6.4	--	--	--	--	--
Net loss from continuing operations.....	(53.3)	(75.2)	(50.7)	(36.2)	(23.7)	(20.8)	(23.7)	(6.3)	(8.6)
Net income from discontinued operations.....	30.4	10.4	10.0	90.8	--	--	--	--	--
Net income (loss).....	(22.9)%	(64.8)%	(40.7)%	54.6%	(23.7)%	(20.8)%	(23.7)%	(6.3)%	(8.6)%

Our quarterly operating results have varied in the past and may vary in the future depending on many factors including, among others, those listed under the caption "Risk Factors--Our Quarterly Revenues and Operating Results Are Likely to Fluctuate and if We Fail to Meet the Expectations of Securities Analysts or Investors, Our Stock Price Could Decline." We believe that, while the quarterly period-to-period comparisons furnish important information about our revenues and expenses, these comparisons are not necessarily meaningful and should not be relied upon as indicators of future performance.

Liquidity and Capital Resources We have primarily financed our operations through the sale of convertible preferred stock, borrowings under our line of credit, cash generated from our legacy design and manufacturing business, Adra Systems, and the cash proceeds from the sale of Adra Systems in fiscal 1998.

As of October 2, 1999, we had cash and equivalents of $7.6 million, a decrease of $3.4 million from July 3, 1999, resulting primarily from a $3.1 million repayment of our line of credit. Our working capital was $7.0 million and $7.9 million as of October 2, 1999 and as of July 3, 1999, respectively. The decrease in working capital was primarily attributable to cash used to fund capital expenditures and the net loss incurred from the expansion of our operations.

We have a $7.0 million line of credit that bears interest at the bank's prime rate plus 0.5%, which was 8.75% as of October 2, 1999. We are currently in the process of renewing our line of credit, which expires in December 1999. Borrowings under our line of credit are limited to 80% of eligible accounts receivable, less 10% of the U.S. dollar value of each forward contract up to a total of $0.5 million, and are collateralized by all of our assets. As of October 2, 1999, we had no borrowings outstanding under the line of credit and $4.9 million available. The line of credit has financial and other covenants, which we were in compliance with as of October 2, 1999.

Net cash provided by continuing operations for the three months ended October 2, 1999 was $0.6 million resulting from an increase in deferred revenues, offset by our net loss from continuing operations and decreases in accounts payable and accrued expenses. Net cash used by continuing operations was $8.3 million in fiscal 1999 due to the net loss incurred from the expansion of our operations and the increase in our accounts receivable.

Net cash used by discontinued operations was $0.3 million and $1.1 million for the three months ended October 2, 1999 and fiscal 1999, respectively, and reflects payments of the severance and legal and accounting fees incurred in connection with the sale of our legacy design and manufacturing business.

Net cash used in investing activities was $0.5 million for the three months ended October 2, 1999 and reflects our investments in computer hardware and software, leasehold improvements and other office equipment to support our growth. Net cash provided by investing activities was $3.1 million in fiscal 1999 and included the $4.4 million payment of the promissory note from the sale of assets of Adra Systems, offset in part by capital expenditures. We expect that capital expenditures for the next 12 months will be approximately $2.0 million, primarily for the acquisition of data networking equipment and other computer hardware and software.

Net cash used in financing activities was $3.0 million for the three months ended October 2, 1999 and included the repayment of our line of credit. Net cash provided by financing activities was $9.2 million in fiscal 1999 and consisted of the sale of $6.0 million of redeemable convertible preferred stock and $3.1 million of net borrowings under our line of credit.

We currently anticipate that the net proceeds from the offering, together with our current cash and equivalents and available borrowings under our line of credit, will be sufficient to fund our anticipated cash requirements for working capital and capital expenditures for at least the next 12 months. We may need to raise additional funds, however, in order to fund more rapid expansion of our business, develop new and enhance existing eMatrix products and services, or acquire complementary products, businesses or technologies. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders may be reduced, our stockholders may experience additional dilution, and such securities may have rights, preferences or privileges senior to those of our stockholders. Additional financing may not be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of unanticipated opportunities or develop or enhance our services or products would be significantly limited.

Income Taxes

As of July 3, 1999, we had net operating loss carryforwards of $21.1 million and research and development tax credit carryforwards of $0.7 million. The net operating loss and tax credit carryforwards will begin to expire at various dates beginning in fiscal 2000, if not utilized. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an ownership change of a corporation. Our ability to utilize net operating loss and tax credit carryforwards on an annual basis could be limited as a result of an ownership change as defined by Section 382 of the Internal Revenue Code. We have completed several financings and believe that we have incurred ownership changes, which we do not believe will have a material impact on our ability to utilize our net operating loss and tax credit carryforwards.

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

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

. correctly handle date information needed for date changes after December 31, 1999;

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

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

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

The risks posed by Year 2000 issues could adversely affect our business in a number of significant ways. Although we believe that our internally developed systems and technology are Year 2000 compliant, the information and non- information technology systems we use nevertheless could be substantially impaired or cease to operate due to Year 2000 problems. Additionally, we rely on information technology supplied by third parties, and the distributors and systems integrators of our eMatrix line of products are heavily dependent on information technology systems and on their own and third-party vendor systems.

We have conducted a Year 2000 readiness review for all versions of our products after Version 6.0.3. This review included assessment, validation, testing and, where necessary, remediation, upgrading and replacement of product versions, as well as contingency planning. We continue to respond to customer questions about prior versions of our products on a case-by-case basis.

Based on our review, we believe the versions of our products that we currently ship are Year 2000 compliant, when configured and used in accordance with the related documentation, so long as the underlying operating system of the host machine and any other software used with or in the host machine or with our products are also Year 2000 compliant. We are currently shipping Version 7.0.1 of our eMatrix software product. We do not believe that versions of our products prior to Version 6.0.4 are Year 2000 compliant, and we have notified our customers of this fact and encouraged users of these versions to upgrade to the latest version. We do not provide software patches or remedial software programs for versions of our products prior to Version 6.0.4. Our customers who have maintenance agreements with us each have the right to receive the latest version of our products without additional charge. Our customers who do not have maintenance agreements with us may purchase the latest version of our products from us.

We have not separately tested software obtained from third parties that is incorporated into our eMatrix suite of products. We have tested this third- party software as incorporated in our products as part of our product review. While we believe that the third-party software incorporated in the current versions of our products is Year 2000 compliant, we have not been able to obtain assurances from all vendors.

Despite testing by us and by current and potential customers, and assurances from developers of products incorporated into our products, our products may contain undetected errors or defects associated with Year 2000 date functions. Errors or defects in our products could result in delay or loss of revenues, diversion of development resources, damage to our reputation, increased service and warranty costs, or liability to our customers, any of which could materially and negatively affect our business and operating results. Some commentators have predicted significant litigation regarding Year 2000 compliance issues. Because of the unprecedented nature of such litigation, it is uncertain whether or to what extent we may be affected by it.

We have initiated an assessment of our material internal information technology systems, including both our own software products and third-party software and hardware. These systems include our accounting system, customer service and support system and phone system. We have also initiated an assessment of our non-information technology systems. We expect to complete testing and modification of our information and non-information technology systems in December 1999. To the extent that we are not able to test the technology provided by third-party vendors, we are seeking assurances from these vendors that their systems are Year 2000 compliant. We are not currently aware of any material operational issues associated with preparing our internal information technology and non-information technology 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 information technology and non-information technology systems.

We do not currently have any information concerning the Year 2000 compliance status of our customers. Our current or future customers may incur significant expenses to achieve Year 2000 compliance. If our customers are not Year 2000 compliant, they may experience material costs to

remedy problems, or they may face litigation costs. In either case, Year 2000 issues could reduce or eliminate the budgets that current or potential customers could have for purchases of our software and services, or delay those purchases.

Our costs related to the Year 2000 issue have been immaterial to date and we expect total future costs to remain below $0.5 million. We have funded our Year 2000 remediation plan from operating cash flows and have not separately accounted for these costs in the past.

While we have almost completed the process, we have not yet fully developed a contingency plan to address all situations that may result if we are unable to achieve Year 2000 readiness of our critical operations. We expect to complete this contingency plan by December 31, 1999. Finally, we are also subject to external forces that might generally affect industry and commerce. If any of our operations experience Year 2000 problems and we either do not have a contingency plan or our contingency plan is inadequate to address the problems, then our results of operations could suffer.

Recent Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133, as amended by SFAS No. 137, will be effective for our financial reporting beginning in the first quarter of fiscal 2001. SFAS No. 133 will require us to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for gains and losses from changes in the fair value of a particular derivative will depend on the intended use of the derivative. We do not expect the adoption of SFAS No. 133 to have a material impact on our results of operations or financial position.

Qualitative and Quantitative Disclosures About Market Risk We have international offices in Austria, Canada, England, France, Germany, Italy, Japan and The Netherlands. At October 2, 1999, approximately 16.6% of our total assets were located at our international subsidiaries and approximately 51.2% and 26.1% of our revenues and 24.0% and 20.5% of our expenses for the three months ended October 2, 1999 and for the year ended July 3, 1999, respectively, were from our international operations. These subsidiaries transact business in local currency or the Euro. Therefore, we are exposed to foreign currency exchange risks. We currently use forward contracts to reduce our exposure to changes in foreign currency exchange rates associated with revenues denominated in a foreign currency and anticipated costs to be incurred in a foreign currency. We plan to use foreign exchange forward contracts and other instruments in the future to reduce our exposure to exchange rate fluctuations, and we may not be able to do this successfully. Accordingly, we may experience economic loss and a negative impact on earnings and equity as a result of foreign currency exchange rate fluctuations. Also, as we continue to expand our operations outside of the United States, our exposure to fluctuations in currency exchange rates could increase.

Our interest income is sensitive to changes in the general level of United States interest rates, and to a lesser extent, interest rates in Europe and Japan, particularly since the majority of our investments are in short-term instruments. We deposit our cash in highly rated financial institutions in North America,

Europe and Japan and invest in diversified U.S. money market investments with remaining maturities of less than 90 days. Due to the short- term nature of our investments, we believe that we have minimal market risk.

Conversion to the Euro We have arranged for the necessary modifications of our internal information technology and other systems to accommodate Euro-denominated transactions. Our European subsidiaries currently process Euro-denominated transactions. In addition, our products support the Euro currency symbol. We are also assessing the business implications of the conversion to the Euro, including long-term competitive implications and the effect of market risk with respect to financial instruments. Based on the foregoing, we do not believe the Euro will have a significant effect on our business, financial position, cash flows or results of operations. We will continue to assess the impact of Euro conversion issues as the applicable accounting, tax, legal and regulatory guidance evolves.

Business

We are a leading provider of Internet business collaboration software. Our eMatrix suite of products serves as an Internet platform facilitating collaboration among different departments and geographic locations of global organizations. Our eMatrix software products also serve as a backbone for an enterprise to collaborate through the Internet with its customers, suppliers and other business partners. Enterprises use our eMatrix product line to integrate different business processes and facilitate the exchange of information, ideas and knowledge among parties collaborating on business activities, such as conceptual planning for new products, product design, design for manufacturability, plant resource utilization, new product introduction and customer service and support. This collaboration allows our customers to quickly and cost-effectively bring the right products and services to market.

Our eMatrix line of software products is based on an Internet architecture utilizing open-standards and XML technology. This architecture allows our platform to be highly scalable and to integrate with existing information systems and software applications, thereby enabling our customers to continue to use and build upon their information technology infrastructure investments. Our eMatrix line of products contains dynamic access control and other security features, can be rapidly implemented and facilitates the use of other best-of- breed software applications. In addition, the dynamic business modeling capabilities of our eMatrix product suite provide our customers the flexibility to constantly adapt to a changing business environment by reconfiguring their systems with minimal programming.

We offer a variety of services that complement our eMatrix product suite. Our professional services personnel provide rapid and cost-effective implementation of our software products and other consulting services. These personnel capture and model the specific business processes that reflect our customers' planning, design, manufacturing, sales and service practices. We also provide training, maintenance and customer support services to continuously enhance the value of our eMatrix products to our customers. In addition, we have an extensive global network of systems integrators who are experienced in providing implementation and integration services to our customers.

Our installed base of customers represents a wide variety of industries, including aerospace/defense, automotive, communications, high technology, machinery and medical equipment. Over 300 companies located in over 40 countries worldwide use our eMatrix Internet business collaboration software, including Celestica, Honda, Honeywell, John Deere, Scania, Siemens and 3Com. We provide professional services and training, maintenance and customer support services to our customers directly through our offices in the United States, Austria, Canada, England, France, Germany, Italy, Japan and The Netherlands and indirectly through our partner network throughout Europe and Asia/Pacific.

Industry Background

A global economy has emerged over the last several decades due in part to global deregulation and the reduction in international trade barriers. As a result, businesses are facing accelerating competition from domestic, foreign and multinational corporations. The rapid growth of the Internet as a global medium through which businesses can communicate, share information and conduct business internally and directly with their customers, suppliers and other business partners worldwide has further hastened this era of escalating global competition. To compete effectively, businesses are transforming the ways they plan, develop, manufacture, market, sell and support their product and service offerings.

Companies must increasingly find ways for all of their employees, regardless of department or geographic location, to exchange information, ideas and knowledge. Organizations understand the need to efficiently use all of their resources to bring feature-rich products and services to market quickly and at competitive prices. This understanding has caused companies to adapt their operations to an environment requiring greater and tighter integration and collaboration among all departments, including engineering, manufacturing, sales and marketing and customer support. In addition, interaction and information exchange throughout an enterprise are more difficult following acquisitions because of the often incompatible business processes and information technology systems of the merged or acquired business. Many companies have invested large amounts of time and money automating their internal business processes through the purchase and implementation of enterprise resource planning or other enterprise software systems. However, these systems often are incapable of handling large amounts of different types of unstructured data, such as voice, drawings, graphics and images, or lack the flexibility to rapidly and cost-effectively adapt to changing business environments or customer requirements.

Intense global competition is requiring businesses not only to collaborate and exchange information within their enterprises, but also to seek the additional benefits of real-time, online interactions with their customers, suppliers and other business partners. Many companies need to manage large and often complex supply chains as well as numerous, diverse relationships with customers and business partners all over the world. In addition, manufacturing companies are increasingly outsourcing their design and manufacturing to external parties. The Internet has provided the opportunity for multiple parties to connect to each other in real time through open standards. However, to take advantage of

this opportunity, companies are increasingly seeking a common platform that integrates with existing information technology systems and enables collaboration and information exchange in an inexpensive, secure and scalable environment.

Customers seeking to realize the benefits of real-time business collaboration require a software solution that addresses the following concerns:

Constantly changing business environment. Driven by advances in technology, increasing customer expectations and mergers and acquisitions, companies need to anticipate and quickly respond to changing customer needs, market shifts and the evolving business environment. To respond quickly to these changes, a company needs an information technology platform that provides the flexibility to continuously re-evaluate and quickly change business processes and information based on real-time input from its employees, customers, suppliers and other business partners.

Increasing business complexity. To effectively collaborate electronically, an organization's employees, customers, suppliers and other business partners need real-time access to large volumes of often unstructured data and information. These parties may speak different languages and be located in numerous geographic sites. Increasingly, companies require information technology platforms that are easy to use, that are in the user's local language, and that reduce the administrative and technical complexities inherent in global collaboration across businesses and international boundaries.

Use of existing information technology infrastructure. Companies and their customers, suppliers and other business partners may have each invested many years and significant financial resources implementing information technology systems and software applications. These multiple systems and software applications may have incompatible business processes and use different storage technologies. However, to electronically communicate and exchange information rapidly and effectively, the disparate systems of these companies need to be integrated and work within existing network capabilities.

Need for secure business collaboration technology. Companies require a common platform that allows the exchange of ideas, information and knowledge among businesses in a highly reliable and secure environment. Access to electronically shared ideas and information needs to be controlled both within an enterprise and among businesses to prevent the misappropriation and misuse of this shared information by competitors or other third parties and to protect the integrity of such information.

Complexity and time of implementation. Due to accelerating global competition, many companies need information systems that enable them to increase the speed with which they bring new products and services to market. It is necessary for these systems to be rapidly and cost- effectively implemented and easily maintained.

The MatrixOne Solution Our eMatrix product line is designed to enable interactive collaboration over the Internet among geographically dispersed departments and divisions within an enterprise and among the enterprise's customers, suppliers and other business partners. Enterprises use our eMatrix products to integrate incompatible business processes and information sources and electronically exchange information, ideas, and knowledge among parties collaborating on business activities, such as

conceptual planning for new products, product design, design for manufacturability, plant resource utilization, new product introduction, and customer service and support. This collaboration allows our customers to quickly and cost-effectively bring the right products and services to market.

Our eMatrix suite of software products provides the following benefits to our customers:

Allows rapid response to change. Our eMatrix product line is designed to provide customers the flexibility and agility to rapidly respond to changing business conditions or requirements. Our products enable our customers to dynamically model, continuously re-evaluate, change and optimize their business processes and content with minimal programming. In addition, we offer numerous pre-configured software applications which provide for broad functionality and simplify everyday business activities.

Manages business complexities. Our eMatrix products simplify many of the complexities inherent in global organizations and business relationships. Our customers have numerous options to distribute and replicate large amounts of unstructured data so that people in different geographic locations have access to the same knowledge and information, which is necessary to interact in real time. Also, using our eMatrix products, our customers can define business processes in multiple languages or dialects, thereby enabling collaboration around the world, while minimizing the problems of translation, misinterpretation or misunderstanding. In addition, our customers can share these processes with their customers, suppliers and other business partners across international boundaries in a secure environment. Our eMatrix products are also user-friendly, which we believe will quickly facilitate their widespread acceptance.

Leverages information technology investments. Our platform is designed to both integrate existing information systems and software applications and work within the capacity of existing networks. We offer off-the-shelf integrations to a wide variety of software products, ranging from desktop tools to back-office systems. We also provide our customers and partners the tools and interface technologies needed to build additional connections. The ability of our eMatrix products to integrate existing information systems and software applications enables our customers to preserve and build upon their corporate knowledge and information technology investments, while still deploying best-of-breed applications and point solutions. This also facilitates the integration of an acquired company's operations following a merger or acquisition.

Provides technology enabling business-to-business collaboration. Our eMatrix line of software products provides a platform for an enterprise to collaborate in real time over the Internet with its customers, suppliers and other business partners. Our products facilitate the ability of businesses to develop, manage and enhance products and offer services throughout their life cycles. Our open-standards Internet architecture that includes XML technology enables our customers to exchange large volumes of different types of data, information, ideas and knowledge with their employees, customers, suppliers and other business partners regardless of differing information technology infrastructures, systems or software. Our eMatrix product suite provides dynamic access control to allow our customers

to continuously delegate and manage varying levels of access to information, processes and content. In addition, the high-integrity encryption security features of our eMatrix products are designed to protect the confidentiality and integrity of the data, information and ideas being exchanged.

Provides for rapid implementation. Our eMatrix products are designed to be rapidly implemented, thereby enabling our customers to realize the benefits of our products in a short period of time. Although implementation times vary with the scope of applications, the number of users and the geographic locations involved, our customers are able to implement specific applications in as little as two weeks. Our customers can choose to implement our eMatrix line of products by themselves or through our professional services personnel or systems integrators. In addition, we provide for the transfer of the skills and knowledge necessary to allow customers to assume responsibility for ongoing support and extensions of their implementations of our software.

Strategy

Our objective is to be the leading provider of Internet business collaboration software. Key elements of our strategy include:

Extend our technology leadership. To extend our technology leadership, we have assembled a team of leading developers and engineers with expertise in Internet communication protocols, messaging technologies, integration capabilities and enterprise software and intend to accelerate our investment in research and development. In addition to our internal development efforts, we may also acquire companies or technologies that could enhance our technology leadership. We further plan to extend our technology leadership by accessing and using the application expertise, domain experience and resources of our business partners. By continuing to be a technology leader, we intend to further broaden the acceptance of our eMatrix product suite.

Expand business-to-business collaboration. We plan to continue to enhance the scope of the features and functionality of our eMatrix product line and develop additional applications which are designed to facilitate and extend business-to-business collaboration over the Internet. Since our eMatrix products are implemented throughout our customers' organizations, the customers, suppliers and other business partners of our customers are exposed to the many benefits of our software products. We believe this exposure will enable us to access and license our eMatrix product suite to these new potential customers more easily and quickly. Through enhanced sales and marketing efforts, we are seeking to increase the number of users of our eMatrix products both within our existing customer base as well as with new customers.

Develop business process and industry-focused software. We intend to continue to jointly develop with our customers and business partners additional software applications that are used with our eMatrix products to capture and automate business processes used across enterprises and in specific industries. By accessing and using the business process and industry expertise of both systems integrators and our customers, we plan to rapidly build these focused solutions without significantly increasing our internal development costs. We believe that the availability of these business applications will allow us to quickly expand our customer base to new industries.

Broaden our business alliances. To extend our geographic reach and address new industry market segments, we intend to expand and leverage our strong relationships with leading systems integrators and other business partners. We plan to continue to use our systems integrators to provide additional marketing and distribution channels for our eMatrix line of products. We intend to establish and expand relationships with distributors to further broaden the distribution channel for our products and with enterprise, Internet and application software companies to provide complementary functionality to our eMatrix product line.

Leverage our customer base. We are actively seeking to enhance our strong and referenceable global customer base of market leaders by expanding our selling and marketing organization. We intend to increase our customers' loyalty and satisfaction by working with them to anticipate their product and technology needs. We also intend to leverage our existing customer base to sell additional products and services to our customers and use our strong customer relationships to further penetrate our customers' industries.

Expand our global presence. We intend to continue to expand our global presence to both enhance our competitive position worldwide and increase our ability to better serve and support our customers. In particular, we intend to expand our direct and indirect selling and marketing and services presence both in countries where we currently do business and in additional locations.

Products

Our eMatrix product line consists of a Web server, which we call eMatrix Advantage, and a suite of applications and integration products for business collaboration. Our customers typically acquire one or more server licenses depending on the number of users and their geographic locations. Our customers separately purchase applications and integration products that simplify everyday business activities and connect their existing applications to the eMatrix server. We charge our customers on a concurrent user basis for our Web server, on a per server basis for applications, and on a per server or per user basis for integration products.

[CHART APPEARS HERE] [The graphic depicts through the use of ovals the three elements of the eMatrix product line and their relationship to each other. The center oval, labeled "eMatrix Enterprise Platform" is surrounded by three other ovals, each depicting an element of the eMatrix product line, and labeled "Advantage Web Server", "Applications" and "Integration", respectively. Above the oval labeled "Integration" are five other smaller ovals depicting specific applications integrated by the eMatrix Integration products. Below the oval labeled "Applications" are four other ovals depicting users of eMatrix Applications.]

eMatrix Advantage

Our Web server, eMatrix Advantage, enables customers to define, store, secure, change, find and replicate content and processes. eMatrix Advantage combines three elements: a Web front-end, a business modeler and a global administrator.

The Web front-end enables users to view and use an organization's content and processes with a minimal amount of training using Microsoft Internet Explorer, Netscape Communicator or other commercially available Web browsers. The business modeler allows business managers to create models of their business processes using a point-and-click visual interface. These models provide a representation of the customer's business information and associated business rules. The business modeler is dynamic, which permits real-time changes to the model without impacting day-to-day user activities or incurring costly system interruptions. The global administrator, which speeds implementation and minimizes maintenance time, provides for the administration of global storage and database resources. It provides a point-and-click visual interface for managing database and file servers and their replication when necessary.

eMatrix Applications

We provide a broad set of applications that automate common business activities. They are focused on collaborative interactions with customers, suppliers and employees of the enterprise. The applications plug directly into eMatrix Advantage and can be easily tailored, thereby allowing our customers to accelerate implementation times and minimize development costs.

The following table contains a list of the customer-facing, enterprise-wide and supplier-facing applications that we offer:

Customer-Facing Applications	Enterprise-Wide Applications	Supplier-Facing Applications
Product Configurator	Requirements Planning	Component Management
Order Management	Configuration Management	Change Management
Digital Mock-up	Product Option Management	Bid Packaging
Maintenance and Repair	Cost Management	Technical Documents
Technical Support	Software Development	New Product Testing
	Process Planning	

Our eMatrix Application Development Kit provides the tools and documentation for our customers and systems integrators to create their own collaborative Internet applications. For an annual per server fee, we also offer an eMatrix Application Library which is a collection of widely used eMatrix application components developed by our services organization. This library currently contains over 50 application components, and we continuously add new components. We distribute this library quarterly to provide eMatrix customers and systems integrators the benefit of our latest implemented solutions.

eMatrix Integration Products Our eMatrix integration products facilitate the exchange of information between our eMatrix products and other software applications and allow our customers to use their existing information technology infrastructures to access, control and reuse information stored in enterprise applications. In order to accelerate the market acceptance of our platform, we jointly developed with third parties that had particular application or domain expertise the majority of our integration products. Following the development of these integration products, our partners generally assume responsibility for their maintenance and support in exchange for a royalty.

MatrixOne and our business partners have developed and market standard interfaces to commonly used software applications, including:

Enterprise Application Type Software Application Enterprise resource planning Baan--BaanERP J.D. Edwards--World and OneWorld Oracle--Oracle Manufacturing SAP--R/3 Electronic computer-aided design ViewLogic--DX Databook and DXDataManager Mechanical computer-aided design AutoDesk--AutoCAD and Mechanical Designer CoCreate--Solid Designer, ME10 and ME30 Dassault--Catia Parametric Technology--Pro/Engineer SolidWorks--SolidWorks Structural Dynamics Research--Master Series Unigraphics--SolidEdge and Unigraphics Viewing and visualization Cimmetry Systems--Autovue CTS-GRAL/Allegra--ForReview Engineering Animation--VisView Information Graphics--Myrad Spatial--Intravision Spicer--Imagenation Data management Parametric Technology--Pro/Intralink Sherpa--PIMs Structural Dynamics Research--Metaphase Project management Oracle--Oracle Projects Manufacturing resource planning MAPICS--MAPICS In addition to our integration products, we provide tools for our customers and business partners to create their own integrations to access information contained in their proprietary or commercial off-the-shelf software applications. For example, the eMatrix Adaplet Development Kit provides the tools and documentation for the creation of object adaptors used for enterprise application integration. Our integration products allow our customers to extend the value of their existing information technology infrastructures and applications and are designed to easily link with future applications.

Product Technology and Architecture Our eMatrix product suite is based on an Internet architecture utilizing open-standards and XML technology and is enhanced by our patent-pending technology for information integration and accelerated content delivery. The result is a scalable, flexible system that virtually eliminates the need for complex custom software through lengthy in-house development, thereby resulting in a low cost of ownership. The software consists of an Internet platform, tailorable business process applications, reusable business process components, integrations to third-party software and development tools.

At the center of our architecture is the eMatrix Web Server, which runs on Microsoft NT or UNIX operating systems. The server is the intermediary between the eMatrix Web front-end and the database and provides the necessary security, access control and application services to enable collaboration among multiple businesses. The server is compliant with both hyper-text transport protocol, also known as HTTP, and CORBA, providing the business model and XML representations to both HTML and Java applications. We use licensed encryption technology to maintain data and file security while information is transported over the Internet.

[CHART APPEARS HERE] [The graphic depicts the three tiers of the eMatrix Internet architecture. The first tier is labeled "Web Browser" and depicts protocols compliant with the Web Browser. The second tier is labeled "eMatrix Web Server" and depicts four components of the Web server: dynamic modeling, application services, caching technology and integration technologies. The third tier depicts storage layers. Each tier is accompanied by a brief description, which appears to the right of the respective tier in the graphic.]

The Web front-ends are Java- and HTML-based applications that can run on Microsoft Internet Explorer, Netscape Communicator and other commercially available Web browsers. There are also Windows and UNIX clients for users who prefer a native client, rather than a Web browser interface. We support numerous operating systems, including Windows 95, Windows 98, Windows NT, Digital UNIX, Hewlett Packard HP-UX, IBM AIX, SGI Irix and Sun Solaris. We follow the Microsoft standards for Windows 95 and 98 and the Internet standards for Java running with Microsoft Internet Explorer and Netscape Communicator.

The storage layer includes support for multiple Oracle database servers and multiple file servers using standard file transfer protocols. We also provide an enterprise application integration server that can exchange data with virtually any Web, legacy or incumbent application. We connect with Oracle's database through open database connectivity, or ODBC, and Oracle's proprietary database interface, known as Oracle Connectivity Interface, or OCI.

Our eMatrix product line offers the ability to automatically replicate a customer's database in order to provide continuous access and enhanced performance. Replication is the process of locating the same part of a database on different servers, each of which may be located anywhere in the world. We offer three types of replication:

. synchronous replication where updates are made simultaneously to each copy of data;

. scheduled asynchronous replication where copies of the data on different servers are updated separately at scheduled intervals; and . on-demand asynchronous replication where copies of the data are sent at the time data is needed.

Our eMatrix product suite is enabled for single-byte, double-byte and multi-byte localization. We also provide simultaneous support for multiple languages within the business model, which means that users of our eMatrix products can work in different languages at the same time. We typically distribute our products in a single global release. Our products support Chinese, English, French, German, Italian, Japanese, Korean, Spanish and Swedish, and we intend to provide localization for additional languages as required.

We have entered into various platform alliances to ensure our products are based on open industry standards and to enable us to take advantage of current and emerging technologies. We are marketing partners with Oracle and Compaq, Hewlett-Packard, IBM Silicon Graphics and Sun Microsystems. To promote the development, definition, adoption, implementation and growth of open standards, we work with several industry standards organizations, such as the World Wide Web Consortium, also known as W3C, Object Management Group, also known as OMG, and the National Institute of Standards and Technology, also known as NIST, and a variety of industry-specific standards organizations.

Services

We offer professional services, training, maintenance and customer support directly through our own services organization and indirectly through our third-party network. Our services organization is committed to ensuring that our customers successfully utilize our eMatrix products. We believe we

have a high customer satisfaction level as a result of a combination of our unique software implementation methodology, our large, global partner network, and our professional services, training, maintenance and customer support programs. These programs are available globally and are designed to enable the rapid implementation of our eMatrix line of products so our customers receive the benefits from their investment quickly. Our services are also designed to make our software easy to use and maintain, thus lowering ongoing costs to our customers. In the last 12 months, we increased our services organization from 59 to 92 employees, and we provide our various services in over 30 locations worldwide.

Professional Services Customers may choose to implement our eMatrix suite of products with support from our professional services personnel or systems integrators or by themselves. Although implementation times vary with the scope of applications, the number of users and the number of geographic locations involved, specific applications can be implemented in as little as two weeks.

We offer implementation of our eMatrix products through our services organization on either a time and materials or a fixed-price basis. Fixed-price implementations are done using the MatrixOne Customer Success Methodology, referred to as MatrixOne CSM, a comprehensive, systematic process based on a team approach which incorporates strong project management and rapid development processes. A MatrixOne CSM implementation, whether done by us or a systems integrator, provides a customer with a set completion date for pre-defined functionality. We provide for the transfer of the skills and knowledge necessary to allow our customers to assume responsibility for ongoing support and extensions of their implementations of our software products.

We also offer a wide range of other professional services, including the development of customized user interfaces for our customers, and their suppliers, customers and other business partners. Our services organization consists of experienced professionals, many of whom have come from our customers' industries, which helps us to provide strong domain experience. We also have personnel with strong backgrounds and skills in business process re- engineering, data conversion, application integration, system architecture and project management.

Training

We offer product training and education services to our customers and partners at three different training centers in North America, at our offices throughout Europe and at our customers' sites around the globe. These services include business modeling, system administration, eMatrix customization, end- user training and customized computer-based training.

Maintenance and Customer Support We offer maintenance and support services to our customers, partners and systems integrators over the Internet or by telephone. Customers who purchase maintenance agreements can access technical support seven days a week, 24 hours a day, around the world. Our toll-free telephone support is provided in multiple languages and is staffed by senior technical support personnel. Customers receiving support over the Internet have access to a full range of customer support services, including online problem solving, technical tips, answers to frequently asked questions, and information about recently released and upcoming versions of our software. We

provide our customers with personalized Web pages where they can access specific status reports, exchange information, register online for training and access an advanced knowledge base. Customers can also download new versions of our software over the Internet.

Customers and Case Studies Customers We target large- to medium-size companies throughout the world in growth industries. As of October 2, 1999, we had over 300 customers located in over 40 countries using our eMatrix line of business collaboration software products. Our installed base of customers represents numerous industries, including aerospace/defense, automotive, communications, high technology, machinery and medical equipment. The following table shows a representative list of our customers that have licensed over $250,000 of our Internet business collaboration software within the past 18 months:

Aerospace/Defense Automotive

Boeing	Autoliv
CAE Electronics	Eaton
Fokker Aerostructures	Honda
Honeywell	Honeywell
Litton Industries, Guidance & Control System Division	Goodyear Tire & Rubber
Sandia National Laboratories	Scania
Technicatome	Siemens
	Western Star Trucks

Communications High Technology

Alcatel	Celestica
Pace Microtechnology	E-Tek Dynamics
	Honeywell
	3Com

Machinery Medical Equipment

Honeywell	Inhale Therapeutic Systems
John Deere	Medtronic Physio-Control
Krauss Maffei	Smith & Nephew

Two customers accounted for approximately 24% and 10%, respectively, of our revenues for the three months ended October 2, 1999. No one customer accounted for more than 10% of our revenues for fiscal 1999.

Case Studies

We believe companies have chosen our eMatrix line of products because of its scalable and flexible Internet architecture and low cost of ownership and because it can be rapidly implemented. Many of our customers use our eMatrix products as a platform to facilitate collaboration within their enterprise, integrate disparate business processes and enterprise applications and implement best practices, with a goal of optimizing their efficiency and global resource utilization. Customers also use our eMatrix products to provide fast access to complex information over the Internet for collaboration with their customers, suppliers and other business partners.

Autoliv

Autoliv is the leading supplier of vehicle occupant restraint systems worldwide, supplying airbags, seat belts, seat subsystems and other safety components to every major car manufacturer in the world. Headquartered in Stockholm, Autoliv has over 20,000 employees in 60 facilities located in 28 countries.

Following a merger in 1997, Autoliv needed assistance globalizing and integrating its combined engineering and manufacturing operations. Driven by the need to rapidly introduce new products to the market, it was necessary for Autoliv to eliminate redundant efforts, maximize its global resources, provide easy access to documentation, streamline workflow between global teams, improve the communication of changes to manufacturing and its suppliers, and promote product and process re-use.

With the eMatrix products, Autoliv has successfully implemented a collaborative environment across its global facilities, including its development centers, factories and suppliers. Using the replication and distribution technology of the eMatrix products, design work is reviewed around the globe for continuous evaluation and enhancement with all relevant information available in the local language. Designers have worldwide, real- time access to product designs approved anywhere within the Autoliv group's various companies around the globe, test engineers track the progress of testing, factories collaborate with engineering on design changes for manufacturability, capacity and cost impact, and suppliers review designs online and suggest changes before the products are complete.

Autoliv initially made the system available to several hundred users in two locations in the United States. Autoliv worked with our professional services organization for the initial implementation of our eMatrix products, and thereafter assumed responsibility for the global implementation of its eMatrix solution. Within five months, Autoliv rolled out the system to four other countries, and has over 2,000 eMatrix users and over 250 suppliers on the system. Autoliv is now prepared to extend the reach of collaboration to other business processes, partners and customers.

Celestica

With over 18,000 employees worldwide, Celestica operates 28 manufacturing and design facilities in the United States, Canada, Mexico, the United Kingdom, Ireland, the Czech Republic, Thailand, Hong Kong, China, Malaysia and Brazil. Celestica provides a broad range of services, including design, prototyping, assembly, testing, product assurance, supply chain management, worldwide distribution and after-sales service. Its customers include industry-leading original equipment manufacturers, primarily in the computer and communications sectors.

Based on numerous and closely-timed acquisitions around the globe, Celestica needed an information technology system that enabled it to provide a single unified face to its customers worldwide, seamless product transfer across its global production facilities, and differentiated high-value services. It was also necessary for Celestica to adapt and integrate its business processes as it rapidly expanded the scope of its global multi-site operations. Celestica also realized it needed to be able to seamlessly transfer product information and process knowledge among its global facilities to maximize plant utilization.

Celestica uses our eMatrix products to capture and manage customer designs and product information online. Celestica is able to check this information for integrity and manufacturability and can quickly communicate suggested changes and corrections to customers. This has resulted in a reduction in bill of material set-up times and an improvement in first-pass bill of material accuracy. Our eMatrix products have also enabled Celestica to develop a service offering that evaluates the component content of a customer's design and, based on Celestica's purchasing power, suggests alternative components that can contribute to cost savings for the customer.

Celestica easily integrated our eMatrix products with existing business systems, including multiple manufacturing resource planning systems as well as its supplier and component management system. Celestica can now send product and process information to the facilities best equipped to handle them, thereby increasing Celestica's overall plant utilization. This software solution is readily available to newly-acquired Celestica operations.

Celestica already has over 1,500 eMatrix users on the system at seven locations in three countries. Celestica is extending access to its standard component and supplier information over the Internet to its customers for collaborative design. Customers subscribing to this service receive additional cost benefits and reduced risk from volume changes, which gives Celestica a new competitive advantage.

John Deere Agricultural Division The agricultural division of John Deere & Company, its largest division, is a global market leader in agricultural equipment with approximately 10,000 employees in 17 business units around the world. The company is known for innovation in its products and processes and for the quality of its workplace.

John Deere's strategy is to design and manufacture products in the countries where the products are to be sold to improve the time-to-market for new products and to deliver products customized for local markets, thereby increasing overall customer satisfaction. To implement this strategy, John Deere required a system that enabled its employees located in multiple sites to exchange in real time product information, specifications and ideas regarding the design of complex products and the global implementation of common development practices that supported its initiatives for quality and process excellence improvements. In addition, John Deere needed to efficiently use all its manufacturing resources around the world.

John Deere implemented our eMatrix products as its backbone for all phases of its product lifecycle, including management of customer requirements and specifications, product design applications, configuration management, product costing, overall program management and manufacturing process planning. Additionally by utilizing common processes across the globe, John Deere improved the quality of information being exchanged throughout its organization, while also eliminating redundant legacy and spread-sheet applications. In addition, new applications are implemented globally throughout their organization through the eMatrix platform.

In the past 18 months, John Deere expanded the availability of our eMatrix solution from a few hundred to over 3,000 people located in more than ten sites around the world. John Deere is rapidly adding new applications, users and suppliers. John Deere is now focused on bringing more of the

applications it has already implemented to its supply chain as well as adding new applications, such as part cataloging to their dealer network.

Scania

Scania is one of the world's leading manufacturers of heavy trucks and buses. Founded in 1891, Scania has built and delivered over 900,000 units. Scania, headquartered in Sweden, is a global company with over 23,500 employees and operations in more than 100 countries. They have a strong presence in the world markets, with over 97% of its trucks and buses sold outside of Sweden.

Scania needed to upgrade its existing systems to enable a smooth transition into the new millennium while adding new functionality to better support user requirements.

Scania rapidly implemented its first eMatrix applications which are now being used by over 1,500 users in multiple locations.

Through the implementation of our eMatrix products, Scania is now able to manage the approval and release of engineering design information, making it available over its Intranet to the entire company, its employees and contract engineers. Users that access the system can easily find the information and computer-aided design models that they need and then can automatically translate this information to the format that is compatible with their own systems. Its manufacturing facilities can get accurate and timely information over the Internet.

Through the implementation of our eMatrix products, Scania has established a modern object oriented Internet architecture that provides it with the flexibility it needs. In addition, Scania can easily upgrade to future releases of the eMatrix software, thus preserving its investment.

Research and Development We pursue research and development through our internal engineering organization, third-party alliances and collaborative development efforts with our customers. Our internal research and development organization is divided into two product line groups, platform and application engineering, with common support groups. The focus of these two product line groups is to broaden the global appeal of our eMatrix products by improving our products' performance and scalability, expanding the use of XML technology for data representation and collaboration, adding application services, increasing our distribution and replication alternatives and extending our strong Internet security capabilities. The platform engineering group is responsible for the development of Internet infrastructure products, such as our servers, dynamic business modeling engine, database caching and application integration. This group researches and develops advanced architectures and technologies and closely follows industry developments and standards related to e-Business, the Internet, operating systems and software technologies. The application engineering group is responsible for the development of Internet applications for our customers. This group works closely with our sales, services and product management organizations and uses the application expertise, domain experience and resources of our customers and partners to develop and sell applications. Quality engineering, release engineering and documentation groups support both of our product line groups and a contract offshore engineering group in India provides additional engineering resources.

We maximize our research and development efforts by working closely with our customers and business partners to develop software applications and integration products. We jointly develop software applications with our customers, and typically retain the right to generalize the application for use with other customers. A critical focus of our research and development alliances is to increase the number and scope of customer-facing, supplier- facing and industry-specific applications. We have also established relationships with third parties to develop the majority of our integration products pursuant to which we typically pay the third party a royalty in connection with the license of the integration products by our customers. These relationships have allowed us to increase the number of integration products we offer to customers from nine to 28 in the past 18 months. We market, sell and support our application and integration products through our direct sales organizations, alliance partners and distributors around the globe. We are also working with our customers, systems integrators and complementary technology vendors to extend our integration products to supply chain management, customer relationship management, component supplier management and additional product data management applications.

Our research and development expenses were $4.3 million for fiscal 1997, $7.2 million for fiscal 1998, $5.8 million for fiscal 1999 and $1.5 million for the three months ended October 2, 1999. Research and development expenses decreased from fiscal 1998 to fiscal 1999 due to our replacement of outside domestic contractors with our internal engineering organization, the increased use of partners to more efficiently develop applications and integration products and the replacement of some third-party contractors with a contract research and development group in India. We expect to significantly increase our internal research and development efforts as well as our third-party research and development based alliances.

Selling and Marketing We market and sell our eMatrix line of products through our direct sales organization, distributors and other business alliances. As of October 2, 1999, our direct sales organization consisted of 103 sales and marketing employees in over 30 locations around the world. We have 21 sales offices in greater metropolitan areas of North America, eight in Europe and one in Asia/Pacific. Our European, Middle East and Africa, or EMEA, sales organization is headquartered in Amsterdam with other offices in Cologne, Hamburg, London, Milan, Munich, Paris, and Salzburg. Our Japanese headquarters is located in Tokyo. We plan to significantly expand our direct sales organization and to establish additional domestic and international sales offices.

Our sales process requires that we work closely with targeted customers to identify short-term technical needs and long-term goals. Our sales team, which includes both sales and technical professionals, works with the customer to develop a proposal to address these needs. Our sales process often commences with a rapid proof of concept or customer demonstration. Our sales cycle for our eMatrix products ranges from one to nine months based on the customer's need to rapidly implement a solution and whether the customer is new or is extending its existing implementation.

Most sales of our eMatrix line of products in North America are made by our direct sales organization. In EMEA and Asia/Pacific we market, sell and service our products through our direct sales force and our network of approximately 20 international distributors. For example, Gedas, a subsidiary of

Volkswagen, is one of our distribution, development and systems integration partners with sales offices in England, France, Germany, Mexico and Brazil. In EMEA our distributors cover additional countries such as Sweden, Finland, Norway and Spain. In Japan our direct sales organization works with three primary distributors: Marubeni, Nippon Steel and Zuken. In addition, outside of Japan, in Asia/Pacific we work closely with distributors in Australia, China, Korea and Taiwan.

Our marketing personnel assist in generating new sales opportunities by creating various marketing programs, updating our web site and hosting or sponsoring various events. We conduct joint seminars with key partners and participate in a number of partner-sponsored trade shows and industry events. We also provide speakers from our company and our customers to represent us in a number of industry forums. We communicate regularly with our installed base via newsletter and host a yearly customer conference. Our public relations plan is designed to convey our messages to appropriate audiences and we reinforce this through our ongoing communications with a number of key industry analysts and press representatives.

Alliances

The principal goals of our alliances are to accelerate the global market acceptance of our eMatrix suite of products, extend our global resources and help our customers realize the benefits of our products quickly. Our alliance partners are primarily systems integrators and complementary technology vendors. Our alliances have resulted in opportunities to license our eMatrix line of products to new industries, locations and customers. We seek to provide our customers a total software and services solution which results in benefits to our customers, us and our business partners.

Systems Integrators

We have established strategic relationships with a number of leading systems integrators including Cap Gemini, Ernst & Young LLP, Gedas, KPMG and Nippon Steel. On a global basis, we have alliances with over 20 systems integrators. These systems integrators combine our eMatrix products with their existing solutions in their e-Business, e-Commerce, new product development and enterprise resource planning practices. They also provide us with new opportunities to license our eMatrix line of products to their installed customer base and have developed the eMatrix domain expertise to quickly implement our products and service our customers.

Complementary Technology Vendors We intend to continue to broaden the functionality of our eMatrix line of products by integrating with best-of-breed software applications and point solutions for e-Business, collaboration, viewing, product content, manufacturing, project scheduling, project costing, component reuse, enterprise resource planning and other technologies. We intend to continue to establish additional relationships with enterprise software companies to use our eMatrix product suite to further enhance their software solution. We are a partner of Oracle Corporation and our eMatrix products are integrated with Oracle Manufacturing and Oracle Projects. In November 1999, Oracle Corporation and CMP Media recognized us as one of the Top 50 E-Business Solution Developers On Oracle. In addition, J.D. Edwards chose us as an Alliance Partner and integrated our

eMatrix products with its OneWorld and World solutions to provide its customers with additional functionality. We also work closely with Oracle, IONA Technologies, RSA Security and others to incorporate their core technology into our eMatrix software product line.

Intellectual Property and Other Proprietary Rights Our success and ability to compete are dependent upon our ability to develop and maintain our intellectual property and proprietary technology and to operate without infringing on the proprietary rights of others. Our continued success will also depend in part upon our ability to share our proprietary rights with our partners. Generally, when we develop applications or software in conjunction with our customers or third parties, we retain non- exclusive rights to the code that is created. We rely primarily on a combination of copyright, trademark, patent and trade secret laws, as well as non-disclosure agreements with our employees, customers, partners, consultants and systems integrators to protect our proprietary rights. We license our software pursuant to non-exclusive license agreements which impose restrictions on customers' ability to utilize the software. In addition, we seek to avoid disclosure of our trade secrets by executing confidentiality agreements with anyone having access to our proprietary information and restricting access to our source code. We also seek to protect our software, documentation and other written materials under trade secret and copyright laws.

We have one patent application and two provisional patent applications pending in the United States and have filed one corresponding patent application internationally. It is possible that no United States or foreign patents will issue from these applications. We also pursue registration of some of our trademarks in the United States and have various trademark applications pending. Registered trademarks may not issue from these applications or may be contested.

Despite our efforts to protect our intellectual property and proprietary rights, existing laws afford only limited protection. We operate throughout the world and the protection available for our intellectual property may not be available to the same extent protection is available in the United States or at all. Others may be able to develop technologies that are superior or similar to our technology. Attempts may be made to reverse engineer our products or to obtain and use information that we regard as proprietary. Our customers, partners, suppliers, and former employees may disclose our proprietary information to parties that may use that information to compete against us. Accordingly, we may not be able to protect our proprietary rights against unauthorized third-party copying or use. Furthermore, policing the unauthorized use of our intellectual property is difficult. Expensive litigation may be necessary in the future to enforce our intellectual property rights.

We utilize technology provided from third parties that is integrated into our products. These technologies may infringe another party's proprietary rights. We attempt to obtain product infringement indemnification protection in contracts when we integrate third-party products and technology into our products. It is also possible that third parties will claim that we have infringed their proprietary rights. We expect that software providers will increasingly be subject to infringement claims as the number of products in different industry segments increase and overlap. Any resulting claim or litigation, even if successfully defended, could result in substantial costs and diversion of resources and management time and could have a material negative effect on our operating results.

Competition

The market for software that enables Internet business collaboration is new, intensely competitive, highly fragmented and changing rapidly. We compete against different companies depending on the geographic region and the size of the potential customer. We currently compete against:

. in-house development efforts by potential customers;

. emerging companies focused on enterprise application integration and e- Business;

. vendors that focus on local markets, such as NEC in Japan; and . vendors of engineering information management software such as Agile Software, Dassault Systems and Parametric Technology.

We expect that competition will increase as a result of increased usage of the Internet and software industry consolidation. Providers of enterprise class software such as SAP and Oracle may seek to extend the functionality of their products. Moreover, a number of enterprise software companies have announced acquisitions of providers of point solutions to expand their product lines. Our competitors may also bundle their products in a manner that may discourage users from purchasing our eMatrix suite of products. Current and potential competitors may establish cooperative relationships among themselves or with third parties or adopt aggressive pricing policies to gain market share. Consolidation in the industry also results in larger competitors that may have significant combined resources with which to compete against us.

We believe that our ability to compete depends on many factors, both within and beyond our control, including, without limitation;

. the performance, functionality, scalability and flexibility of our eMatrix suite of products;

. the timing and market acceptance of new products and product enhancements to the eMatrix suite of products;

. the effectiveness of our selling and marketing efforts; and . the quality and performance of our services.

Although we believe that we currently compete favorably as to each of these factors, we expect competition to persist and intensify and the market in which we compete is rapidly changing. In addition, new competitors could emerge and rapidly capture market share. Increased competition from existing or potential competitors could result in reductions in price and revenues, reduced margins, loss of customers and loss of market share, any one of which would negatively impact our operating results.

Legal Proceedings

On October 4, 1999, SofTech, Inc. commenced a lawsuit against us in Middlesex Superior Court alleging fraud, unfair and deceptive trade practices, and breach of contract in connection with the sale of assets of Adra Systems to SofTech in 1998. SofTech has claimed $2,730,000 in damages resulting from our allegedly improper recording of Adra Systems' second and third quarter fiscal 1998 income, unspecified contract damages, and treble damages resulting from our alleged unfair and deceptive acts.

We intend to vigorously defend each claim asserted in the complaint and have recently filed a motion to dismiss or stay the lawsuit pending arbitration of the claims. The court has not yet ruled on the motion.

We may from time to time become a party to various other legal proceedings arising in the ordinary course of our business.

Employees

As of October 2, 1999, we had a total of 260 employees. Of the total employees, 38 were in product development, engineering or systems engineering, 103 in sales and marketing, 92 in services and 27 in operational, financial and administrative functions.

Our employees are not represented by a labor union and are not subject to a collective bargaining agreement. We have never experienced a work stoppage. We believe our relations with our employees are good.

Facilities

Our headquarters is located in a 42,000 square foot facility in Chelmsford, Massachusetts, occupied under an office lease expiring in August 2004. We lease office space in 14 states throughout the United States. We also lease office space in Ontario and Quebec, Canada, Austria, England, France, Germany, Italy, Japan and The Netherlands, under leases with terms expiring at various times through July 2006. We believe that additional space will be required as our business expands and will be available as required on acceptable terms.

Management

Executive Officers and Directors The following table sets forth our executive officers and directors, their ages and their positions with MatrixOne as of December 1, 1999:

Name Age Position

President, Chief Executive Officer and Mark F. O'Connell..... 44 Director Maurice L. Castonguay..... 48 Chief Financial Officer, Vice President of Finance and Administration and Treasurer Stephen P. Dunn..... 47 Vice President of Global Alliances Brian M. Gallagher..... 50 Vice President of Sales, Americas Paul B. Gilmartin..... 51 Vice President of Product Management David W. McNelis..... 40 Vice President of Engineering Vice President of Sales, Europe, Middle East Johannes T.J. Ruigrok..... 40 and Africa Michael Segal..... 47 Vice President of Customer Success Jane E. Seitz..... 48 Vice President of Human Resources Ellen Carnahan (1)(2)..... 44 Director Daniel Holland (1)(2)..... 63 Director James F. Morgan..... 62 Director Charles R. Stuckey, Jr. (1).. 57 Director (1)Member of Compensation Committee. (2)Member of Audit Committee.

Mark F. O'Connell has served as President since September 1996 and as Chief Executive Officer and Director since July 1997. From March 1995 to September 1996, Mr. O'Connell was Vice President of Marketing. Prior to joining MatrixOne, Mr. O'Connell held a number of management positions in

finance and marketing at Digital Equipment Corp., a supplier of networked computer systems, software and services. These positions included director of software product marketing from January 1994 to March 1995, director of corporate product marketing communications from February 1993 to January 1994, director of workstations and server marketing from May 1991 to February 1993, and group manager of marketing and sales programs for the UNIX software and systems business from January 1990 to May 1991.

Maurice L. Castonguay has served as Chief Financial Officer, Vice President of Finance and Administration and Treasurer since January 1999. Prior to joining MatrixOne, from August 1997 to December 1998, Mr. Castonguay was vice president of finance and chief financial officer of Stratus Computer, Inc., a supplier of fault tolerant computer platforms, applications and services focused at the telecommunications and financial services markets. Mr. Castonguay left Stratus after it was acquired by Ascend Communications. From March 1996 to August 1997, Mr. Castonguay was vice president of finance, chief financial officer and treasurer of Gradient Technologies, Inc., a provider of security and infrastructure software. From September 1990 to March 1996, Mr. Castonguay was chief financial officer at Xylogics, Inc., a data networking and remote access company that was acquired by Bay Networks. Prior to that, Mr. Castonguay held tax, corporate development and division controller positions at Prime Computer from May 1987 to September 1990. Mr. Castonguay, a certified public accountant, has served as a director of Media 100, Inc., a supplier of digital media streaming and video editing products, since February 1997.

Stephen P. Dunn has served as Vice President of Global Alliances since December 1997. Prior to joining MatrixOne, Mr. Dunn was the vice president of North American sales at Workgroup Technology Inc., a developer of product data management and workflow systems, from September 1995 to June 1997. From November 1993 to August 1995, he was the director, eastern region for Rasna Corporation, a computer-aided design and design engineering firm. From January 1992 to November 1993, Mr. Dunn was the vice president of worldwide sales for Mechanical Dynamics, Inc., a developer of mechanical system simulation software.

Brian M. Gallagher has served as Vice President of Sales, Americas since June 1999. Prior to joining MatrixOne, Mr. Gallagher was vice president of various business units at Baan Company, a provider of enterprise business software, from February 1999 to June 1999. Prior to that, Mr. Gallagher was vice president of worldwide sales at Baan Supply Chain from August 1997 to February 1999, where he was responsible for building a worldwide sales organization including Europe, Latin America and Asia. From June 1989 to July 1997, he was the director of major accounts at System Software Associates, an enterprise resource planning software provider.

Paul B. Gilmartin has served as Vice President of Product Management since October 1999. Mr. Gilmartin served as Vice President of Marketing from October 1997 to October 1999. Previously, Mr. Gilmartin served as Director of Product Marketing, Matrix product line with Adra Systems from June 1995 to September 1997. From October 1987 to May 1995, Mr. Gilmartin held several positions,

including the corporate director of channels marketing for the Corporate Software Group, at Digital Equipment Corp. Prior to that, from February 1984 to October 1987, Mr. Gilmartin was director of North American sales at Votan Corporation, a producer of speech technology and products.

David W. McNelis has served as Vice President of Engineering since January 1996. Previously, from October 1992 to January 1996, Mr. McNelis served as the Director of Engineering Matrix, for Adra Systems. Prior to joining MatrixOne, Mr. McNelis spent nine years with Sikorsky Aircraft as the senior architect of the Igor information management system.

Johannes T. J. Ruigrok has served as Vice President of Sales, Europe, Middle East and Africa since July 1998. Prior to that, from March 1996 to June 1998, Mr. Ruigrok was a managing director of Oracle GmbH Austria, an enterprise software and database management company. From January 1995 to March 1996, Mr. Ruigrok was the director of alliances, and from 1993 to January 1995 the business unit manager industry and distribution, for Oracle BV The Netherlands.

Michael Segal has served as Vice President of Customer Success since August 1998. Previously, from December 1995 to August 1998, Mr. Segal was the Vice President and General Manager--Matrix and, from 1988 to December 1995, Vice President of Customer Services for Adra Systems with responsibility for all customer service operations and technical support. Prior to joining MatrixOne, Mr. Segal spent 11 years with Applicon Inc., a CAD/CAM vendor, where he held management positions in manufacturing, quality assurance and customer service.

Jane E. Seitz has served as Vice President of Human Resources since July 1999. Prior to joining MatrixOne, Ms. Seitz was an interim executive with Human Resources Management Consultant from May 1996 to July 1999 serving at several start up companies, including: Indigo America, Inc., a manufacturer of digital color printing products; Wellspace, Inc., a network of healthcare practitioners; and FluidSense Corp., a provider of services and products enabling hospitals to outsource the logistics of infusion therapy. From May 1991 to April 1996, Ms. Seitz was the vice president of human resources, corporate services and legal administration at the Bank of Ireland First Holdings, Inc.

Ellen Carnahan has served as a Director of MatrixOne since October 1997. Ms. Carnahan has served as a Managing Director at William Blair Capital Partners, L.L.C. and its predecessor funds, which are venture capital firms, since January 1988. William Blair Capital Partners, L.L.C. is an affiliate of William Blair & Company, an investment bank. From January 1983 through December 1987, she was vice president of marketing and planning at SPSS, Inc., an applications software company. Ms. Carnahan also serves as a director of NewsEdge Corporation, a provider of news and current awareness solutions.

Daniel Holland has served as a Director of MatrixOne since September 1996. Mr. Holland is a senior advisor and partner at OneLiberty Ventures, a venture capital firm he cofounded in 1995. Previously, he was cofounder and president of Morgan, Holland Ventures, a venture capital firm he cofounded in 1982. He also serves as the managing general partner of Morgan, Holland Fund. Mr. Holland serves as a director of Vista Medical Technologies, Inc., a developer and manufacturer of three-dimensional visualization systems.

James F. Morgan has served as a Director of MatrixOne since June 1984 and as Corporate Advisor since July 1997. Mr. Morgan was the Chairman and Chief Executive Officer of Adra Systems from October 1996 to July 1997. Prior to joining MatrixOne, Mr. Morgan served as a general partner of Morgan, Holland Fund, a venture capital fund organized in 1981, and as a general partner of Morgan, Holland Fund II, a venture capital fund organized in 1988.

Charles R. Stuckey, Jr. has served as a Director of MatrixOne since October 1998. Mr. Stuckey has been chairman of the board and chief executive officer of RSA Security, Inc., formerly Security Dynamics Technologies, Inc., an e- security company, since January 1987. Mr. Stuckey serves as a director of The Massachusetts Telecommunications Council.

Officers serve at the discretion of the board of directors. All of the current directors were elected as directors of MatrixOne pursuant to the Amended and Restated Stockholders Agreement dated June 17, 1999, between MatrixOne and certain of its stockholders. The voting provisions of this agreement will automatically terminate upon the closing of the offering. There are no family relationships among any of the executive officers or directors of MatrixOne.

Board Composition

MatrixOne currently has authorized five directors. MatrixOne's Second Amended and Restated Certificate of Incorporation will provide that, effective upon the closing of the offering, the terms of office of the members 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 2000; Class II, whose term will expire at the annual meeting of stockholders to be held in 2001; and Class III, whose term will expire at the annual meeting of stockholders to be held in 2002. The Class I director is James F. Morgan, the Class II directors are Ellen Carnahan and Daniel J. Holland and the Class III directors are Mark F. O'Connell and Charles R. Stuckey, Jr. At each annual meeting of stockholders after the initial classification, the successors to directors whose term will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors. This classification of the board of directors may have the effect of delaying or preventing changes in control or management of MatrixOne.

Board Committees

MatrixOne's Compensation Committee consists of Messrs. Holland and Stuckey and Ms. Carnahan. The Compensation Committee reviews and evaluates the compensation and benefits of all of our officers, reviews general policy matters relating to compensation and benefits of our employees and makes recommendations concerning these matters to the board of directors. The Compensation Committee also administers our stock and stock purchase plans.

MatrixOne's Audit Committee consists of Mr. Holland and Ms. Carnahan. The Audit Committee reviews with our independent public accountants the scope and timing of the auditors' services, the auditors' report on our financial statements following completion of the auditors' audit, and our

policies and procedures with respect to internal accounting and financial controls. In addition, the Audit Committee makes annual recommendations to the board of directors for the appointment of independent auditors for the ensuing year.

Director Compensation Non-employee directors are reimbursed for their reasonable travel expenses in attending meetings of the board of directors. Beginning January 1, 2000, non-employee directors will also receive cash compensation of $4,000 per quarter for services provided as directors. Directors are also eligible to participate in the 1996 Stock Plan and the 1999 Stock Plan.

Compensation Committee Interlocks and Insider Participation No interlocking relationship exists between the board of directors or the Compensation Committee and the board of directors or the compensation committee of any other company, nor has any interlocking relationship existed in the past.

Executive Compensation The following table sets forth the total compensation paid or accrued during the fiscal year ended July 3, 1999 by Mark F. O'Connell, our Chief Executive Officer and President, and each of our four other most highly compensated executive officers whose salary and bonus exceeded $100,000 for such fiscal year for services rendered in all capacities to MatrixOne. We refer to all of these officers collectively as our named executive officers.

Summary Compensation Table

				Long-Term Compensation	
	Annual Compensation			Awards	
Name and Principal Position	Salary	Bonus	Other Compensation	Securities Underlying Options	All Other Compensation

Mark F. O'Connell..... $215,000 $99,446 $ -- -- $ 1,236 (1) President, Chief Executive Officer and Director Michael Segal..... 170,000 63,470 -- 12,000 8,667 (1) Vice President of Customer Success Johannes T. J. Ruigrok.. 130,539 20,000 50,858 138,000 13,886 (2) Vice President of Sales, Europe, Middle East and Africa Stephen P. Dunn..... 128,904 31,215 -- -- 532 (1) Vice President of Global Alliances David W. McNelis..... 130,000 56,864 -- 63,000 5,619 (3) Vice President of Engineering (1)Represents medical reimbursements. (2)Consists of an automobile allowance. (3)Consists of $4,500 for an automobile allowance and $1,119 for medical reimbursements.

Maurice L. Castonguay joined MatrixOne as Chief Financial Officer, Vice President of Finance and Administration and Treasurer in January 1999. Mr. Castonguay's annual base salary is $175,000. In addition, in January 1999, we granted Mr. Castonguay options to purchase 150,000 shares of common stock at an exercise price of $1.33 per share. Brian M. Gallagher joined MatrixOne as Vice President of Sales, Americas in June 1999. Mr. Gallagher's annual base salary is $175,000 and his targeted bonus is $175,000. Mr. Gallagher was guaranteed his total target compensation for the first six months with MatrixOne. In addition, in July 1999, we granted Mr. Gallagher options to purchase 157,500 shares of common stock at an exercise price of $2.00 per share.

Option Grants in Last Fiscal Year The following table sets forth information concerning the stock option grants made to each of the named executive officers in fiscal 1999. The exercise price per share of each option was equal to the fair market value of the common stock on the grant date as determined by the board of directors. We have never granted any stock appreciation rights. The potential realizable value is calculated based on the term of the option at its time of grant which is ten years. This value is based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the options were granted until their expiration date. These numbers are calculated based on the requirements of the Securities and Exchange Commission and do not reflect our estimate of future stock price growth. Actual gains, if any, on stock option exercises will depend on the future performance of the common stock and the date on which the options are exercised.

	Option Grants in Last Fiscal Year				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 Exercise Employees in Fiscal Year	Price Per Share	Expiration Date	5%	10%
Mark F. O'Connell.....	--	--	--	--	--	--
Michael Segal.....	12,000	0.75%	$1.33	5/07/09	$ 10,037	$ 25,436
Johannes T.J. Ruigrok...	138,000	8.61	1.33	7/08/08	115,427	292,515
Stephen P. Dunn.....	--	--	--	--	--	--
David W. McNelis.....	63,000	3.93	1.33	7/22/08	52,695	133,540

Mr. Ruigrok's and Mr. McNelis' options vest quarterly over four years. One- fourth of Mr. Segal's options vested immediately upon grant and the remainder vest quarterly over nine months.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values The following table sets forth information regarding stock option exercises in the last fiscal year and exercisable and unexercisable stock options held as of July 3, 1999 by each of the named executive officers. Amounts described in the following table under the headings "Value Realized" and "Value of Unexercised In-the-Money Options at Year End" are based upon the fair market value of the common stock as of July 3, 1999, which was $2.00 as determined by the board of directors, less the applicable exercise price.

			Number of Shares of Common Stock Underlying Unexercised Options at Year End		Value of Unexercised In-the-Money Options at Year End	
	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Mark F. O'Connell.....	--	$ --	329,061	345,939	$220,471	$231,779

Michael Segal.....	30,000	20,100	121,312	73,688	97,119	49,371
Johannes T.J. Ruigrok...	--	--	25,875	112,125	17,336	75,124
Stephen P. Dunn.....	--	--	25,312	42,188	16,959	28,266
David W. McNelis.....	--	--	57,748	80,252	43,641	53,769

Employment Agreements and Change in Control Arrangements On January 11, 1999, we entered into an employment arrangement with Maurice L. Castonguay, our Chief Financial Officer, Vice President of Finance and Administration and Treasurer. The agreement provides Mr. Castonguay with a base salary of $175,000 per year and a guaranteed fiscal year 1999 bonus of $35,000. In addition, the agreement provides Mr. Castonguay incentive stock options to purchase 150,000 shares of common stock at an exercise price of $1.33 per share vesting quarterly over four years. In the event of a change of control of MatrixOne, all of Mr. Castonguay's unvested options will be accelerated and become fully vested. The arrangement also provides Mr. Castonguay with a one- year severance package equal to his base salary plus bonus and all customary executive benefits in the event of a change of control of, or if he terminates his employment for good reason within 18 months of a change of control of, MatrixOne.

On June 3, 1999, we entered into an employment arrangement with Brian M. Gallagher, our Vice President of Sales, Americas. The arrangement provides that Mr. Gallagher would receive six months of his targeted total compensation upon the termination of his employment for any reason.

On July 15, 1998, MxOne B.V., a subsidiary of MatrixOne organized in the Netherlands, entered into an employment agreement with Johannes T.J. Ruigrok. Under the agreement, Mr. Ruigrok was appointed Vice President of European Sales of MatrixOne as well as an officer of certain foreign subsidiaries of MatrixOne. The agreement provides Mr. Ruigrok with a base salary of (Euro)122,521 per year, commissions based on revenues targets and an allowance for a mobile phone, a laptop and an automobile.

On April 14, 1998, we entered into an employment agreement with James F. Morgan, our former Chairman of the Board of Directors and Chief Executive Officer and currently a Director. Under the agreement, Mr. Morgan agreed to serve as our full-time corporate advisor until June 30, 1998. From July 1, 1998 through January 2, 2000, Mr. Morgan agreed to serve as a part-time corporate advisor. In December 1999, Mr. Morgan's employment agreement was extended through March 31, 2000. For such services, we agreed to pay Mr. Morgan a monthly salary of $13,750 until June 30, 1998 and $6,000 per month from July 1, 1998 through March 31, 2000. We also agreed to pay Mr. Morgan a bonus equal to one percent (1%) of the net cash proceeds from the May 7, 1998 sale of assets of Adra Systems to SofTech, Inc. The employment agreement provides that our board may review Mr. Morgan's options at the end of the March 31, 2000 period in order to permit the full vesting of all options not yet exercisable at the end of the employment agreement and to permit conversion from incentive stock options to non-qualified stock options of all unexercised options held by Mr. Morgan to make such options exercisable until September 30, 2006. Mr. Morgan's option agreement also provides for the full acceleration of vesting of all unvested options on the initial public offering of common stock of MatrixOne.

The offer letter, dated December 5, 1997, of Stephen P. Dunn, our Vice President of Global Alliances, provides for the full vesting of his initial option grant of 67,500 shares in the event of a change in control of MatrixOne.

The standard option agreement under our 1987 and 1996 stock option plans provides that if the board of directors approves a change of control transaction, as long as such transaction occurs while the employee is still employed by MatrixOne, then all unvested options of the employee shall be accelerated. After acceleration, the employee may then exercise the option in full. Pursuant to the option agreement, however, if the change of control transaction is intended to be accounted for as a pooling of interests, no acceleration of vesting will occur if any portion of the acceleration of the option would preclude such financial accounting treatment. The standard option agreement further provides that if any exercise of an accelerated option or the acceleration of the vesting of any option would result in an excess parachute payment under Section 280G(b) of the Internal Revenue Code, then the exercise or vesting of that portion of the option, or any acceleration thereof, resulting in the excess payment shall not be allowed or shall not occur.

Employee Benefit Plans 1999 Stock Plan In December 1999, our board of directors approved our 1999 Stock Plan, to become effective on the closing of the offering. The aggregate number of shares of common stock which may be issued under the 1999 Plan is 500,000. The 1999 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to employees. The 1999 Plan also provides for the grant of non-qualified stock options, stock issuances and the opportunity to make direct purchases of stock to employees, officers, directors and consultants. Options, stock issuances and opportunities to make direct purchases of stock are hereinafter collectively referred to as stock rights.

The 1999 Plan is currently administered by the Compensation Committee. Subject to the provisions of the 1999 Plan, the board of directors or its committee has the authority to select the persons to whom stock rights are granted and determine the terms of each stock right.

Options and stock issuances granted under the 1999 Plan generally vest quarterly over four years. The board or its committee may specify a different vesting schedule for any particular grant. Stock rights granted under the 1999 Plan are not assignable or transferable other than by will or the laws of descent and distribution, except for non-qualified options which are transferable pursuant to a valid domestic relations order or with the consent of our Chief Executive Officer or Chief Financial Officer.

The 1999 Plan provides that upon a change of control of MatrixOne, the vesting of all unvested options will accelerate by 24 months. The Compensation Committee also has the right to accelerate the date that any installment of an option becomes exercisable upon a change of control or otherwise with certain limitations. No options are outstanding under the 1999 Plan.

Amended and Restated 1996 Stock Plan In September 1996, our board of directors approved, and in January 1997, our stockholders approved, our 1996 Stock Plan. In March 1999, our board of directors approved our Amended and Restated 1996 Stock Plan. The aggregate number of shares of common

stock which may be issued under the 1996 Plan is 4,650,000. The 1996 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to employees and other stock rights to employees, officers, directors and consultants.

The 1996 Plan is currently administered by the Compensation Committee. Subject to the provisions of the 1996 Plan, the board of directors or its committee has the authority to select the persons to whom stock rights are granted and determine the terms of each stock right.

Options and stock issuances granted under the 1996 Plan generally vest quarterly over four years. The board or its committee may specify a different vesting schedule for any particular grant. Stock rights granted under the 1996 Plan are not assignable or transferable other than by will or the laws of descent and distribution. Non-qualified options are assignable or transferable, however, pursuant to a valid domestic relations order or with the consent of our Chief Executive Officer or Chief Financial Officer.

The 1996 Plan provides that the Compensation Committee has the right to accelerate the date that any installment of an option becomes exercisable upon a change of control or otherwise with certain limitations. The Compensation Committee also has the discretion to include automatic acceleration of vesting provisions in option agreements.

Generally, no incentive stock option may be exercised more than sixty days following termination of employment. However, in the event that termination is due to death or disability, the stock option is exercisable for a maximum of 180 days after such termination. As of October 2, 1999, options to purchase 3,812,475 shares of common stock were outstanding under the 1996 Plan.

Amended and Restated 1987 Stock Option Plan In February 1987 our board of directors approved, and in November 1987, our stockholders approved, our 1987 Stock Option Plan. In March 1999, our board of directors approved our Amended and Restated 1987 Stock Option Plan. The 1987 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to employees. The 1987 Plan also provides for the grant of non-qualified stock options to employees, officers, non-employee directors and consultants.

The 1987 Plan is currently administered by the Compensation Committee. Subject to the provisions of the 1987 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.

Options granted under the 1987 Plan generally vest quarterly over four years. The board or the Compensation Committee may specify a different vesting schedule for any particular grant. Options granted under the 1987 Plan are not assignable or transferable other than by will or the laws of descent and distribution.

The 1987 Plan provides that the Compensation Committee has the right to accelerate the date that any installment of an option becomes exercisable upon a change of control or otherwise with certain limitations. The Compensation Committee also has the discretion to include automatic acceleration of vesting provisions in option agreements. As of October 2, 1999, options to purchase 448,704 shares of common stock were outstanding under the 1987 Plan. No new options may be granted under the 1987 Plan.

2000 Employee Stock Purchase Plan Our 2000 Employee Stock Purchase Plan was adopted by the board of directors in December 1999, to become effective on the closing of the offering. The purchase plan provides for the issuance of a maximum of 450,000 shares of common stock. Employees who are customarily employed for more than 20 hours per week and for more than five months per year are eligible to participate in the purchase plan. Outside directors and employees who would own 5% or more of the total combined voting power or value of our stock immediately after the grant may not participate in the purchase plan.

On the first day of a designated payroll deduction or payment period, we will grant to each eligible employee who has elected to participate in the purchase plan an option to purchase shares of our common stock. The employee may authorize between 1% to 10% of his or her total cash compensation to be deducted by us from his or her base pay during the payment period. On the last day of the payment period, the employee is deemed to have exercised the option, at the option exercise price, to the extent of accumulated payroll deductions.

The payment periods will commence on the six-month periods commencing on May 1 and November 1, respectively, and ending on the following October 31 and April 30, respectively, of each year. In no case shall an employee be entitled to purchase more than 1,000 shares of common stock in any one payment period and in no case shall more than 75,000 shares of common stock be issued in the aggregate pursuant to the plan in any one payment period. The exercise price for the option granted in each payment period will be 85% of the lesser of the average market price of the common stock on the first or last business day of the payment period.

An employee who is not a participant on the last day of the payment period is not entitled to exercise his or her option, and the amount of his or her accumulated payroll deductions will be refunded without interest. Options granted under the purchase plan may not be transferred or assigned. An employee's rights under the purchase plan terminate upon his or her voluntary withdrawal from the purchase plan at any time or upon termination of employment. No options have been granted to date under the purchase plan.

Limitation of Liability and Indemnification of Officers and Directors Our Amended and Restated By-Laws provide that our directors and officers shall be indemnified to the fullest extent permitted by Delaware law against all expenses and liabilities reasonably incurred in connection with their service for or on behalf of MatrixOne. In addition, our Second Amended and Restated Certificate of Incorporation provides that our directors will not be personally liable for monetary damages for breaches of fiduciary duty, unless they:

. violate their duty of loyalty to us or our stockholders;

. act in bad faith;

. knowingly or intentionally violate the law;

. authorize illegal dividends or redemptions; or . derive an improper personal benefit from their action as directors.

We intend to obtain insurance which insures our directors and officers against certain losses and which insures us against certain of our obligations to indemnify such directors and officers.

Certain Transactions

On June 17, 1999, we sold an aggregate of 750,000 shares of Class H Convertible Preferred Stock in a private financing at a price of $8.00 per share. Among the purchasers in this financing were William Blair Capital Partners V, L.P. and Gilde IT Fund, each a 5% stockholder of MatrixOne.

We entered into a severance agreement and release with our former Chief Financial Officer, William L. Fiedler, on August 24, 1998. Under the agreement, we agreed to:

. pay his base salary for up to 12 months;

. pay him a bonus for the sale of assets related to the former Adra Systems, Inc.; and . convert his options into non-qualified stock options exercisable until September 29, 2006.

Under the agreement, Mr. Fiedler agreed to release us from any potential claims and agreed not to compete with us or solicit our employees for a period of one year.

On April 14, 1998, we entered into an employment agreement with James F. Morgan, our former Chairman of the Board of Directors and Chief Executive Officer and a current Director. Under the agreement, Mr. Morgan agreed to serve as our full-time corporate advisor until June 30, 1998. From July 1, 1998 through January 2, 2000, Mr. Morgan agreed to serve as a part-time corporate advisor. In December 1999, Mr. Morgan's employment agreement was extended through March 31, 2000. For such services, we agreed to pay Mr. Morgan a monthly salary of $13,750 until June 30, 1998 and $6,000 per month from July 1, 1998 through March 31, 2000. We also agreed to pay Mr. Morgan a bonus equal to one percent (1%) of the net cash proceeds from the May 7, 1998 sale of assets of Adra Systems to SofTech, Inc. The employment agreement provides that our board may review Mr. Morgan's options at the end of the March 31, 2000 period in order to permit the full vesting of all options not yet exercisable at the end of the employment agreement and to permit conversion from incentive stock options to non-qualified stock options of all unexercised options held by Mr. Morgan to make such options exercisable until September 30, 2006. Mr. Morgan's option agreement also provides for the full acceleration of vesting of all unvested options on the initial public offering of common stock of MatrixOne.

On September 27 and September 10, 1999, respectively, Mr. Morgan and Mr. O'Connell, our President and Chief Executive Officer, entered into term promissory notes in the principal amount of $66,500 which they used to exercise options to purchase 50,000 shares of our common stock. The promissory notes bear interest at an annual rate of 8% and are due September 27, 2001. Each of Mr. Morgan and Mr. O'Connell has pledged his 50,000 shares of common stock to secure his promissory note.

We believe that all transactions set forth above were made on terms no less favorable to us than would have been obtained from unaffiliated third parties. We have adopted a policy whereby all future transactions between us and any of our officers, directors and affiliates will be on terms no less

favorable to MatrixOne than could be obtained from unaffiliated third parties and will be approved by a majority of the disinterested members of our board of directors.

Principal Stockholders

The following table sets forth information known to us regarding the beneficial ownership of our common stock as of October 2, 1999, and as adjusted to reflect the sale of the shares of common stock in the offering, by:

. each person who beneficially owns more than 5% of our common stock;

. each named executive officer;

. each of our directors; and . all of our executive officers and directors as a group.

Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder possesses sole voting and investment power, or shares such power with his or her spouse, with respect to all shares listed as beneficially owned by such person. The address of each of our officers and directors is c/o MatrixOne, Inc., Two Executive Drive, Chelmsford, MA 01824.

The number of shares beneficially owned by each stockholder is determined under rules promulgated by the Securities and Exchange Commission and assumes the underwriters do not exercise their over-allotment option. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules beneficial ownership includes any shares as to which the individual has sole or shared voting or investment power and any shares as to which the individual has the right to acquire beneficial ownership within 60 days after October 2, 1999 through the exercise of any stock option, warrant or other right. The inclusion in the following table of those shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner. Percentage of beneficial ownership is based on 10,829,370 shares of common stock outstanding as of October 2, 1999, assuming the conversion of the outstanding convertible preferred stock, and shares of common stock outstanding after completion of the offering.

	Shares Beneficially Owned			Percentage of Shares Beneficially Owned	
Name and Address of Beneficial Owner	Common Stock	Options	Total	Before Offering	After Offering
5% Stockholders William Blair Capital Partners V, L.P.	3,278,495	--	3,278,495	30.3%	227 West Monroe Suite 3400 Chicago, IL 60606 Gilde IT Fund	1,198,021	--	1,198,021	11.1	Gilde Investment Management Newtonlaan 91 P.O. Box 85067 Utrecht 3508AB Netherlands Morgan, Holland Fund, L.P.	913,723	--	913,723	8.4	c/o OneLiberty Ventures 150 Cambridge Park Drive Cambridge, MA 02140 Compaq	600,000	--	600,000	5.5	200 Forest Street Marlboro, MA 01752					

				Percentage of Shares Beneficially

Name and Address of Beneficial Owner	Shares Beneficially Owned			Percent Owned	
	Common Stock	Options	Total	Before Offering	After Offering
Executive Officer and Directors					
Mark F. O'Connell (1).....	50,000	346,092	396,092	3.5	
Stephen P. Dunn.....	25,312	5,625	30,937	*	
David W. McNelis.....	--	73,592	73,592	*	
Johannes T.J. Ruigrok.....	--	43,875	43,875	*	
Michael Segal (2).....	57,562	128,812	186,374	1.7	
Ellen Carnahan (3).....	3,278,495	--	3,278,495	30.3	
Daniel J. Holland (4).....	913,723	--	913,723	8.4	
James F. Morgan.....	50,000	250,000	300,000	2.7	
Charles R. Stuckey, Jr.....	--	20,750	20,750	*	
All executive officers and directors as a group (13 persons).....	4,413,217	918,509	5,331,726	45.4%	

* Represents beneficial ownership of less than one percent of common stock. (1) Includes options to purchase 60,000 shares of common stock held of record by Debra A. O'Connell, Mr. O'Connell's wife, options to purchase 20,000 shares of common stock held of record by The Mark F. O'Connell Grantor Retained Annuity Trust-1999, options to purchase 35,000 shares of common stock held of record by The Mark F. O'Connell Irrevocable Trust-1999 for the benefit of Mr. O'Connell's children, options to purchase 20,000 shares of common stock held of record by The Debra A. O'Connell Grantor Retained Annuity Trust-1999, and options to purchase 35,000 shares of common stock held of record by The Debra A. O'Connell Irrevocable Trust-1999 for the benefit of Mr. O'Connell's children. Mr. O'Connell disclaims beneficial ownership of these shares. (2) Includes 8,000 shares of common stock and options to purchase 4,200 shares of common stock held of record by The Michael Segal and Kathleen A. Brown Irrevocable Trust-1999 for the benefit of Mr. Segal's children, and 3,250 shares of common stock and options to purchase 1,800 shares of common stock held of record by The Segal/Brown Family Irrevocable Trust-1999, of which Mr. Segal's wife is the trustee. Mr. Segal disclaims beneficial ownership of these shares. (3) Ms. Carnahan is a Managing Director of William Blair Capital Partners, L.L.C. In such capacity, Ms. Carnahan may be deemed to have beneficial ownership of the 3,278,495 shares owned by William Blair Capital Partners V, L.P. Ms. Carnahan disclaims beneficial ownership of the shares, except to the extent of her pecuniary interest therein. (4) Mr. Holland is the Managing General Partner of Morgan, Holland Fund. In such capacity, Mr. Holland may be deemed to have beneficial ownership of the 913,723 shares owned by Morgan, Holland Fund, L.P. Mr. Holland disclaims beneficial ownership of the shares, except to the extent of his pecuniary interest therein.

Description of Capital Stock

General

After the offering and the filing of our Second Amended and Restated Certificate of Incorporation, our authorized capital stock will consist of 100,000,000 shares of common stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share.

As of October 2, 1999, we had:

. 1,908,443 shares of common stock issued and outstanding;

. 6,196,373 shares of preferred stock issued and 6,042,241 shares outstanding;

. options to purchase an aggregate of 4,261,179 shares of our common stock with a weighted average exercise price of $1.69; and . a warrant to purchase 56,250 shares of our common stock with an exercise price of $1.33.

At October 2, 1999, there were approximately 340 holders of record of our capital stock. Immediately prior to the closing of the offering, all outstanding shares of convertible preferred stock will be converted into 8,920,927 shares of common stock.

The following summary description of our capital stock, certificate of incorporation and by-laws is not intended to be complete and assumes the filing as of the closing of the offering of our Second Amended and Restated Certificate of Incorporation. This description is qualified by reference to the provisions of applicable law and to our Second Amended and Restated Certificate of Incorporation and Amended and Restated By-laws filed as exhibits to the registration statement of which this prospectus is a part.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Directors are elected by a plurality of the votes of the shares present in person or by proxy at the meeting and entitled to vote in such election. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of funds legally available therefor, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably the net assets available after the payment of all our debts and other liabilities, subject to the prior rights of any outstanding preferred stock. Holders of the common stock have no preemptive, subscription, redemption or conversion rights, nor are they entitled to the benefit of any sinking fund. The outstanding shares of common stock are, and the shares offered by us in the offering will be, when issued and paid for, validly issued, fully paid and nonassessable. The rights, powers, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

Preferred Stock

Our board of directors is authorized to issue up to an aggregate of 5,000,000 shares of preferred stock in one or more series without further stockholder approval. Our board of directors has the discretion to determine for each series of preferred stock the number of shares, designations, preferences, qualifications and special or relative rights or privileges, including dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights.

The stockholders have granted our board of directors authority to issue the preferred stock and to determine its rights and preferences in order to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could adversely affect the voting power or other rights of the holders of common stock, and could make it more difficult for a third party to acquire, or could discourage a third party from attempting to acquire, a majority of our outstanding voting stock. We have not issued and have no present plans to issue any shares of preferred stock.

Delaware Law and Certain Charter and By-Law Provisions and Anti-Takeover Effects Upon completion of the offering, we will be subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock.

Our charter and by-laws divide our board of directors into three classes as nearly equal in size as possible with staggered three-year terms. In addition, our charter and by-laws provide that directors may be removed only for cause by the affirmative vote of the holders of 66 2/3% of the shares of capital stock entitled to vote therefore. Under our charter and by-laws, any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of our board may only be filled by vote of a majority of the directors then in office or by the vote of the stockholders. The likely effect of the classification of our board of directors and the limitations on the removal of directors and filling of vacancies is an increase in the time required for the stockholders to change the composition of the board of directors.

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

The General Corporation Law of Delaware provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. Our certificate of incorporation requires the affirmative vote of the holders of at least 66 2/3% of the shares of capital stock issued and outstanding and entitled to vote to amend or repeal any of the foregoing provisions of our certificate of incorporation. Our by- laws also may be amended or repealed by a majority vote of our board of directors subject to any limitations set forth therein. Amendment by stockholders of provisions described in the paragraphs above requires the affirmative vote of the holders of at least 66 2/3% of the shares of capital stock issued and outstanding and entitled to vote. The 66 2/3% stockholder vote would be in addition to any separate class vote that might in the future be required pursuant to the terms of any series of preferred stock that might be outstanding at the time any such amendments are submitted to stockholders.

Registration Rights

After the offering, the holders of 8,977,177 shares of common stock and rights to acquire common stock will be entitled to rights with respect to the registration of those shares under the Securities Act. Under the terms of the agreement between MatrixOne and the holders of those registrable shares, if we propose to register any of our securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, those holders are entitled to notice of and to include their shares of common stock in the registration. Additionally, the holders are also entitled to specified demand registration rights pursuant to which they may require us on up to four occasions to file a registration statement under the Securities Act at our expense with respect to our shares of common stock. Further, holders may require us to file additional registration statements on Form S-3 at our expense. All of these registration rights are subject to various conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in a registration and our right not to effect a requested registration more than once in any one year period or within 180 days of the offering.

Transfer Agent and Registrar The transfer agent and registrar for the common stock is Equiserve L.P.

Shares Eligible for Future Sale

Prior to the offering, there has been no public market for our common stock. Based on shares outstanding at October 2, 1999, upon completion of the offering we will have outstanding an aggregate of shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants. Of these outstanding shares, the shares sold in the offering will be freely tradeable without restrictions or further registration under the Securities Act, unless such shares are purchased by our affiliates as that term is defined in Rule 144 under the Securities Act.

Sales of Restricted Shares The remaining 10,829,370 shares of common stock outstanding after the offering are restricted securities under Rule 144 or Rule 701. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144,

144(k) or 701 promulgated under the Securities Act, which are summarized below. Subject to lock-up agreements described below, approximately 273,929 restricted shares will be available for resale in the public market in reliance on Rule 144(k) on the date of this prospectus. Upon expiration of the lock-up agreements 180 days after the date of this prospectus, an additional 4,403,841 shares will be available for resale in the public market in reliance on 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 restricted shares for at least one year is entitled to sell a number of shares within any three-month period that cannot exceed the greater of one percent of the number of shares of common stock then outstanding, which will equal approximately shares immediately after the 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 such sale. Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about MatrixOne. Rule 144 also provides that affiliates who are selling shares of common stock that are not restricted shares must nonetheless comply with the same restrictions applicable to restricted shares with the exception of the holding period requirement.

Under Rule 144(k), a person who is not deemed to have been our affiliate 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 such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Accordingly, unless otherwise restricted, these shares may therefore be sold immediately upon the completion of the offering.

Options

Rule 701 provides that the shares of common stock acquired upon the exercise of currently outstanding options or pursuant to other rights granted under our stock plans may be resold (to the extent not subject to the lock-up agreements) by persons, other than affiliates, beginning 90 days after the date of this prospectus, 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, subject to certain limitations. As of the date of this prospectus, the board of directors has authorized an aggregate of up to 6,950,000 shares of common stock for issuance pursuant to our stock option plans. As of October 2, 1999, options to purchase a total of 4,261,179 shares of common stock were outstanding, 1,727,897 of which options are exercisable. Of the total shares issuable pursuant to such options 847,697 are subject to lock-up agreements.

We intend to file one or more registration statements on Form S-8 under the Securities Act following the offering to register all shares of common stock, up to 6,950,000 shares, which are issuable pursuant to our stock option and stock purchase plans. These registration statements are expected to become effective upon filing. Shares covered by these registration statements will thereupon be eligible for sale in the public markets, subject to the lock-up agreements, to the extent applicable and to Rule 144 limitations applicable to affiliates.

Warrants

As of the date of this prospectus, we have an outstanding warrant exercisable for 56,250 shares of common stock, which is currently exercisable. Of these shares, none is subject to lock-up agreements.

Lock-up Agreements

Except for sales of common stock to the underwriters pursuant to the underwriting agreement and in limited other transactions, MatrixOne, our executive officers and directors and some of our stockholders and optionholders have agreed not to, among other things, sell or otherwise dispose of, directly or indirectly, any shares of common stock (or any security convertible into or exchangeable or exercisable for common stock) without the prior written consent of Goldman, Sachs & Co. for a period of 180 days from the date of this prospectus. Goldman, Sachs & Co., in its sole discretion at any time or from time to time and without notice may release for sale in the public market all or any portion of the shares subject to the lock-up agreements.

Registration Rights

After the offering, some of our stockholders will be entitled to require us to register under the Securities Act up to a total of 8,977,177 shares of outstanding common stock under the terms of a registration rights agreement between MatrixOne and such stockholders. The registration rights agreement provides that if we propose to register any of our securities under the Securities Act at any time or times, such stockholders, subject to exceptions, shall be entitled to include some or all of their shares in the registration. Some of our stockholders also have, subject to conditions and limitations, the right to require us, on no more than four occasions, to prepare and file a registration statement under the Securities Act with respect to their shares. Further, stockholders may require us to file additional registration statements on Form S-3. All of these registration rights are subject to various conditions and limitations, among them the fact that the managing underwriter of any offering may exclude for marketing reasons some or all of the shares from such registration. We are generally required to bear the expenses of all such registrations, except underwriting discounts and commissions. The registration rights agreement terminates ten years after the effective date of the offering.

Effects of Sales of Shares Prior to the offering, there has been no public market for our common stock. No predictions can be made as to the effect, if any, that market sales of shares of our common stock from time to time, or the availability of shares for future sale, may have on the market price for our common stock. Sales of substantial amounts of common stock, or the perception that such sales could occur, could adversely effect prevailing market prices for our common stock and could impair our future ability to obtain capital through an offering of equity securities.

Underwriting

MatrixOne and the underwriters 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., Dain Rauscher Incorporated, SoundView Technology Group, Inc. and U.S. Bancorp Piper Jaffray Inc. are the representatives of the underwriters.

Number of Underwriters Shares Goldman, Sachs & Co..... Dain Rauscher Incorporated..... SoundView Technology Group, Inc..... U.S. Bancorp Piper Jaffray Inc..... Total.....

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional shares from MatrixOne 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 table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by MatrixOne. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

Paid by MatrixOne 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 such securities dealers may resell any shares purchased from the underwriters to certain 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 public offering price, the representatives may change the offering price and the other selling terms.

MatrixOne, its directors, officers and certain stockholders have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for 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. Please see "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

At the request of MatrixOne, the underwriters have reserved up to shares of common stock to be sold at the initial public offering price to directors, officers, employees and friends of MatrixOne through a directed share program. There can be no assurance that any of the reserved shares will be so purchased. The number of shares available for sale to the general public in the offering will be reduced by the number of reserved shares sold. Any reserved shares not purchased will be offered to the general public on the same basis as the other shares offered by this prospectus.

Prior to the offering, there has been no public market for the shares. The initial public offering price will be negotiated among MatrixOne 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 MatrixOne's historical performance, estimates of the business potential and earnings prospects of MatrixOne, an assessment of MatrixOne's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

MatrixOne has applied to list the common stock on the Nasdaq National Market under the symbol "MONE".

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.

MatrixOne estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, are estimated to be approximately $1,000,000.

MatrixOne has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Validity of Common Stock

The validity of the shares of common stock to be issued in the offering will be passed upon for us by Testa, Hurwitz & Thibeault, LLP, Boston, Massachusetts. Certain legal matters in connection with the offering will be passed upon for the underwriters by Hale and Dorr LLP. Two partners at Testa, Hurwitz & Thibeault, LLP collectively own approximately 20,000 shares of our stock.

Experts

The financial statements and schedule included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

Where You Can Find More Information

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the common stock to be sold in the offering. As permitted by the rules and regulations of the Commission, this prospectus omits certain information contained in the Registration Statement. For further information with respect to MatrixOne and the common stock to be sold in the offering, you should refer to the registration statement and to its exhibits and schedules. Statements contained in this prospectus regarding the contents of any agreement or other document are not necessarily complete. You should refer in each instance to the copy of such agreement filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. When we complete the offering, we will also be required to file annual, quarterly and special reports, proxy statements and other information with the Commission.

You can read the registration statement and the exhibits and schedules filed with the registration statement or any reports, statements or other information MatrixOne files, at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at its regional offices located at Seven World Trade Center, Suite 1300, New York, New York 10007 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of the documents from such offices upon payment of the prescribed fees. You may call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You can also request copies of the documents upon payment of a duplicating fee, by writing to the Commission. In addition, the Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants (including us) that file electronically with the Commission which you can access at http://www.sec.gov.

We intend to send to our stockholders annual reports containing our audited consolidated financial statements.

Matrixone, Inc. and Subsidiaries

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Report of Independent Public Accountants..... F-2 Consolidated Balance Sheets as of June 27, 1998, July 3, 1999, October 2, 1999 (unaudited) and pro forma as of October 2, 1999 (unaudited)..... F-3 Consolidated Statements of Operations for the years ended June 28, 1997, June 27, 1998 and July 3, 1999 and for the three months ended October 3, 1998 (unaudited) and October 2, 1999 (unaudited)..... F-4 Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) for the years ended June 28, 1997, June 27, 1998 and July 3, 1999 and for the three months ended October 2, 1999 (unaudited)..... F-

5 Consolidated Statements of Cash Flows for the years ended June 28, 1997, June 27, 1998 and July 3, 1999 and for the three months ended October 3, 1998 (unaudited) and October 2, 1999 (unaudited)..... F-6 Notes to Consolidated Financial Statements..... F-7

Report of Independent Public Accountants

To the Stockholders and Board of Directors of MatrixOne, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of MatrixOne, Inc. (a Delaware corporation) and its subsidiaries as of July 3, 1999 and June 27, 1998, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit) and cash flows for each of the three years in the period ended July 3, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MatrixOne, Inc. and its subsidiaries as of July 3, 1999 and June 27, 1998, and the results of their operations and their cash flows for each of the three years in the period ended July 3, 1999, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP Boston, Massachusetts August 27, 1999, (except for the matters discussed in Note 12 for which the date is December 9, 1999)

Matrixone, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS (In thousands, except per share amounts)

	June 27, 1998	July 3, 1999	October 2, 1999 (unaudited)	Pro Forma October 2, 1999 (unaudited)
ASSETS CURRENT ASSETS: Cash and equivalents.....	$ 8,123	$ 11,036	$ 7,594	$ 7,594
Accounts receivable, less allowance for doubtful accounts of $511, $772, and $792.....	6,872	14,670	15,269	15,269
Note receivable.....	4,400	--	--	--
Prepaid expenses and other current assets.....	485	1,100	1,019	1,019
Total current assets.....	19,880	26,806	23,882	23,882
PROPERTY AND EQUIPMENT, NET.....	2,954	2,973	3,140	3,140
OTHER ASSETS.....	78	108	118	118
$				

22,912 $ 29,887 $ 27,140 $ 27,140 LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) CURRENT LIABILITIES: Line of credit..... $ -- $ 3,050 $ -- $ -- Current portion of long-term debt..... 221 -- -- -- Accounts payable..... 2,788 3,968 3,269 3,269 Accrued expenses..... 6,915 7,270 7,890 7,890 Deferred revenues..... 1,130 4,626 5,676 5,676 Total current liabilities..... 11,054 18,914 16,835 16,835 REDEEMABLE CONVERTIBLE PREFERRED STOCK..... 11,015 17,015 17,015 -- COMMITMENTS AND CONTINGENCIES (NOTE 6) STOCKHOLDERS' EQUITY (DEFICIT): Convertible preferred stock, $1.00 par value, 3,552 shares authorized, 3,547 shares issued, 3,547, 3,393 and 3,393 shares outstanding; $.01 par value, 5,000 shares authorized, no shares issued or outstanding (pro forma); liquidation preference of $24,738 at October 2, 1999..... 3,547 3,393 3,393 -- Common stock, $.01 par value, 40,000 shares authorized, 1,272, 1,668, 1,908 shares issued and outstanding; 100,000 shares authorized, 10,829 shares issued and outstanding (pro forma)..... 13 17 19 108 Additional paid-in capital..... 22,395 25,496 31,867 52,186 Treasury stock; 159 shares at cost..... (441) -- -- -- Notes receivable from stockholders..... -- (117) (362) (362) Deferred stock-based compensation..... -- (2,753) (8,400) (8,400) Accumulated deficit..... (24,669) (31,904) (33,099) (33,099) Accumulated other comprehensive loss..... (2) (174) (128) (128) Total stockholders' equity (deficit)..... 843 (6,042) (6,710) 10,305 $ 22,912 $ 29,887 $ 27,140 $ 27,140 The accompanying notes are an integral part of these consolidated financial statements.

Matrixone, Inc. and Subsidiaries

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

	Year Ended			Three Months Ended	
	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998 (unaudited)	October 2, 1999 (unaudited)
REVENUES:					
Software license.....	$ 8,450	$11,836	$21,851	$ 4,528	$ 7,460
Service.....	3,825	9,343	19,495	3,672	6,421
Total revenues.....	12,275	21,179	41,346	8,200	13,881
COST OF REVENUES:					
Software license.....	725	1,237	3,323	778	1,005
Service.....	3,081	6,591	14,467	2,662	5,027
Total cost of revenues...	3,806	7,828	17,790	3,440	6,032
Gross profit.....	8,469	13,351	23,556	4,760	7,849
OPERATING EXPENSES:					
Selling and marketing.....	6,883	15,369	20,611	4,287	6,171
Research and development...	4,267	7,242	5,792	1,556	1,480
General and administrative.....	1,723	3,592	4,479	969	1,082
Stock-based compensation...	--	--	153	--	409
Total operating expenses.....	12,873	26,203	31,035	6,812	9,142
Loss from operations.....	(4,404)	(12,852)	(7,479)	(2,052)	(1,293)
OTHER INCOME (EXPENSE):					
Interest income.....	67	178	346	115	108
Interest expense.....	(205)	(109)	(109)	(6)	--
Other income (expense), net.....	(2)	(21)	7	(4)	(10)
Total other income					

(expense).....	(140)	48	244	105	98
Loss from continuing operations before income taxes.....	(4,544)	(12,804)	(7,235)	(1,947)	(1,195)
BENEFIT FROM INCOME TAXES...	875	1,928	--	--	--
Net loss from continuing operations.....	(3,669)	(10,876)	(7,235)	(1,947)	(1,195)
DISCONTINUED OPERATIONS (Note 3):					
Income from discontinued operations (net of income taxes of $875 and $439 in 1997 and 1998).....	1,777	1,973	--	--	--
Gain on sale of discontinued operations (net of income taxes of $1,489 in 1998).....	--	6,711	--	--	--
Net income from discontinued operations.....	1,777	8,684	--	--	--
NET LOSS.....	$(1,892)	$(2,192)	$(7,235)	$(1,947)	$(1,195)
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE:					
Continuing operations.....	$ (2.95)	$ (8.64)	$ (4.90)	$ (1.53)	$ (0.69)
Discontinued operations....	1.43	6.90	--	--	--
Net loss.....	$ (1.52)	$ (1.74)	$ (4.90)	$ (1.53)	$ (0.69)
Shares used in computing basic and diluted net income (loss) per share...	1,243	1,259	1,476	1,276	1,734
PRO FORMA BASIC AND DILUTED NET INCOME (LOSS) PER SHARE:					
Continuing operations.....			$ (0.78)		$ (0.11)
Discontinued operations....			--		--
Net loss.....			$ (0.78)		$ (0.11)
Shares used in computing basic and diluted net income (loss) per share...			9,323		10,655

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

Matrixone, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) (In thousands)

	Redeemable Convertible Preferred Stock		Convertible Preferred Stock		Common Stock			Treasury Stock		Notes	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Number of Shares	Cost	Receivable from Stockholders	Deferred Stock-Based Compensation
BALANCE, JUNE 29, 1996.....	--	$ --	3,547	$3,547	1,216	$12	$22,443	159	$ (441)	$ --	$ --
Comprehensive loss: Foreign currency translation adjustments.....	--	--	--	--	--	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--	--	--	--	--
Comprehensive loss.....	--	--	--	--	--	--	--	--	--	--	--
Stock option exercises.....	-										

- -- -- -- 50 1 48 -- -- -- -- BALANCE, JUNE 28, 1997..... -- -- 3,547 3,547 1,266 13 22,491 159 (441) -- -- Comprehensive loss: Foreign currency translation adjustments..... -- -- -- -- -- -- -- -- -- -- -- Net loss..... -- -- -- -- -- -- -- -- -- -- -- Comprehensive loss..... -- -- -- -- -- -- -- -- -- -- -- Stock option exercises..... -- -- -- -- 6 -- 6 -- -- -- -- Issuance of Series G redeemable convertible preferred stock, net of offering costs of $102... 1,899 11,015 -- -- -- -- (102) -- -- -- -- BALANCE, JUNE 27, 1998..... 1,899 11,015 3,547 3,547 1,272 13 22,395 159 (441) -- -- Comprehensive loss: Foreign currency translation adjustments..... -- -- -- -- -- -- -- -- -- -- -- Net loss..... -- -- -- -- -- -- -- -- -- -- -- Comprehensive loss..... -- -- -- -- -- -- -- -- -- -- -- Retirement of treasury stock.. -- -- (154) (154) (5) -- (287) (159) 441 -- -- Stock option exercises..... -- -- -- -- 287 3 366 -- -- -- -- Deferred stock- based compensation (unaudited)..... -- -- -- -- -- -- 2,906 -- -- -- (2,906) Stock-based compensation (unaudited)..... -- -- -- -- -- -- -- -- -- -- 153 Issuance of common stock in exchange for notes receivable..... -- -- -- -- 114 1 116 -- -- (117) -- Issuance of Series H redeemable convertible preferred stock..... 750 6,000 -- -- -- -- -- -- -- -- -- BALANCE, JULY 3, 1999..... 2,649 17,015 3,393 3,393 1,668 17 25,496 -- -- (117) (2,753) Comprehensive loss: Foreign currency translation adjustments (unaudited)..... -- -- -- -- -- -- -- -- -- -- -- Net loss (unaudited)..... -- -- -- -- -- -- -- -- -- -- -- Comprehensive loss (unaudited)..... -- -- -- -- -- -- -- -- -- -- -- Stock option exercises (unaudited)..... -- -- -- -- 54 -- 72 -- -- -- -- Deferred stock- based compensation (unaudited)..... -- -- -- -- -- -- 6,056 -- -- -- (6,056) Stock-based compensation (unaudited)..... -- -- -- -- -- -- -- -- -- -- -- 409 Issuance of common stock in exchange for notes receivable (unaudited)..... -- -- -- -- 186 2 243 -- -- (245) -- BALANCE, OCTOBER 2, 1999 (UNAUDITED)..... 2,649 $ 17,015 3,393 $3,393 1,908 $19 $31,867 -- $ -- $(362) $(8,400)

Accumulated Deficit	Accumulated Comprehensive Loss	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
BALANCE, JUNE 29, 1996.....	$(20,585)	$ 23	$ 4,999
Comprehensive loss: Foreign currency translation adjustments.....	--	$ (84)	(84)
Net loss.....	(1,892)	(1,892)	--
(1,892)			
Comprehensive loss.....	--	$(1,976)	--
--			
Stock option exercises.....	--	--	49
BALANCE, JUNE 28, 1997.....	(22,477)	(61)	3,072
Comprehensive loss: Foreign currency translation adjustments.....	--	$ 59	59
Net loss.....	(2,192)	(2,192)	--
(2,192)			
Comprehensive loss.....	--	$(2,133)	--
--			
Stock option exercises.....	--	--	6
Issuance of Series G redeemable convertible preferred stock, net of offering costs of $102...	--	--	(102)
BALANCE, JUNE 27, 1998.....	(24,669)	(2)	843
Comprehensive loss: Foreign currency translation adjustments.....	--	$ (172)	(172)
Net loss.....	(7,235)	(7,235)	--
(7,235)			
Comprehensive loss.....	--	$(7,407)	--
--			
Retirement of treasury stock..	--	--	
Stock option exercises.....	--	--	369
Deferred stock-based compensation (unaudited).....	--	--	--
Stock-based compensation (unaudited).....	--	--	153
Issuance of common stock in exchange for notes receivable.....	--	--	--
Issuance of Series H redeemable convertible preferred stock.....	--	--	--
BALANCE, JULY 3, 1999.....	(31,904)	(174)	(6,042)
Comprehensive loss: Foreign currency translation adjustments (unaudited).....	--	$ 46	46
Net loss (unaudited).....	(1,195)	(1,195)	--
(1,195)			
Comprehensive loss (unaudited).....	--	$(1,149)	--
--			
Stock option exercises (unaudited).....	--	--	72
Deferred stock- based compensation (unaudited).....	--	--	--
Stock-based compensation (unaudited).....	--	--	409
Issuance of common stock in exchange for notes receivable (unaudited).....	--	--	--
BALANCE, OCTOBER 2, 1999 (UNAUDITED).....	$(33,099)	$(128)	$(6,710)

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

Matrixone, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

Year Ended			Three Months Ended	
June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998 (unaudited)	October 2, 1999 (unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES: Net loss..... $(1,892) $(2,192) $(7,235) $(1,947) $(1,195) Net income from discontinued operations..... (1,777) (8,684) -- -- -- Net loss from continuing operations..... (3,669) (10,876) (7,235) (1,947) (1,195) Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) continuing operations: Depreciation..... 604 834 1,257 359 333 Stock-based compensation.... -- -- 153 -- 409 Provision for doubtful accounts..... 78 496 689 100 50 Deferred income tax benefit..... (875) (1,928) -- -- -- Changes in assets and liabilities: Accounts receivable..... (1,738) (1,957) (8,648) (1,135) 236 Prepaid expenses and other current assets..... 323 (229) 62 6 (946) Accounts payable..... 582 541 1,277 298 (742) Accrued expenses..... 281 2,307 1,226 (2,097) 727 Deferred revenues..... 405 625 2,877 806 1,703 Net cash provided by (used) in continuing operations..... (4,009) (10,187) (8,342) (3,610) 575 Net cash provided by (used in) discontinued operations..... 3,668 3,611 (1,056) (1,140) (287) CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of property and equipment..... (563) (1,527) (1,306) (235) (488) Other assets..... (53) (25) (32) 4 (8) Collection of note receivable..... -- -- 4,400 4,400 -- Net proceeds from sale of discontinued operations.... -- 6,668 -- -- -- Net cash provided by (used in) investing activities..... (616) 5,116 3,062 4,169 (496) CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from issuance of debt..... 263 -- -- -- -- Repayments of debt..... (164) (292) (221) (62) -- Proceeds from line of credit..... 700 1,250 4,000 -- -- Repayments of line of credit..... -- (3,250) (950) -- (3,050) Proceeds from issuance of redeemable convertible preferred stock..... -- 10,913 6,000 -- -- Proceeds from stock option exercises..... 50 6 369 34 72 Net cash provided by (used in) financing activities..... 849 8,627 9,198 (28) (2,978) EFFECT OF EXCHANGE RATES ON CASH AND EQUIVALENTS..... (84) 59 51 74 (256) NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS..... (192) 7,226 2,913 (535) (3,442) CASH AND EQUIVALENTS, BEGINNING OF PERIOD..... 1,089 897 8,123 8,123 11,036 CASH AND EQUIVALENTS, END OF PERIOD..... $ 897 $ 8,123 $11,036 $ 7,588 $ 7,594 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the period for interest..... $ 223 $ 109 $ 109 $ 6 $ -- NONCASH FINANCING ACTIVITY: Issuance of common stock in exchange for notes receivable from stockholders..... $ -- $ -- $ 117 $ -- $ 245 The accompanying notes are an integral part of these consolidated financial statements.

Matrixone, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 1: Description of the Company and Summary of Significant Accounting Policies Description of the Company MatrixOne, Inc. and its subsidiaries (the "Company") is a provider of Internet business collaboration software designed to enable interactive collaboration over the Internet among geographically dispersed departments and divisions within an enterprise and with an enterprise's customers, suppliers and other business partners. The Company licenses its software both directly to end users and through a network of domestic and international systems integrators and distributors. The Company has its headquarters in the United States, with offices in Austria, Canada, England, France, Germany, Italy, Japan and The Netherlands and throughout the United States.

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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Presentation and Principles of Consolidation The Company operates on a 52-to-53 week fiscal year that ends on the Saturday closest to June 30th. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain amounts reported in previous periods have been reclassified to conform to the October 2, 1999 presentation.

Unaudited Interim Financial Information The financial statements as of October 2, 1999 and for the three months ended October 3, 1998 and October 2, 1999 are unaudited. These unaudited financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the interim period ended October 2, 1999 are not necessarily indicative of results to be expected for the entire fiscal year or future periods.

Unaudited Pro Forma Balance Sheet Immediately prior to the closing of the initial public offering of the Company's common stock, each outstanding share of convertible preferred stock will be converted into common stock at the conversion ratios in effect on that day. This conversion has been reflected in the unaudited pro forma balance sheet as of October 2, 1999.

Unaudited Pro Forma Basic and Diluted Net Income (Loss) Per Share Unaudited pro forma basic and diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of outstanding common shares during the period plus the assumed conversion of all convertible preferred stock into common stock, which will occur immediately prior to the closing of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) the initial public offering. Common stock equivalents, such as stock options and warrants, are excluded from the calculation as their effect is antidilutive.

Foreign Currency Translation The functional currency of each subsidiary is the local currency. Assets and liabilities of foreign subsidiaries are translated at the rates in effect at the balance sheet date, while stockholders' equity (deficit) is translated at historical rates. Statements of operations and cash flow amounts are translated at the average rate for the period. Translation adjustments are included as a component of accumulated other comprehensive loss. Foreign currency gains and losses arising from transactions are reflected in the loss from operations and were not significant in the years 1997, 1998 and 1999 and the three months ended October 3, 1998. During the three months ended October 2, 1999, realized foreign currency losses aggregated $43 and unrealized foreign currency gains aggregated $43 and were included in other income (expense).

Derivative Financial Instruments Subsequent to October 2, 1999, the Company began to enter into foreign currency forward exchange contracts to reduce its exposure to foreign currency risk due to fluctuations in exchange rates underlying the value of accounts receivable and payable denominated in foreign currencies (primarily European and Asian currencies) until such receivables are collected and payables are disbursed. A foreign currency forward exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates or to make an equivalent U.S. dollar payment equal to the value of such exchange. These foreign currency forward exchange contracts, to qualify as hedges of existing assets or liabilities, are denominated in the same currency in which the underlying foreign currency receivables or payables are denominated and bear a contract value and maturity date which approximate the value and expected settlement date, respectively, of the underlying transactions. For contracts that are designated and effective as hedges, discounts or premiums (the difference between the spot exchange rate and the forward exchange rate at inception of the contract) are accreted or amortized to other expenses over the contract lives using the straight-line method, while unrealized gains and losses on open contracts at the end of each accounting period resulting from changes in the spot exchange rate are recognized in earnings in the same period as gains and losses on the underlying foreign denominated receivables or payables are recognized and generally offset. Contract amounts in excess of the carrying value of the Company's foreign currency denominated accounts receivable or payable balances are marked to market, with changes in market value recorded in earnings as foreign exchange gains or losses. The Company does not enter into or hold derivatives for trading or speculative purposes. The Company did not enter into any foreign currency forward contracts during the periods presented.

Most of the Company's international revenues and expenses are denominated in local currencies. Due to the volatility of currency exchange rates, among other factors, the Company cannot predict the effect of exchange rate fluctuations on future operating results.

Comprehensive Loss

Comprehensive loss includes net loss as well as other changes in stockholders' equity (deficit), except stockholders' investments and distributions.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Revenue Recognition The Company generates revenues from licensing its software and providing professional services and training, maintenance and customer support services. The Company has separate agreements which govern the terms and conditions of each software license and each arrangement for professional training and maintenance and customer support services with each customer. These separate agreements, together with the Company's price list, provide the basis for establishing vendor-specific objective evidence of fair value allowing the Company to appropriately allocate fair value among the multiple elements in an arrangement.

The Company recognizes software license revenues upon execution of a license agreement, delivery of the software to a customer and determination that collection of a fixed license fee is probable.

Service revenues include professional services and training, maintenance and customer support fees. Professional services and training revenues are recognized as the services are performed for time and material contracts or on a percentage-of-completion basis for fixed price contracts. If conditions for acceptance are required, professional services revenues are recognized upon customer acceptance. Customer maintenance and customer support fees are recognized ratably over the term of the maintenance contract on a straight-line basis. When a customer maintenance fee is included with a software license fee, the Company allocates a portion of the software license fee to customer maintenance fees based on the Company's objective evidence of the fair value of each element of the arrangement.

Cash Equivalents

The Company considers all time deposits and short-term investments with original maturities of 90 days or less to be cash equivalents. The Company's cash equivalents are primarily comprised of money market mutual funds and are stated at cost, which approximates market.

Fair Value of Financial Instruments The Company's financial instruments consist primarily of cash and equivalents, accounts receivable, notes receivable, accounts payable and debt instruments. The book values of such financial instruments approximated their respective fair values as of each balance sheet presented due to their short- term maturities.

Concentrations of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash and equivalents and accounts receivable. Concentration of credit risk, with respect to cash and equivalents is limited because the Company deposits its cash in highly rated financial institutions and invests in diversified money market investments. Concentration of credit risk with respect to accounts receivable is limited to certain

customers to whom the Company makes substantial sales. To reduce its credit risk, the Company routinely assesses the financial strength of its customers. The Company maintains an allowance for potential credit losses but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) No one customer accounted for more than 10% of the Company's total revenues during the years 1997, 1998, and 1999. No one customer represented greater than 10% of the Company's accounts receivable at June 28, 1997, June 27, 1998 and July 3, 1999.

Revenues from one customer were approximately 11% of the Company's total revenues for the three months ended October 3, 1998.

Revenues from two customers were approximately 24% and 10% of the Company's total revenues for the three months ended October 2, 1999. Accounts receivable from these customers represented approximately 17% and 12% of the Company's accounts receivable at October 2, 1999.

Property and Equipment Property and equipment are recorded at cost. Internal and external costs incurred to develop and install computer software for internal use are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (computer equipment and software, two to five years; furniture and fixtures, four years; machinery and equipment, five years; leasehold improvements, shorter of useful life or remaining lease term). Maintenance and repair expenditures are charged to operations when incurred, and additions and improvements are capitalized. The Company reviews its property and equipment whenever events or changes in circumstances may indicate that the carrying amount of certain assets may not be recoverable and recognizes an impairment loss when it is probable that the estimated cash flows are less than the carrying value of these assets. Property and equipment to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Stock-Based Compensation The Company records stock-based compensation issued to employees using the intrinsic value method and stock-based compensation issued to non-employees using the fair value method. Stock-based compensation is recognized on options issued to employees if the option exercise price is less than the market price of the underlying stock on the date of grant.

Research and Development and Software Development Costs Research and development costs are expensed as incurred. Software development costs are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life, or in the ratio of current revenues to total projected product revenues, whichever is greater. To date, the period between achieving technological feasibility, which the Company has defined as when beta testing commences, and the general availability of such software has been

minimal, and software development costs qualifying for capitalization have been insignificant. Accordingly, the Company has not capitalized any software development costs for the periods presented.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and their financial statement reported amounts. The Company records a valuation allowance against deferred tax assets when it is more likely than not that such assets will not be realized.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Net Income (Loss) Per Share Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the shares used in the calculation of basic net income (loss) per share plus the dilutive effect of common stock equivalents, such as stock options, warrants and convertible preferred stock, using the treasury stock method. Common stock equivalents are excluded from the computation of dilutive net income (loss) per share if their effect is antidilutive.

Recently Issued Accounting Pronouncement In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133, as amended by SFAS No. 137, will be effective for the Company's financial reporting beginning in the first quarter of 2001. SFAS No. 133 will require the Company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for gains and losses from changes in the fair value of a particular derivative will depend on the intended use of the derivative. The Company does not expect the adoption of SFAS No. 133 to have a material impact on the results of its operations or financial position.

Note 2: Details of Financial Statement Components June 27, July 3, October 2, 1998 1999 1999

CASH AND EQUIVALENTS:			
Cash	$1,883	$ 1,633	$1,666
Money market mutual funds	6,240	9,403	5,928
	$8,123	$11,036	$7,594
PROPERTY AND EQUIPMENT:			
Computer equipment and software	$6,181	$ 3,845	$4,201
Leasehold improvements	840	942	882
Furniture and fixtures	759	156	248
Office equipment	1,129	122	251
	8,909	5,065	5,582
Accumulated depreciation	(5,955)	(2,092)	(2,442)
	$2,954	$ 2,973	$3,140

ACCRUED EXPENSES:			
Compensation	$3,623	$ 3,629	$3,867
Discontinued operations	2,006	950	663
Royalties	440	1,280	842
Taxes	--	275	813
Other	846	1,136	1,705
	$6,915	$ 7,270	$7,890

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 3: Discontinued Operations In 1998, the Company decided to focus its business on its eMatrix software suite of products and services. On May 7, 1998, the Company sold substantially all of the net assets of its legacy design and manufacturing business, which had been operated as a wholly-owned subsidiary of the Company under the name Adra Systems, Inc. ("Adra Systems"), to SofTech, Inc. The purchase price consisted of $7,000 of cash, a $4,400 promissory note which accrued interest at 7% and was collected on July 2, 1998, and contingent payments of up to $2,200 based on SofTech's revenues after the acquisition. SofTech has notified the Company that no contingent payments were due.

The Company recorded a $6,711 gain on the sale of the net assets of Adra Systems, comprised of the cash and promissory note proceeds of $11,400 less estimated transaction costs of $2,338, income taxes of $1,489 and net assets sold of $862. The transaction costs consisted principally of investment banking, legal and accounting fees, and bonus and severance arrangements with certain employees. The net assets sold consisted of the following:

Current assets..... $3,598 Property and equipment, net..... 725 Total assets..... 4,323 Current liabilities..... (3,461) Net assets sold..... $ 862 The consolidated financial statements of the Company have been restated to reflect the financial results of Adra Systems as a discontinued operation. Reported revenues, expenses and cash flows exclude the operating results of Adra Systems. Revenues from Adra Systems were approximately $15,946 for the year ended June 28, 1997 and $12,434 for the period through May 7, 1998. At June 27, 1998, July 3, 1999 and October 2, 1999, accrued transaction costs relating to the sale of the net assets of Adra Systems, included in accrued expenses, were $2,006, $950 and $663, respectively.

Note 4: Income Taxes

At July 3, 1999, the Company had available net operating loss ("NOL") carryforwards in the United States ("U.S.") of approximately $21,100 and approximately $658 of available U.S. tax credits to reduce future U.S. income taxes. The NOLs and tax credit carryforwards expire commencing in fiscal 2000. Use of these NOLs and tax credits may be limited due to certain changes in ownership.

The Company also has NOLs in certain foreign countries that are also subject to certain limitations. These NOLs are not material.

The Company has recorded a valuation allowance against its deferred tax asset due to the uncertainty surrounding the timing of the realization of these tax benefits. Realization of these tax benefits is dependent on generating sufficient taxable income.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) The components of the deferred tax asset are as follows:

June 27, July 3, 1998 1999

Net operating loss carryforwards	$ 6,195	$ 7,170
Deferred revenues	525	1,163
Tax credits	658	658
Accrued liabilities	1,225	563
Allowance for doubtful accounts	275	289
Depreciation	164	71
Total deferred tax assets	9,042	9,914
Valuation allowance	(9,042)	(9,914)
Net deferred tax asset	$ --	$ --

During 1997 and 1998, the Company recognized an income tax benefit from continuing operations of $875 and $1,928, respectively, to offset the income taxes relating to discontinued operations.

The reconciliation between the statutory federal income tax rate and the Company's effective tax rate for continuing operations is as follows:

June 28, June 27, July 3, 1997 1998 1999

Federal statutory rate	35%	35%	35%
State tax, net of federal tax benefit	6	6	6
Income tax benefit used to offset income taxes from discontinued operations	(19)	(15)	--
Provision for valuation allowance	(41)	(41)	(41)
	(19)%	(15)%	-- %

The effective tax rate for discontinued operations was 33% and 18% for 1997 and 1998, respectively.

Note 5: Line of Credit and Debt On December 29, 1998, the Company obtained a line of credit of $7,000 from a bank. Borrowings under the line of credit are limited to 80% of eligible accounts receivable, less 10% of the U.S. dollar value of each forward contract up to a total of $500, and bear interest at the bank's prime rate plus 0.5% (8.5% and 8.75% at July 3, 1999 and October 2, 1999, respectively). The line of credit expires in December 1999 and is collateralized by all of the assets of the Company. The line of credit includes certain reporting and financial covenants, including minimum quick ratio, tangible net worth and liquidity requirements, and limits the Company's ability to incur additional indebtedness, merge or consolidate, make certain investments and change its management or ownership without prior approval of the bank.

The Company had a term loan that was payable in 33 equal installments of $21 that commenced on October 31, 1996. The term loan was paid in full during 1999.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 6: Commitments and Contingencies The Company leases its facilities, automobiles and certain office equipment under various operating leases that expire through fiscal 2006. Certain of the facility leases require the Company to pay its proportionate share of building expenses and provide the Company with the option to renew its lease for an extended period. Aggregate rental expense under operating leases was approximately $1,042, $1,187 and $1,616 for the years ended 1997, 1998 and 1999, respectively, and $354 and $472 for the three months ended October 3, 1998 and October 2, 1999, respectively.

Future minimum lease commitments, by fiscal year, as of July 3, 1999 are as follows:

Autos and Facilities Equipment Total

2000	$1,165	$291	$1,456
2001	1,018	213	1,231
2002	824	111	935
2003	444	21	465
2004	15	5	20
Thereafter	10	2	12
	$3,476	$643	$4,119

During 1999, the Company entered into an agreement for telecommunication services at favorable pricing based on minimum purchase requirements of approximately $325 each year through fiscal 2001.

Note 7: Redeemable Convertible Preferred Stock On June 17, 1999, the Company sold 750 shares of Class H redeemable convertible preferred stock at $8.00 per share for $6,000. On October 1, 1997, the Company sold 1,899 shares of Class G redeemable convertible preferred stock at $5.80 per share for $11,015. As of July 3, 1999 and October 2, 1999, redeemable convertible preferred stock was comprised of the following:

	Shares Authorized	Shares Issued	Shares Outstanding	Redemption Value	Liquidation Preference
Class G, $1.00 par value; liquidation preference of $5.80 per share	2,000	1,899	1,899	$11,015	$11,015
Class H, $1.00 par value; liquidation preference of $8.00 per share	750	750	750	6,000	6,000
	2,750	2,649	2,649	$17,015	$17,015

The Company has authorized the issuance of up to 6,552 shares of preferred stock of which 250 shares are undesignated. The rights, preferences and privileges of the Class G and Class H redeemable convertible preferred stock are listed below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Conversion Each share of Class G and Class H redeemable convertible preferred stock is convertible into 1.425 and 1.5 shares, respectively, of common stock at the option of the holder.

Immediately prior to the closing of a registered public offering at an offering price of not less than $17.40 (or $11.60 as adjusted for the 3 for 2 stock split effected on August 25, 1999) per common share, conversion of Class G is mandatory and at an offering price of not less than $24.00 (or $16.00 as adjusted for the 3 for 2 stock split effected on August 25, 1999), conversion of Class H is mandatory.

Liquidation

In the event of liquidation, the holders of Class G and H redeemable convertible preferred stock are entitled to receive, prior to any distribution to holders of Class A through Class F convertible preferred stock and common stockholders, a liquidation preference aggregating $17,015 in per share amounts of $5.80 and $8.00, respectively. In addition, in the event of a merger or consolidation of the Company, the holders of Class G and H redeemable convertible preferred stock may elect to have their preferred shares repurchased by the Company at the applicable liquidation preference price.

Redemption

In connection with the issuance of the Class G redeemable convertible preferred stock, the redemption rights of Class A through Class F convertible preferred stock were eliminated.

Class G redeemable convertible preferred stock is redeemable at the option of the majority of the Class G stockholders on October 1, 2002 for 50% of the outstanding shares at $5.80 per share plus any accrued and unpaid dividends. On October 1, 2003, the Company is required to redeem 100% of the outstanding Class G redeemable convertible preferred stock at $5.80 per share, plus any accrued and unpaid dividends.

Class H redeemable convertible preferred stock is redeemable at the option of the majority of the Class H stockholders on October 1, 2002 for 50% of the outstanding shares at $8.00 per share, plus any accrued and unpaid dividends. On October 1, 2003, at the option of the majority of the Class H stockholders, the Company is required to redeem 100% of the outstanding Class H redeemable convertible preferred stock at $8.00 per share, plus any accrued and unpaid dividends. The Company may not redeem or purchase any junior securities unless the consent of the majority of the Class H stockholders is obtained or the Class H stock is redeemed.

Voting

The holders of the redeemable convertible preferred stock and convertible preferred stock shall vote as one class and are entitled to that number of votes equal to the number of shares of common stock into which the preferred stock is then convertible.

Dividends

The holders of the Class G and H redeemable convertible preferred stock are entitled to receive dividends when and if declared by the Board of Directors (the "Board").

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 8: Stockholders' Equity (Deficit) Common Stock On August 10, 1999 the Board voted to approve a 3 for 2 stock split, effected as a 50% stock dividend, provide for a single class of common stock, eliminate the Class B common stock and increase the number of authorized shares of common stock from 12,000 to 40,000. The consolidated financial statements for all periods presented have been restated to reflect the 3 for 2 stock split. As of October 2, 1999, 6,000 shares of common stock had been authorized for issuance pursuant to the exercise of stock options and other stock rights.

Convertible Preferred Stock As of July 3, 1999 and October 2, 1999, Class A through Class F convertible preferred stock was comprised of the following:

Shares Shares Shares Liquidation Authorized Issued Outstanding Amount Preference Class A, $1.00 par value; liquidation preference of $4.88 per share..... 615 615 512 $ 512 $ 2,501 Class B, $1.00 par value; liquidation preference of $7.32 per share..... 492 491 444 444 3,250 Class C, $1.00 par value; liquidation preference of $6.20 per share..... 1,195 1,194 1,194 1,194 7,403 Class D, $1.00 par value; liquidation preference of $9.00 per share..... 683 680 676 676 6,084 Class E, $1.00 par value; liquidation preference of $9.00 per share..... 167 167 167 167 1,500 Class F, $1.00 par value; liquidation preference of $10.00 per share..... 400 400 400 400 4,000 3,552 3,547 3,393 $3,393 $24,738 The rights, preferences and privileges of the Class A through Class F convertible preferred stock are listed below.

Conversion

Each share of Class A through F convertible preferred stock, is convertible into 1.5 shares of common stock at the option of the holder.

Liquidation

In the event of liquidation, the holders of convertible preferred stock are entitled to receive, prior to any distribution to common stockholders, a liquidation preference aggregating $24,738 in per share amounts ranging from $4.88 to $10.00. In addition, in the event of a merger or consolidation of the Company, holders of Class A through Class F convertible preferred stock may elect to have their preferred shares repurchased by the Company at the applicable liquidation preference price.

Redemption

In connection with the issuance of the Class G redeemable convertible preferred stock, the redemption rights of Class A through Class F convertible preferred stock were eliminated.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Voting The holders of Class A through Class F convertible preferred stock and the holders of redeemable convertible preferred stock vote as one class and are entitled to that number of votes per share of convertible preferred stock equal to the number of shares of common stock into which each share of preferred stock is then convertible.

Dividends

The holders of the Class A through Class F convertible preferred stock are entitled to receive dividends when and if declared by the Board.

Notes Receivable from Stockholders During 1999 and the three months ended October 2, 1999, the Company issued 114 and 186 shares of common stock, respectively, in exchange for notes receivable from stockholders with principal balances aggregating $117 and $245, respectively. These notes are full recourse to the stockholders and are additionally collaterized by the underlying shares of common stock. The notes receivable are payable in full on varying dates through December 27, 2002 and bear interest at 8%. These notes receivable have been reported as a reduction to stockholders' equity.

Warrants

In May 1997, the Company issued a warrant to purchase 56 shares of common stock in conjunction with its line of credit. The warrants have an exercise price of $1.33 and expire in May 2002. No value has been ascribed to these warrants as the amount would not be material to the financial statements.

Stock Option Plans

The Company's 1987 Stock Option Plan (the "1987 Plan") has been terminated; however, options issued under the 1987 Plan remain outstanding. The 1987 Plan provided for the granting of both incentive stock options and nonqualified stock options. Incentive stock options were granted at the fair market value of the common stock on the date of grant, as determined by the Board. Options granted under the 1987 Plan generally vest over four years and expire no later than ten years from the date of the grant.

In fiscal year 1996, the Company adopted a stock plan (the "1996 Plan") pursuant to which 4,650 shares of the Company's common stock are reserved for issuance. The 1996 Plan provides for the granting of both incentive stock options, nonqualified stock options and other stock rights. Options may be granted at not less than the fair market value of the Company's common stock on the date of grant, as determined by the Board. Options granted under the 1996 plan generally vest over four years and expire no later than ten years from the date of the grant. There were 461 shares available for future grant at October 2, 1999.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) The following is a summary of stock option activity for all stock plans:

	June 28, 1997		June 27, 1998		July 3, 1999		October 2, 1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding:								
Beginning balance	1,107	$1.11	1,873	$1.25	3,375	$1.29	3,914	$1.34
Granted	1,204	1.33	1,944	1.33	1,602	1.38	614	3.81
Exercised	(50)	1.01	(6)	1.28	(401)	1.19	(240)	1.32
Canceled	(388)	1.14	(436)	1.30	(662)	1.26	(27)	1.52
Ending balance	1,873	$1.25	3,375	$1.29	3,914	$1.34	4,261	$1.69
Exercisable	982	$1.17	1,493	$1.23	1,719	$1.29	1,728	$1.29

The fair value of options granted in 1997, 1998 and 1999 and the three months ended October 3, 1998 and October 2, 1999 have been determined using the Black-Scholes option pricing model. The assumptions used are as follows:

June 28, June 27, July 3, October 3, October 2, 1997 1998 1999 1998 1999

Risk-free interest rate	6.10%	5.70%	5.10%	5.10%	5.80%
Expected dividend yield	None	None	None	None	None
Expected lives	5 years	5 years	5 years	5 years	5 years
Expected volatility	--	--	--	--	--

The weighted average fair value of options granted in 1997, 1998 and 1999 and the three months ended October 3, 1998 and October 2, 1999 were $0.36, $0.34, $2.13, $0.30 and $10.82 per share, respectively.

Information regarding stock options outstanding as of July 3, 1999 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$1.00	229	4.60	$1.00	229	$1.00
$1.33	3,527	8.09	1.33	1,490	1.33
$2.00	158	9.99	2.00	--	--
	3,914	7.96	$1.34	1,719	$1.29

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Information regarding options outstanding as of October 2, 1999 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$1.00--$1.33.....	3,492	7.68	$ 1.31	1,716	$1.29
$2.00--$3.33.....	725	9.79	3.04	12	2.23
$10.00.....	44	9.99	10.00	--	--
	4,261	8.06	$ 1.69	1,728	$1.29

In connection with certain stock option grants to employees, the Company recorded deferred stock-based compensation of $2,906 for the year ended July 3, 1999 and $6,056 for the three months ended October 2, 1999. Deferred stock- based compensation represents the difference between the option price and the deemed fair value of the Company's common stock on the date of grant and is reported as a component of stockholders' equity (deficit). Deferred stock-based compensation is amortized through charges to operations over the vesting period of the options, which is generally four years. Stock-based compensation was $153 for the year ended July 3, 1999 and $409 for the three months ended October 2, 1999.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in 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 stock options.

Had compensation expense for stock options been determined based on fair value as proscribed by SFAS No. 123, the Company's pro forma net loss would have been as follows:

June 28, June 27, July 3, October 3, October 2, 1997 1998 1999 1998 1999

Net Loss:					
As reported.....	$(1,892)	$(2,192)	$(7,235)	$(1,947)	$(1,195)
Pro forma.....	$(1,989)	$(2,411)	$(7,558)	$(2,025)	$(1,303)

Because the method proscribed by SFAS No. 123 has not been applied to stock options granted prior to June 30, 1995 and no expected volatility factor has been used to value any stock options granted, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Note 9: Employee Benefit Plans Eligible employees of the Company's North American offices may elect to participate in the Company's 401(k) plan. The Company does not make contributions to the 401(k) plan. Employees of certain of the Company's subsidiaries are provided with savings plans to which the Company and the employee contribute. The Company's contributions to these plans have not been material.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 10: Segment and Geographic Information The Company measures operating results as a single reportable segment, which provides multiple products and services to enable interactive collaboration over the Internet among geographically dispersed departments and divisions within an enterprise and with the enterprise's customers, suppliers and other business partners. The Company reports revenues in the geographic region of the customer at the time of the license. However, the customer has the right to redeploy licenses anywhere in the world. Revenues and property and equipment by significant geographic region are as follows:

	Year Ended			Three Months Ended	
	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998	October 2, 1999
Revenues:					
North America	$ 9,403	$15,644	$30,557	$6,878	$ 6,770
Germany	1,531	2,573	6,048	501	2,228
Asia/Pacific	--	--	--	--	3,281
Europe (excluding Germany)	1,341	2,962	4,741	821	1,602
Total international	2,872	5,535	10,789	1,322	7,111
	$12,275	$21,179	$41,346	$8,200	$13,881

Property and Equipment:

As of June 27, July 3, October 2, 1998 1999 1999

North America	$2,641	$2,498	$2,618
Germany	60	123	144
Asia/Pacific	--	--	19
Europe (excluding Germany)	253	352	359
Total international	313	475	522
	$2,954	$2,973	$3,140

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 11: Net Income (Loss) Per Share The calculation of basic and diluted and pro forma basic and diluted net income (loss) per share is as follows:

	Year Ended			Three Months Ended	
	June 28, 1997	June 27, 1998	July 3, 1999	October 3, 1998	October 2, 1999

Basic and Diluted Net Income (Loss) Per Share: Net loss from continuing operations..... $ (3,669) $(10,876) $(7,235) $(1,947) $ (1,195) Net income from discontin- ued operations..... 1,777 8,684 -- -- -- Net loss..... $ (1,892) $ (2,192) $(7,235) $(1,947) $ (1,195) Basic and diluted net loss per share from continuing operations..... $ (2.95) $ (8.64) $ (4.90) $ (1.53) $ (0.69) Basic and diluted net income per share from discontinued operations... 1.43 6.90 -- -- -- Basic and diluted net loss per

share..... $ (1.52) $ (1.74) $ (4.90) $ (1.53) $ (0.69) Shares used in computing basic and diluted net income (loss) per share... 1,243 1,259 1,476 1,276 1,734 Pro Forma Basic and Diluted Net Income (Loss) Per Share: Shares used in computing basic and diluted net loss per share..... 1,476 1,734 Adjustment to reflect the effect of the conversion of preferred stock..... 7,847 8,921 Shares used in computing pro forma basic and diluted net loss per share..... 9,323 10,655 Pro forma basic and diluted net loss per share from continuing operations..... $ (0.78) $ (0.11) Pro forma basic and diluted net income per share from discontinued operations... -- -- Pro forma basic and diluted net loss per share..... $ (0.78) $ (0.11) Potentially dilutive common stock options and warrants aggregating 1,929, 3,431, 3,970, 3,932 and 4,317 shares for the years ended 1997, 1998 and 1999 and the three months ended October 3, 1998 and October 2, 1999, respectively, have been excluded from the computation of basic and diluted net income (loss) per share because their inclusion would be antidilutive.

Matrixone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Including data applicable to unaudited periods) (In thousands, except per share amounts) Note 12: Subsequent Events Proposed Public Offering of Common Stock On December 9, 1999, the Board authorized the Company to proceed with an initial public offering of its common stock. If the offering is consummated as presently anticipated, all of the outstanding shares of convertible preferred stock will automatically convert into common stock. The unaudited pro forma stockholders' equity (deficit) at October 2, 1999 gives effect to the conversion of all outstanding shares of redeemable convertible preferred stock and convertible preferred stock at October 2, 1999 into 8,921 shares of common stock upon completion of the offering. On December 9, 1999, the Board also approved, effective upon the closing of the offering, a change in the total number of shares which the Company is authorized to issue to 105,000 shares, of which 100,000 shares will be common stock and 5,000 shares will be preferred stock.

2000 Employee Stock Purchase Plan The Company's 2000 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board in December 1999 to be effective upon the completion of the Company's initial public offering of its common stock. The Company has reserved a total of 450 shares of common stock for issuance under the Purchase Plan. Eligible employees may purchase common stock at 85% of the lesser of the average market price of the Company's common stock on the first or last day of the applicable six month payment period.

1999 Stock Plan

In December 1999, the Board adopted the 1999 Stock Plan (the "1999 Plan") to be effective upon the completion of the Company's initial public offering of its common stock. The Company has reserved a total of 500 shares of common stock for issuance under the 1999 Plan which provides for the grant of incentive and nonqualified stock options, stock issuances and opportunities to make direct purchases of stock to employees, officers, directors or consultants of the Company.

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, and 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 , 2000 (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 underwriter and with respect to an unsold allotment or subscription.

Shares

MatrixOne, Inc.

Common Stock

[MatrixOne, Inc. Logo] Goldman, Sachs & Co.

Dain Rauscher Wessels SoundView Technology Group U.S. Bancorp Piper Jaffray Representatives of the Underwriters

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

Estimated expenses payable in connection with the sale of the common stock in the offering are as follows:

SEC registration fee	$ 19,800
NASD filing fee	8,000
Nasdaq National Market listing fee	95,000
Blue sky fees	15,000
Printing and engraving expenses	150,000
Legal fees and expenses	400,000
Accounting fees and expenses	250,000
Transfer agent and registrar fees and expenses	5,000
Miscellaneous	57,200
Total	$1,000,000

The registrant will bear all of the expenses shown above.

Item 14. Indemnification of Directors and Officers.

The Delaware General Corporation Law and the registrant's charter and by- laws provide for indemnification of the registrant's directors and officers for liabilities and expenses that they may incur in such capacities.

ARTICLE EIGHTH of the registrant's charter provides that, to the maximum extent permitted by the General Corporation Law of the State of Delaware, no director of the registrant shall be personally liable to the registrant or to any of its stockholders for monetary damages arising out of such director's breach of fiduciary duty.

ARTICLE 7 of the registrant's by-laws provides that the registrant shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that such person is or was a director, trustee, partner, officer, employee or agent of the corporation, or is or was serving at the request of the registrant as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or non-profit entity, against all liability, losses, expenses (including attorneys' fees), judgments, fines and amounts paid in settlement by such person in connection with such action, suit or proceeding. The registrant shall only provide indemnification if such person acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the registrant, and, with respect to any criminal action or proceedings, if such person had no reasonable cause to believe his conduct was unlawful.

The Underwriting Agreement provides that the underwriters are obligated, under certain circumstances to indemnify directors, officers and controlling persons of the registrant against certain liabilities, including liabilities under the Securities Act of 1933. Reference is made to the form of underwriting agreement filed as Exhibit 1.1 hereto.

The registrant intends to apply for a directors' and officers' insurance policy.

The effect of these provisions would be to permit indemnification by the Company for, among other liabilities, liabilities arising out of the Securities Act.

Item 15. Recent Sales of Unregistered Securities.

Stock Splits

The registrant has effected and will effect the following splits of its common stock:

.On August 25, 1999, the registrant effected a 3-for-2 stock split of its common stock in the form of a stock dividend of one share of common stock paid on every two shares of common stock outstanding and held of record by a stockholder as of August 20, 1999. In connection with such stock split, the registrant issued to its stockholders of record as of August 20, 1999 an aggregate of 558,523 shares of common stock. All common and preferred share and per share amounts herein have been retroactively adjusted to reflect the stock split.

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.Prior to the consummation of the offering, the registrant will effect a  -
    for-  stock split of its common stock in the form of a stock dividend
    of    shares of common stock to be paid on each share of common stock
    outstanding as of    , 2000. In connection with such stock split, the
    registrant will issue to its stockholders of record as of    , 2000 an
    aggregate of    shares of common stock.
```

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

.On May 16, 1997, the registrant issued a warrant to its bank in conjunction with its line of credit to purchase 56,250 shares of Common Stock at an exercise price of $1.33 per share.

.On October 1, 1997, the registrant issued and sold an aggregate of 1,899,138 shares of its Class G Convertible Preferred Stock, par value $1.00 per share, to seven investors at a price of $5.80 per share pursuant to a Class G Preferred Stock Purchase Agreement.

.On June 17, 1999, the registrant issued and sold an aggregate of 750,000 shares of its Class H Convertible Preferred Stock, par value $1.00 per share, to two investors at a price of $8.00 per share pursuant to a Class H Preferred Stock Purchase Agreement.

.Effective upon the closing of the offering, all of the Company's convertible preferred stock will automatically convert into an aggregate 8,920,927 shares of common stock.

.Since December 13, 1996, the registrant has granted options to purchase an aggregate of 4,238,942 shares of common stock under its equity plans, exercisable at a weighted average price of $1.90 per share.

No underwriters were involved in the foregoing sales of securities. Such sales were made in reliance upon the exemption from the registration provisions of the Securities Act provided by Sections 2(3) and 4(2) thereof for transactions not involving a public offering or, in the case of the options to purchase common stock, Rule 701 under the Securities Act. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits:

Exhibit No. Description 1.1+ Form of Underwriting Agreement 3.1 Amended and Restated Certificate of Incorporation of the registrant Exhibit No. Description 3.2 Form of Second Amended and Restated Certificate of Incorporation to be filed upon the closing of the offering 3.3 Restated By-laws of the registrant 3.4 Form of Amended and Restated By-laws of the registrant to take effect as of the effectiveness of the offering 4.1+ Specimen certificate representing the common stock of the registrant 5.1+ Opinion of Testa, Hurwitz & Thibeault, LLP 10.1 Amended and Restated 1987 Stock Option Plan 10.2 Amended and Restated 1996 Stock Plan 10.3+ 1999 Stock Plan 10.4+ 2000 Employee Stock Purchase Plan 10.5 Warrant Purchase Agreement by and among the registrant and Silicon Valley Bank, dated as of May 16, 1997 10.6 Asset Purchase Agreement dated May 7, 1998 by and among SofTech, Inc., Adra Systems, Inc. and the registrant 10.7 Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of October 11, 1988 10.8 Amendment No. 1 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of June 26, 1991 10.9 Amendment No. 2 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of August 19, 1991 10.10 Amendment No. 3 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of October 1, 1997 10.11 Amendment No. 4 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of June 17, 1999 10.12 Amended and Restated Stockholders Agreement by and among the registrant and the stockholders listed therein, dated as of June 17, 1999 10.13 Office Lease by and between the registrant and New Boston Chelmsford Limited Partnership, dated March 2, 1994 10.14 Loan and Security Agreement between the registrant and Silicon Valley Bank, dated as of December 29, 1998 10.15 Employment Agreement with James F. Morgan, dated as of April 14, 1998 10.16 Letter Agreement between the registrant and Maurice L. Castonguay, dated as of January 11, 1999 10.17+ Agreement between the registrant and Oracle Corporation, dated as of May 22, 1996 Exhibit No. Description 10.18 Employment Agreement between the registrant and Johannes T.J. Ruigrok, dated as of July 15, 1998 10.19 Letter Agreement between the registrant and Brian M. Gallagher, dated as of June 3, 1999 10.20 Letter Agreement between the registrant and Stephen P. Dunn, dated as of December 5, 1997 21.1 Subsidiaries of the registrant 23.1 Consent of Testa, Hurwitz & Thibeault, LLP (included in Exhibit 5.1) 23.2 Consent of Arthur Andersen LLP 24.1 Power of Attorney (see page II-5) 27.1 Financial Data Schedule + To be filed by amendment.

(b) Financial Statements Schedules:

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Schedule II--Valuation and Qualifying Accounts and Reserves..... S-2 All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to provisions described in Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The registrant hereby undertakes (1) to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser; (2) that for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and (3) that for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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 Chelmsford, Massachusetts on December 14, 1999.

Matrixone, Inc.

/s/ Mark F. O'Connell By: _____ Mark F. O'Connell President and Chief Executive Officer

Power of Attorney and Signatures

The undersigned officers and directors of MatrixOne, Inc. hereby constitute and appoint Mark F. O'Connell and Maurice L. Castonguay, and each of them singly, with full power of substitution, our true and lawful attorneys-in-fact and agents to take any actions to enable MatrixOne, Inc. to comply with the Securities Act, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this registration statement, including the power and authority to sign for us in our names in the capacities indicated below any and all amendments to this registration statement and any other registration statement filed pursuant to the provisions of Rule 462 under the Securities Act.

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

Signature Title(s) Date

/s/ Mark F. O'Connell Mark F. O'Connell	President, Chief Executive Officer and Director (principal executive officer)	December 14, 1999

/s/ Maurice L. Castonguay Chief Financial Officer, December 14, 1999 _____ Vice President of Finance Maurice L. Castonguay and Administration and Treasurer (principal financial and accounting officer) /s/ Ellen Carnahan Director December 14, 1999 Ellen Carnahan /s/ Daniel J. Holland Director December 14, 1999 Daniel J. Holland /s/ James F. Morgan Director December 14, 1999 James F. Morgan /s/ Charles R. Stuckey, Jr. Director December 14, 1999 Charles R. Stuckey, Jr.

Report of Independent Public Accountants on Schedule

To the Stockholders and Board of Directors of MatrixOne, Inc. and Subsidiaries:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of MatrixOne, Inc. included in this registration statement and have issued our report thereon dated August 27, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 16(b) is the responsibility of the Company's management and is presented for purposes of complying with Securities and Exchange Commission's rules and is not a part of the basic financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein, in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP Boston, Massachusetts August 27, 1999 Schedule II

Matrixone, Inc. and Subsidiaries

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES (amounts in thousands)

Description	Balance at Beginning of the Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for Doubtful Accounts:					
June 28, 1997.....	$ 94	$ 78	$ --	$ --	$ 172
June 27, 1998.....	$ 172	$ 496	$ --	$ (157)	$ 511
July 3, 1999.....	$ 511	$ 689	$ --	$ (428)	$ 772
Reserve for Discontinued Operations:					
June 28, 1997.....	$ --	$ --	$ --	$ --	$ --
June 27, 1998.....	$ --	$ --	$2,338(1)	$ (332)	$2,006
July 3, 1999.....	$2,006	$ --	$ --	$(1,056)	$ 950

(1)Addition to the reserve for discontinued operations includes transaction costs consisting principally of investment banking, legal and accounting fees, and bonus and severance arrangements with certain employees, which were charged against the gain on sale of discontinued operations.

Exhibit Index

Exhibit No. Description 1.1+ Form of Underwriting Agreement 3.1 Amended and Restated Certificate of Incorporation of the registrant 3.2 Form of Second Amended and Restated Certificate of Incorporation to be filed upon the closing of the offering 3.3 Restated By-laws of the registrant 3.4 Form of Amended and Restated By-laws of the registrant to take effect as of the effectiveness of the offering 4.1+ Specimen certificate representing the common stock of the registrant 5.1+ Opinion of Testa, Hurwitz & Thibeault, LLP 10.1 Amended and Restated 1987 Stock Option Plan 10.2 Amended and Restated 1996 Stock Plan 10.3+ 1999 Stock Plan 10.4+ 2000 Employee Stock Purchase Plan 10.5 Warrant Purchase Agreement by and among the registrant and Silicon Valley Bank, dated as of May 16, 1997 10.6 Asset Purchase Agreement dated May 7, 1998 by and among SofTech, Inc., Adra Systems, Inc. and the registrant 10.7 Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of October 11, 1988 10.8 Amendment No. 1 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of June 26, 1991 10.9 Amendment No. 2 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of August 19, 1991 10.10 Amendment No. 3 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of October 1, 1997 10.11 Amendment No. 4 to Amended and Restated Registration Rights, Restricted Stock and Stock Option Agreement by and among the registrant and certain stockholders of registrant, dated as of June 17, 1999 10.12 Amended and Restated Stockholders Agreement by and among the registrant and the stockholders listed therein, dated as of June 17, 1999 10.13 Office Lease by and between the registrant and New Boston

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