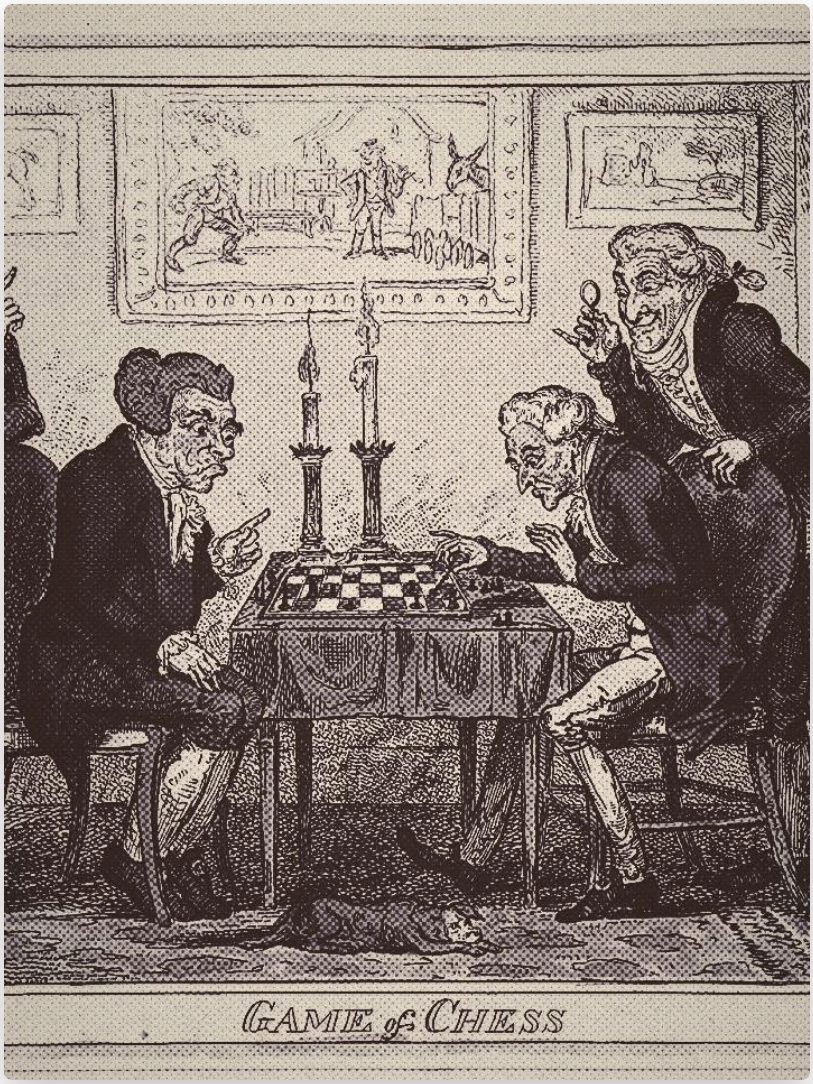
FORM S-1 · REGISTRATION STATEMENT

Netiq Corp

IPO priced 1999-07-30 · $13.00 a share · NTIQ



From S1 Directory · www.s1directory.com/s1/netiq-corp/ · Source: https://www.sec.gov/Archives/edgar/data/1084827/000101287099001754/0001012870-99-001754.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 26, 1999 REGISTRATION NO. 333- UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 NETIQ CORPORATION (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

NETIQ CORPORATION 5410 BETSY ROSS DRIVE SANTA CLARA, CALIFORNIA 95054 (408) 330-7000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) CHING-FA HWANG PRESIDENT AND CHIEF EXECUTIVE OFFICER NETIQ CORPORATION 5410 BETSY ROSS DRIVE SANTA CLARA, CALIFORNIA 95054 (408) 330-7000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

Thomas C. DeFilipps, Esq.	William D. Sherman, Esq.
Wilson Sonsini Goodrich & Rosati	Morrison & Foerster LLP
Professional Corporation	755 Page Mill Road
650 Page Mill Road	Palo Alto, California 94304
Palo Alto, California 94304	(650) 813-5600
(650) 493-9300	

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

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

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, $0.001 PAR VALUE.....	$46,000,000	$12,778

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

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

++
+The information in this prospectus is not complete and may be changed. We may +
+not sell these securities until the registration statement filed with the +
+Securities and Exchange Commission is effective. This prospectus is not an +

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

SUBJECT TO COMPLETION, DATED MAY 26, 1999

SHARES

COMMON STOCK

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. THE INITIAL PUBLIC OFFERING PRICE IS EXPECTED TO BE BETWEEN $ AND $ PER SHARE. WE HAVE APPLIED TO LIST OUR COMMON STOCK ON THE NASDAQ STOCK MARKET'S NATIONAL MARKET UNDER THE SYMBOL "NTIQ."

THE UNDERWRITERS HAVE AN OPTION TO PURCHASE A MAXIMUM OF ADDITIONAL SHARES TO COVER OVER-ALLOTMENTS OF SHARES.

INVESTING IN THE COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" ON PAGE 6.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to NetIQ
Per Share	$	$	$
Total	$	$	$

DELIVERY OF THE SHARES OF COMMON STOCK WILL BE MADE ON OR ABOUT , 1999.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CREDIT SUISSE FIRST BOSTON BANCBOSTON ROBERTSON STEPHENS HAMBRECHT & QUIST THIS PROSPECTUS IS DATED , 1999.

Table of Contents

Page

Prospectus Summary..... 4 Risk Factors..... 6
Forward-Looking Statements..... 16 Use of
Proceeds..... 17 Dividend Policy..... 17
Capitalization..... 18 Dilution..... 19
Selected Consolidated Financial Statements..... 20 Management's Discussion and
Analysis of Financial Condition and Results of Operations..... 21
Business..... 32 Page Management.....
45 Certain Transactions..... 55 Principal
Stockholders..... 56 Description of Capital Stock..... 58
Shares Eligible for Future Sale..... 61
Underwriting..... 63 Notice to Canadian
Residents..... 65 Legal Matters..... 66
Experts..... 66 Where To Find Other NetIQ
Documents..... 66 Index to Consolidated Financial Statements..... F-1

You should rely only on the information contained in this document or to which we have referred you.

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

Unless otherwise indicated, all references to "NetIQ" and "we" refer to NetIQ Corporation and its subsidiaries, including subsidiaries that may be acquired or formed in the future.

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

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

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

Performance and Availability Management Solutions for Windows NT Environments . Centrally manages the performance of distributed Windows NT-based systems and applications . Helps ensure the availability of systems and applications through automated problem detection and correction . Leverages Windows NT technology by using de-facto Microsoft standards . Integrates with leading systems management frameworks for best-of-breed Windows NT monitoring NetIQ's Comprehensive Approach NetIQ believes that the combination of AppManager's comprehensive functionality together with its use of familiar and native Microsoft technology and standards provide a unique solution for managing systems and applications in distributed Windows NT environments.

Comprehensive and Easy to Use The NetIQ AppManager Suite is a management solution that gives an organization a consolidated view of their entire Windows NT environment from a central, easy- to-use console.

Scalable and Reliable The NetIQ AppManager Suite's highly scalable architecture lets organizations centrally manage their entire Windows NT environment in an efficient and reliable manner, even when their server and workstation deployment numbers are in the hundreds.

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

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus carefully.

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

NetIQ Corporation

We are a leading provider of performance and availability management software for Microsoft Windows NT-based systems and applications. As use of the Windows NT platform in distributed computing and Internet environments continues to expand, organizations are increasingly relying on this platform to deploy business-critical applications such as Microsoft Exchange Server, Lotus Domino/Notes, Oracle, Citrix WinFrame, Microsoft Internet Information Server and Microsoft SQL Server. As a result, organizations are facing new challenges in managing their distributed Windows NT environments. Our NetIQ AppManager Suite enables organizations to address these challenges by providing a comprehensive and automated solution that helps optimize the performance and availability of business-critical Windows NT-based systems and applications and reduce associated support costs. AppManager's scalable, multi-tier architecture supports rapid growth in the number of servers and applications deployed in organizations' distributed Windows NT environments and provides close integration with existing system, network and hardware management solutions. We believe that AppManager's comprehensive functionality, coupled with its ease of use resulting from its utilization of familiar Microsoft technology and standards, offers a superior solution for managing systems and applications in distributed Windows NT environments.

Our products are used by organizations in a wide variety of industries and computing environments. As of March 31, 1999, we licensed our AppManager products to more than 375 customers, including AT&T, Charles Schwab & Co., Countrywide Home Loans, Dell Computer, EDS, General Electric, Georgia-Pacific, Glaxo Wellcome, MCI, Microsoft, Nasdaq, NationsBank, Nordstrom Information Systems, Pfizer, Salomon Smith Barney, Shell Services International, Southern Company Services, the Department of Veterans Affairs and Wells Fargo Bank N.A. We sell our products through our sales force, which includes our field and inside sales personnel, as well as through indirect channels, such as distributors, value-added resellers and original equipment manufacturers. We have established product-based relationships with Citrix, Compaq, Computer Associates, Dell Computer, Hewlett-Packard, IBM, including both its Lotus and Tivoli subsidiaries, Microsoft and Oracle. As part of these relationships, we often develop joint marketing programs with these software and hardware vendors.

Our objective is to be the leading provider of performance and availability management software for Windows NT-based systems and applications. Key elements of our strategy include enhancing our technology leadership position, targeting enterprise-wide deployment of our AppManager products within our substantial customer base, expanding our distribution channels, increasing our international presence and expanding our relationships with Microsoft.

We were incorporated in California in June 1995 and expect to complete a reincorporation into Delaware in June 1999. Our principal executive offices are located at 5410 Betsy Ross Drive, Santa Clara, California 95054, and our telephone number is (408) 330-7000. Our Web address is www.netiq.com. Information contained on our Web site does not constitute part of this prospectus.

The Offering

Common stock offered..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... For working capital, capital expenditures, repayment of certain indebtedness and potential strategic investments or acquisitions. See "Use of Proceeds." Proposed Nasdaq National Market symbol..... NTIQ Please see "Capitalization" for a more complete discussion regarding the outstanding shares of common stock, securities to purchase common stock and other related matters.

Summary Consolidated Financial Information The pro forma consolidated balance sheet data summarized below gives effect to the conversion of outstanding preferred stock into common stock upon completion of this offering. The pro forma consolidated balance sheet data also reflects the repayment of a $5.0 million promissory note plus accrued interest and the application of the net proceeds received in connection with the presumed exercise of a warrant. See "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Capital Stock" for further information regarding this warrant and the promissory note. The pro forma as adjusted consolidated balance sheet data summarized below reflects the application of the net proceeds from the sale of the shares of common stock offered by NetIQ at the initial public offering price of $ and after deducting the underwriting discounts and commissions and estimated offering expenses.

	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ --	$ 388	$ 7,070	$ 3,420	$15,109
Gross profit	--	333	6,428	3,058	13,683
Loss from operations	(1,006)	(2,397)	(3,373)	(3,081)	(590)
Net loss	(909)	(2,281)	(3,111)	(2,866)	(501)
Basic and diluted net loss per share	$ (1.03)	$ (1.07)	$ (0.89)	$ (0.87)	$ (0.10)
Shares used to compute basic and diluted net loss per share	881	2,122	3,496	3,299	4,993
Pro forma basic and diluted net loss per share			$ (0.21)		$ (0.03)
Shares used to compute pro forma					

basic and diluted net loss per share	14,596	16,093

March 31, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands)

Consolidated Balance Sheet Data:			
Cash and cash equivalents	$11,565	$	$
Working capital	5,076		
Total assets	17,613		
Long term obligations, less current portion	241		
Total stockholders' equity	5,971		

Risk Factors

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

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

We were founded in June 1995, and our limited operating history makes it difficult to forecast our future operating results. We have not been profitable in any quarter since inception and we incurred net losses of $0.9 million for the period from inception through June 30, 1996, $2.3 million for fiscal 1997, $3.1 million for fiscal 1998 and $0.5 million for the nine months ended March 31, 1999. As of March 31, 1999, we had an accumulated deficit of $6.8 million. We expect to continue to incur net losses in the near future and possibly longer. If we do achieve profitability in any period, we cannot be certain that we will sustain or increase such profitability on a quarterly or annual basis. For more detailed information regarding our operating results and financial condition, please see "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Although our revenue has grown very substantially in recent quarters, we do not expect our revenue to grow at such a rapid rate in the future, and our revenue could in fact decline. Any failure to increase our revenue as we implement initiatives to expand our business could materially affect our business, quarterly and annual operating results and financial condition. We anticipate that our expenses will increase substantially in the foreseeable future as we develop our technology, including continuing to integrate features of Windows NT and third-party systems, network and hardware management products with AppManager, expand our distribution channels and increase our sales and marketing activities. Moreover, these efforts may prove more expensive than we currently anticipate and we may not succeed in increasing our revenue sufficiently to offset these higher expenses.

There are many factors, including some beyond our control, that may cause fluctuations in our quarterly operating results.

Our quarterly operating results have varied substantially in the past and may vary substantially in the future depending upon a number of factors described below and elsewhere in this "Risk Factors" section of the prospectus, including many that are beyond our control. As a result, we believe that

quarter-to- quarter comparisons of our financial results are not necessarily meaningful, and you should not rely on them as an indication of our future performance. These factors include:

. Changes in demand for AppManager or for performance and availability management software solutions generally, including any changes in customer purchasing patterns relating to year 2000 concerns . Changes in demand for Windows NT-based systems and applications . Increased competition in general and any changes in our pricing policies that may result from increased competitive pressures . Varying budgeting cycles of our customers and potential customers . Varying size, timing and contractual terms of enterprise-wide orders for our products . Our ability to develop and introduce on a timely basis new or enhanced versions of our products . Potential downturns in our customers' businesses, in the domestic or international economies . Changes in the mix of revenue attributable to domestic and international sales . Software defects and other product quality problems . Changes in the mix of revenue attributable to higher-margin software license revenue as opposed to substantially lower-margin service revenue A majority of our software license revenue in any quarter depends on orders booked and shipped in the last month, weeks or days of that quarter. At the end of each quarter, we typically have either minimal or no backlog of orders for the subsequent quarter. If a large number of orders or any large, enterprise-wide orders are not placed or are deferred, our revenue in that quarter could be substantially reduced. This would materially adversely affect our operating results and financial condition.

Customer purchase patterns caused by year 2000 concerns may negatively impact sales of our products.

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

Failure to maintain and enhance our competitive position could adversely affect our business.

We may not be able to compete successfully against current and/or future competitors and such inability would materially adversely affect our business, future quarterly and annual operating results and financial condition. The market for performance and availability management software for Windows NT- based systems and applications is new, rapidly evolving and highly competitive, and we expect competition in this market to persist and intensify. New products for this market are frequently introduced and existing products are continually enhanced. Competition may also result in changes in

pricing policies by us or our competitors which could materially adversely affect our ability to sell our products and could lead to changes in our pricing policies which could materially adversely affect our profit margins. Competitors vary in size and in the depth and the breadth of the products and services that they offer. Many of our current and potential competitors have greater financial, technical, marketing, professional services and other resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products than we can. Many of these companies have an extensive customer base and broad customer relationships, including relationships with many of our current and potential customers.

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

. Providers of network and systems management framework products such as IBM, Computer Associates and Hewlett-Packard . Providers of performance and availability management solutions such as BMC Software . Customers' internal IT departments that develop or integrate system and application monitoring tools for their particular needs Future Competition. We may face competition in the future from established companies who have not previously entered the market for performance and availability management software for Windows NT-based systems and applications as well as from emerging companies. Barriers to entry in the software market are relatively low. Established companies may not only develop their own Windows NT-based system and application management solutions, but they may also acquire or establish cooperative relationships with our current competitors, including cooperative relationships between large, established companies and smaller private companies. These larger companies may be able to acquire the technology and expertise of smaller companies to penetrate our market quickly. It is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

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

In addition to Microsoft, other potential competitors may bundle their products or incorporate performance and availability management software for Windows NT-based systems and applications into existing products, including for promotional purposes. In addition, our ability to sell our products will depend, in part, on the compatibility of our products with other third party products. Certain of

these third party software developers may change their products so that they will no longer be compatible with our products. If our competitors bundled their products in this manner or made their products incompatible with ours, this could materially adversely affect our ability to sell our products and could lead to price reductions for our products which could reduce our profit margins.

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

Our ability to sell our products into new markets and to increase our product penetration into our existing markets will be impaired if we fail to significantly expand our distribution channels, and our business, future quarterly and annual operating results and financial condition will be adversely affected as a result.

Third-Party Channels. Our sales strategy requires that we establish multiple indirect marketing channels in the United States and internationally through value added resellers, or VARs, systems integrators and distributors and original equipment manufacturers, or OEMs, and that we increase the number of customers licensing our products through these channels. Moreover, our channel partners must market our products effectively and be qualified to provide timely and cost-effective customer support and service. If they are unable to do so, this could materially adversely affect our business, future quarterly and annual operating results and financial condition. Our domestic resellers order our products through Tech Data Corporation, which is currently our sole U.S. distributor. We intend to add additional U.S. and international distributors, but may not be able to do so or maintain our existing relationship with Tech Data. Sales of our AppManager products through Tech Data accounted for approximately $575,000, or 4%, of software license revenue for the nine months ended March 31, 1999. Our current agreement with Tech Data does not prevent Tech Data from selling products of other companies, including those of our our competitors, and does not require that Tech Data purchase minimum quantities of our products. Tech Data and any of our future distributors could give higher priority to the products of other companies than they give to our products. As a result, any significant reduction in sales volume to any of our current or future distribution partners could materially adversely affect our business, future quarterly and annual operating results and financial conditions. In addition, sales through these channels generally have lower costs than direct sales and any significant decrease in sales through these channels could also negatively impact our operating margins. Furthermore, our relationships with our distribution partners may not generate enough revenue to offset the significant resources used to develop these channels.

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

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

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

Performance and Availability Management Software for Windows NT. The market for performance and availability management software for Windows NT-based systems and applications may not develop or may grow more slowly than we anticipate and this could materially adversely affect our business, future quarterly and annual operating results and financial condition. The rate of acceptance of our AppManager products is dependent upon the increasing complexity of organizations' Windows NT environments as these organizations deploy additional servers and applications on this platform. Many companies have been addressing their performance and availability management needs for Windows NT-based systems and applications internally and only recently have become aware of the benefits of third-party solutions, such as our AppManager products, as their needs have become more complex. Our future financial performance will depend in large part on the continued growth in the number of businesses adopting third party performance and availability management software products and their deployment of these products on an enterprise-wide basis.

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

The delay or failure to complete sales, especially large, enterprise-wide sales, in a particular quarter or calendar year could have a materially adverse effect on our business, future quarterly and annual operating results and financial condition. We have traditionally focused sales of our products to workgroups and divisions of a customer, resulting in a sales cycle ranging between 90 and 180 days. The sales cycle associated with the purchase of our products is subject to a number of significant risks over which we have little or no control, including:

. customers' budgetary constraints and internal acceptance procedures . concerns about the introduction or announcement of our or our competitors' new products, including product announcements by Microsoft relating to Windows NT . customer requests for product enhancements Increasingly, we are focusing more of our selling effort on products for the customer's entire enterprise. However, the sales cycle for these enterprise- wide sales typically can be significantly longer than the sales cycle for smaller-sized sales. Enterprise-wide sales of our AppManager products require an extensive sales effort throughout a customer's organization because decisions to license and deploy such software generally involve the evaluation of the software by many people, in various functional and geographic areas, each often having specific and conflicting requirements. This evaluation process often requires significant efforts to educate information technology, or IT, decision-makers about the benefits of our products for the Windows NT environment.

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

Our future quarterly and annual operating results will depend in part on our ability to implement and expand operational, customer support and financial control systems and to train and manage our employees. We may not be able to augment or improve existing systems and controls or implement new systems and controls in response to future growth, if any. Any failure to manage growth could materially adversely affect our business. Our historical growth has placed, and any further growth is likely to continue to place, a significant strain on our resources. We have grown from 11 employees at June 30, 1996 to 110 employees at March 31, 1999. We have also opened 10 field sales offices and have significantly expanded our operations. We are currently implementing new financial and accounting systems and to be successful, we need to expand our other infrastructure programs, including implementing additional management information systems, improving our operating and administrative systems and controls, training new employees and maintaining close coordination among our executive, engineering, accounting, finance, marketing, sales, operations and customer support organizations. In addition, our growth has resulted, and any future growth will result, in increased responsibilities for management personnel. Managing this growth will require substantial resources that we may not have.

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

Our future success will also likely depend in large part on our ability to attract and retain experienced sales, research and development, marketing, technical assistance and management personnel. If we do not attract and retain such personnel, this could materially adversely affect our business and future quarterly and annual operating results. Competition for such personnel in the computer software industry is intense, particularly in the Silicon Valley, and in the past we have experienced difficulty in recruiting qualified personnel, especially technical and sales personnel. Moreover, we intend to expand the scope of our international operations and these plans will require us to attract experienced management, service, marketing, sales and customer support personnel for our international offices. We expect competition for qualified personnel to remain intense, and we may not succeed in attracting or retaining such personnel. In addition, new employees generally require substantial training in the use of our products, which in turn requires significant resources and management attention.

Any deterioration of our relationships with Microsoft could adversely affect our business.

Any deterioration of our relationships with Microsoft could materially adversely affect our business, future quarterly and annual operating results and financial condition. We do not have any agreements to ensure that our existing relationships with Microsoft will continue or expand. We rely on our participation in Microsoft's beta testing and feedback programs to develop our technology and enhance the features and functionality of our software. Traditionally, Microsoft has not prohibited companies who develop software that supports Microsoft operating systems from participating in such programs. However, Microsoft may prohibit us from participating in such programs in the future for competitive or other reasons. Recently, Microsoft has permitted one of our engineers to work with its Windows NT development group at its Redmond, Washington headquarters. Microsoft also contracts

for one of our engineers to provide support for Microsoft's use of our products. Additionally, we participate in certain joint marketing programs with Microsoft and count Microsoft as one of our significant customers. Microsoft is also currently distributing our AppManager WBEM product with its Windows 2000 operating server beta release, however, Microsoft is under no obligation to continue to distribute this product in the future.

We intend to expand our international operations and may encounter a number of problems in doing so.

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

Risks of International Operations. International sales represented approximately 10% of total revenue in fiscal 1998 and approximately 22% of total revenue for the nine months ended March 31, 1999. Our international revenue is attributable principally to our European operations. Our international operations are, and any expanded international operations will be, subject to a variety of risks associated with conducting business internationally, many of which are beyond our control, that could materially adversely affect our business, future quarterly and annual operating results and financial condition including the following:

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

Our industry changes rapidly due to evolving technology standards and our future success will depend on our ability to continue to meet the sophisticated needs of our customers.

Our future success will depend on our ability to address the increasingly sophisticated needs of our customers by supporting existing and emerging technologies, including technologies related to the development of the Windows NT operating system generally. If we do not enhance our products to meet these evolving needs, this could materially adversely affect our business, future quarterly and annual operating results and financial condition. We will have to develop and introduce new products and enhancements to our existing AppManager products on a timely basis to keep pace with technological developments, evolving industry standards, changing customer requirements and competitive products that may render existing products and services obsolete. In addition, because our

AppManager products are dependent upon Windows NT, we will need to continue to respond to technology advances for this operating system, including major revisions. Our position in the existing market for performance and availability management software for Windows NT-based systems and applications could be eroded rapidly by product advances. Consequently, the life cycles of our products are difficult to estimate. We expect that our product development efforts will continue to require substantial investments that we may not have the resources to make.

We may experience delays in developing our products that could adversely affect our business.

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

Our executive officers and certain key personnel are critical to our business and such officers and key personnel may not remain with NetIQ in the future.

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

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

If our current customers do not purchase additional products, this could materially adversely affect our business and future quarterly and annual operating results. Most of our current customers initially license a small portion of our products for pilot programs. In order to increase software license revenue, our sales efforts target our existing customer base to expand these customers' use of our AppManager products. Our customers may not license additional AppManager products and may not expand their use of our products. In addition, as we deploy new versions of our AppManager products or introduce new products, our current customers may not require the functionality of our new products and may not license these products. We also depend on our installed customer base for future revenue from maintenance renewal fees. The terms of our standard license arrangements provide for a one-time license fee and a prepayment of one year of software maintenance and support fees. Our maintenance agreements are renewable annually at the option of our customers but there are no minimum payment obligations or obligations to license additional software.

Errors in our products or product liability claims asserted against us could adversely affect our business.

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

In addition, we may be subject to claims for damages related to product errors in the future. A material product liability claim could materially adversely affect our business. Our license agreements with our customers typically contain provisions designed to limit exposure to potential product liability claims. Certain of our licensing agreements provide that if our products fail to perform, we will correct or issue replacement software. Our standard license also provides that we shall not be liable for indirect or consequential damages caused by the failure of our products. Such limitation of liability provisions, however, may not be effective under the laws of certain jurisdictions to the extent local laws treat certain warranty exclusions as unenforceable. Although we have not experienced any product liability claims to date, the sale and support of our products entails the risk of such claims. In particular, issues relating to year 2000 compliance have increased awareness of the potential adverse effects of software defects and malfunctions.

Potential year 2000 problems with our software, third party equipment or our internal operating systems could adversely affect our business.

If any of our licensees experience year 2000 problems as a result of their use of our AppManager products, they could assert claims for damages which, if successful, could materially adversely affect our business, future operating results and financial condition. While we currently believe that our software products are generally year 2000 compliant, we may learn that certain of our software products do not contain all necessary software routines and codes necessary for the accurate calculation, display, storage and manipulation of data involving dates. In addition, in certain cases, we have warranted that the use or occurrence of dates on or after January 1, 2000, will not adversely affect the performance of our products with respect to four digit date dependent data or the ability to create, store, process and output information related to such data. In addition, we use third-party equipment and software that may not be year 2000 compliant. If this third-party equipment or software does not operate properly with regard to the year 2000, we may incur unexpected expenses to remedy any problems that could

materially adversely affect our business. Moreover, if our key systems, or a significant number of our systems, were to fail as a result of year 2000 problems, we could incur substantial costs and disruption of our business. For a more detailed description of our year 2000 preparedness assessment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Compliance."

We rely heavily on our intellectual property rights, and if we cannot protect our intellectual property rights, this could adversely affect our business.

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

Third parties in the future could assert that our products infringe their intellectual property rights, which could adversely affect our business.

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

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

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

Fluctuations in the value of foreign currencies could result in currency translation losses.

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

Because we license certain of our technology from a third party, any failure to maintain satisfactory licensing arrangements with this party could adversely affect our business.

We license certain technology that is incorporated in certain of our AppManager products from Summit Software on a non-exclusive, worldwide basis. Substantially all of our AppManager products rely on this Summit technology. Although our agreement allows us to continue to sell products using the Summit technology for a period of 24 months after the license terminates, our business, operating results and financial condition could be affected if we are not able to replace this technology on commercially reasonable terms. We license this technology on a year-to-year basis which is automatically renewed each August unless otherwise terminated. Our license for this technology is terminable by Summit upon 60 days notice in the event certain conditions occur, including our failure to pay royalty fees on a timely basis or any other material breach by us of the license agreement. For a further description of our license agreement with Summit, see "Business--Intellectual Property."

Provisions in our charter documents and in Delaware law may inhibit potential acquisition bids for NetIQ and prevent changes in our management.

Certain provisions of our charter documents could discourage potential acquisition proposals and could delay or prevent a change in control transaction. These provisions could have the effect of discouraging others from making tender offers for our shares, and as a result, these provisions may prevent the market price of our common stock from reflecting the effects of actual or rumored takeover attempts. These provisions may also prevent changes in our management. Our charter documents do not permit stockholders to act by written consent, do not permit stockholders to call a stockholders meeting and provide for a classified board of directors, which means stockholders can only elect, or remove, a limited number of our directors in any given year. Furthermore, upon completion of the offering, our board of directors will have the authority to issue up to 5,000,000 shares of preferred stock in one or more series. Our board of directors can fix the price, rights, preferences, privileges and restrictions of such preferred stock without any further vote or action by our stockholders. The

issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. In addition, certain provisions of Delaware law may inhibit potential acquisition bids for NetIQ. We are subject to the antitakeover provisions of Delaware law, which regulates corporate acquisitions. Delaware law prevents certain Delaware corporations, including NetIQ, from engaging, under certain circumstances, in a "business combination" with any "interested stockholder" for three years following the date that such stockholder became an interested stockholder. For a further discussion of these charter provisions and Delaware law, see "Description of Capital Stock."

The substantial number of shares that will be eligible for sale in the near future may adversely affect the market price for our common stock.

Sales of a substantial number of shares of our common stock in the public market following this offering could materially adversely affect the market price for our common stock. The number of shares of common stock available for sale in the public market is limited by restrictions under federal securities law and under certain agreements that our stockholders have entered into with the underwriters or with us. Those agreements restrict our stockholders from selling, pledging or otherwise disposing of their shares for a period of 180 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston Corporation. However, Credit Suisse First Boston Corporation may, in its sole discretion, release all or any portion of the common stock from the restrictions of the lockup agreements. Credit Suisse First Boston Corporation has no current plans to do so. Based on the 17,016,493 shares of our common stock outstanding as of March 31, 1999, which excludes the shares issuable upon the presumed exercise of the warrant held by Compuware, and the shares being sold by us in this offering, as a result of the restrictions of federal securities law and the agreements our stockholders have entered into with the underwriters or with us, no shares other than the shares offered hereby will be eligible for sale immediately after completion of this offering. The following table indicates approximately when the shares of our common stock that are not being sold in the offering but which will be outstanding at the time the offering is complete will be eligible for sale into the public market:

Eligibility of Restricted Shares for Sale in Public Market At effective date..... 0 180 days after effective date..... At various times after the effective date.....

The shares issuable upon the presumed exercise of the warrant held by Compuware will become eligible for sales after 180 days after the effective date. Many of the restricted shares that will become eligible for sale at the 180th date after the date of this prospectus or afterward will be subject to certain volume limitations because they are held by affiliates of NetIQ. Additionally, of the shares issuable upon exercise of options to purchase our common stock outstanding as of March 31, 1999, approximately shares will be vested and eligible for sale on the 180th date following the completion of this offering. For a further description of the eligibility of shares for sale into the public market following the offering see "Shares Eligible for Future Sale."

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

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

Our stock will likely be subject to substantial price and volume fluctuations due to a number of factors, some of which are beyond our control.

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

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

We will have broad discretion as to the use of the proceeds from this offering and we may not invest these proceeds to yield a significant return. Our primary purposes for this offering are to create a public market for our common stock and to raise working capital for general corporate purposes, the repayment of an outstanding loan from Compuware and potential strategic investments or acquisitions. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Until the need arises to use the proceeds, we plan to invest the net proceeds in investment grade, interest-bearing securities.

Forward-looking Statements

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

cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors."

Use of Proceeds

```
  We will receive net proceeds of $         from the sale of          shares of
common stock at an assumed initial public offering price of $     per share
after deducting underwriting commissions and discounts of $         and
expenses of $        .
```

The principal purposes of this offering are to create a public market for our common stock and to raise working capital. Additionally, we will use approximately $5.0 million of the net proceeds to satisfy certain outstanding loan obligations to Compuware. Moreover, we may use certain of the proceeds of the offering for potential strategic investments or acquisitions that complement our products, services, technologies or distribution channels. However, we do not currently have any plans to make any such strategic investments or acquisitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Pending such uses, we intend to invest the net proceeds of the initial public offering in investment grade, interest-bearing securities.

Dividend Policy

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

Capitalization

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

. actual . on a pro forma basis to reflect the automatic conversion of all outstanding preferred stock into common stock, the repayment of a $5.0 million promissory note and the presumed exercise of a warrant upon completion of this offering, and to show the effects of increases in the number of authorized shares of common stock and preferred stock upon completion of this offering . on a pro forma as adjusted basis to show the effect of our receipt of the estimated net proceeds from the sale of shares of common stock offered at an assumed initial public offering price of $ per share and the application of the net proceeds therefrom As indicated above, the pro forma capitalization information reflects the repayment of a $5.0 million promissory note plus accrued interest and the receipt of net proceeds in connection with the presumed exercise of a warrant at a exercise price of $ per share, which promissory note and warrant were issued to Compuware as part of the settlement agreement relating to litigation involving Compuware. Under the terms of the warrant, the per share exercise price is equal to 90% of the per share sales price of shares of common stock sold in this offering. For further information regarding this warrant and for more information regarding the repayment of the

promissory note and of accrued interest thereon which is payable upon completion of the initial public offering contemplated by this prospectus, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview" and "Description of Capital Stock."

The outstanding share information excludes 4,270,007 shares of common stock that were reserved for issuance upon exercise of stock options under the 1995 Stock Plan as of March 31, 1999, of which options to purchase 3,172,106 shares were outstanding at such date at a per share weighted average exercise price of $0.51. In addition, in connection with this offering, our board of directors has approved an increase of 2,050,000 shares to be reserved under the 1995 Stock Plan and 750,000 shares to be reserved under the 1999 Employee Stock Purchase Plan.

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

March 31, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands) Current portion of long-term obligations..... $ 5,144 Long-term obligations, less current portion..... 241 Stockholders' equity: Preferred Stock, $0.001 par value, 11,100,000 shares authorized and outstanding, actual; 5,000,000 shares authorized, no shares outstanding, pro forma; 5,000,000 shares authorized, no shares outstanding, pro forma as adjusted..... 10,955 -- -- Common Stock, $0.001 par value, 30,000,000 shares authorized, 5,916,493 shares outstanding, actual; 150,000,000 shares authorized, shares outstanding, pro forma; 150,000,000 shares authorized, shares outstanding, pro forma as adjusted..... 4,143 Deferred stock-based compensation..... (2,325) Accumulated deficit..... (6,802) Total stockholders' equity..... 5,971 Total capitalization..... $11,356

Dilution

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

Assumed public offering price per share..... $ Pro forma net tangible book value per share as of March 31, 1999..... Increase attributable to new investors..... Pro forma net tangible book value per share after offering..... Dilution per share to new investors..... $ The following table sets forth, on a pro forma basis as of March 31, 1999, the differences between the number of shares of common stock purchased, the total consideration paid and the average price per share paid by existing holders of common stock and by the new investors, before deducting underwriting discounts and commissions and estimated offering expenses payable by NetIQ, at an assumed public offering price of $ per share.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders.....		%	$	%	$
New investors.....					
Total.....		100.0%		100.0%	

To the extent that any shares are issued upon exercise of options that were outstanding at March 31, 1999 or granted after that date, or reserved for future issuance under our stock plans, there will be further dilution to new investors. See "Management--Incentive Stock Plans," "Description of Capital Stock" and Notes 5 and 13 of Notes to Consolidated Financial Statements.

Selected Consolidated Financial Data

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

	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue:					
Software license.....	$ --	$ 369	$ 6,603	$ 3,186	$13,137

Service	--	19	467	234	1,972
Total revenue	--	388	7,070	3,420	15,109
Cost of revenue:					
Software license	--	9	235	159	532
Service	--	46	407	203	894
Total cost of revenue	--	55	642	362	1,426
Gross profit	--	333	6,428	3,058	13,683
Operating expenses:					
Sales and marketing	77	1,238	5,748	3,600	8,027
Research and development	665	1,003	2,192	1,462	2,652
General and administrative	264	479	1,611	994	2,239
Stock-based compensation	--	10	250	83	1,355
Total operating expenses	1,006	2,730	9,801	6,139	14,273
Loss from operations	(1,006)	(2,397)	(3,373)	(3,081)	(590)
Interest income, net	97	116	262	215	89
Net loss	$ (909)	$(2,281)	$(3,111)	$(2,866)	$ (501)
Basic and diluted net loss per share(1)	$ (1.03)	$ (1.07)	$ (0.89)	$ (0.87)	$ (0.10)
Shares used to compute basic and diluted net loss per share(1)	881	2,122	3,496	3,299	4,993
Pro forma basic and diluted net loss per share(2)			$ (0.21)		$ (0.03)
Shares used to compute pro forma basic and diluted net loss per share(2)			14,596		16,093

June 30, ---------- March 31, 1996 1997 1998 1999 (in thousands)

Consolidated Balance Sheet Data:				
Cash and cash equivalents	$ 32	$7,748	$3,358	$11,565
Working capital	1,755	7,493	4,314	5,076
Total assets	2,255	8,202	8,205	17,613
Long-term obligations, less current portion	--	--	--	241
Total stockholders' equity	1,880	7,787	4,939	5,971

(1) See Note 6 to the Consolidated Financial Statements for the determination of shares used in computing basic and diluted net loss per share.

(2) See Note 1 to the Consolidated Financial Statements for the determination of shares used in computing pro forma basic and diluted net loss per share.

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

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

Overview

We develop, market and support a suite of software products, the NetIQ AppManager Suite, that centrally manages the performance and availability of distributed Windows NT-based systems and applications. Utilizing a centralized console with automated monitoring, correction and reporting capabilities, our products help optimize the performance and availability of business-critical Windows NT systems and applications and reduce associated support costs.

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

Operating expenses grew from $1.0 million in fiscal 1996, to $2.7 million in fiscal 1997, to $9.8 million in fiscal 1998 and to $14.3 million in the nine months ended March 31, 1999. Our operating expenses increased as we expanded our operations, including growing our employee base from 11 at June 30, 1996, to 110 at March 31, 1999. Our operating expenses, which include charges for stock-based compensation, together with cost of revenue have exceeded revenue in every quarter since inception. This was the result of our strategy to make the investments necessary to capture market share and grow revenue as quickly as possible, while maintaining a high level of fiscal control, product quality and customer satisfaction. Our cumulative losses have resulted in an accumulated deficit in retained earnings of $6.8 million at March 31, 1999.

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

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

22% of total revenue in the nine months ended March 31, 1999. We anticipate that as we expand our international sales efforts, the percentage of revenue derived from international sources will continue to increase.

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

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

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

In September 1996, Compuware Corporation filed a complaint against us alleging misappropriation of certain trade secrets, copyright infringement, unfair competition and other claims. We reached a settlement of these claims in January 1999 and final documentation was entered into and the claims dismissed in March 1999. As part of the settlement in March 1999, Compuware loaned us $5.0 million, subordinated to any bank credit facility, with interest at 6% per year. This loan, including all accrued interest, is payable upon the closing of this offering. Additionally, as part of the settlement in March 1999, we issued Compuware a warrant to purchase shares of common stock. Under the terms of the warrant, the per share exercise price of the warrant is $, 90% of the per share sale price of shares sold to investors in this offering. The warrant provides that Compuware can purchase up to a maximum number of shares equal to the lesser of 10% of the shares sold in this offering or 2% of our common stock assuming exercise of all outstanding options as of May 26, 1999. A portion of the net proceeds from the offering contemplated by this prospectus will be used to repay the loan and the accrued interest thereon, which repayment we expect will be substantially offset by the receipt of cash proceeds from Compuware upon the presumed exercise of the warrant. Additionally, as part of our settlement agreement, we agreed not to recruit personnel from Compuware until after December 31, 1999, or release any systems management software for managing UNIX systems on or before December 31, 1999.

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

Percentage of Total Revenue			
Year Ended June 30,		Nine Months Ended March 31,	
1997	1998	1998	1999

Consolidated Statement of Operations Data				
Revenue:				
Software license	95%	93%	93%	87%
Service	5	7	7	13
Total revenue	100	100	100	100
Cost of revenue:				
Software license	2	3	5	3
Service	12	6	6	6
Total cost of revenue	14	9	11	9
Operating expenses:				
Sales and marketing	319	81	105	53
Research and development	259	31	43	18
General and administrative	123	23	29	15
Stock-based compensation	3	4	2	9
Total operating expenses	704	139	179	95
Loss from operations	(618)	(48)	(90)	(4)
Interest income, net	30	4	6	1
Net loss	(588)%	(44)%	(84)%	(3)%
Cost of software license revenue, as a percentage of software license revenue	2 %	4 %	5 %	4 %
Cost of service revenue, as a percentage of service revenue	242 %	87 %	87 %	45 %

Comparison of Nine Months Ended March 31, 1998 and 1999 Revenue Our total revenue increased from $3.4 million in the nine months ended March 31, 1998 to $15.1 million in the nine months ended March 31, 1999, representing growth of 342%. During this same period, our software license revenue increased from $3.2 million to $13.1 million, representing growth of 312%. These increases were due primarily to increases in the number of software licenses sold, reflecting increased acceptance of our AppManager products and expansion of our field and inside sales organizations and our third-party channel partners. Service revenue increased from $234,000 in the nine months ended March 31, 1998 to $2.0 million in the nine months ended March 31, 1999, representing growth of 743%. This increase was due primarily to maintenance fees associated with new software licenses as well as annual maintenance renewals. Service revenue increased as a percentage of total revenue due to the compounding effect of our base of installed licenses.

Cost of Revenue

Cost of Software License Revenue. Our cost of software license revenue includes the costs associated with software packaging, documentation, such as user manuals and CDs, and production, as well as non-employee commissions and royalties. Our cost of software license revenue has increased from $159,000, or 5% of software license revenue, in the nine months ended March 31, 1998 to $532,000, or 4% of software license revenue, in the nine months ended March 31, 1999. The increase in absolute dollar amount was due principally to increases in the number of software licenses sold, while the percentage decline was due to increases in sales of the AppManager Suite which do not have non-employee commissions and/or royalty obligations.

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

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

Operating Expenses

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

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

General and Administrative. Our general and administrative expenses consist primarily of personnel costs for finance and administration, information systems and human resources, as well as professional expenses such as legal and accounting. General and administrative expenses increased from $1.0 million in the nine months ended March 31, 1998 to $2.2 million in the nine months ended March 31,

1999, representing 29% and 15% of total revenues, respectively. The increase in dollar amount was due primarily to increased staffing necessary to manage and support our growth. Legal expenses have been a significant cost in both periods, amounting to $458,000 and $897,000 for the nine months ended March 31, 1998 and 1999, respectively. These legal costs have principally been due to the Compuware litigation, for which a settlement was reached in January 1999 and final documentation was entered into and the claims dismissed in March 1999. The decrease in general and administrative expense as a percentage of total revenue was due primarily to the growth in total revenue. We believe that our general and administrative expenses will increase in absolute dollars as we expand our administrative staff, add new financial and accounting software systems, and incur additional costs related to being a public company, such as expenses related to directors' and officers' liability insurance, investor relations and stock administration programs and increased professional fees. Additionally we anticipate that we will incur additional general and administrative expenses of approximately $ in the quarter ending September 30, 1999, relating to the assumed exercise of the warrant to purchase common stock issued in connection with the Compuware litigation settlement agreement.

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

Interest Income, Net. Interest income, net represents interest income earned on our cash and cash equivalent balances and interest expense on our equipment loans and loan subordinated to our bank line of credit. For the nine months ended March 31, 1998 and 1999, interest and other income, net, was $215,000 and $89,000, respectively. The decline in interest income, net is the result primarily of lower cash and cash equivalent balances in the 1999 period, coupled with interest on the $5.0 million subordinated debt, commencing in the quarter ended March 31, 1999. The subordinated loan is expected to be repaid from the proceeds of the public offering. See "--Liquidity and Capital Resources."

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

Comparison of Fiscal Years Ended June 30, 1996, 1997 and 1998 The trends discussed in the comparisons of operating results for the nine months ending March 31, 1998 and 1999, generally apply to the comparison of results of operation for fiscal 1996, 1997 and 1998, except for certain differences discussed below.

Revenue

We did not recognize any revenue in fiscal 1996. We began selling software licenses for the AppManager Suite in February 1997, and our software license revenue increased from $369,000 in fiscal 1997 to $6.6 million in fiscal 1998. Service revenue increased from $19,000 in fiscal 1997 to $467,000 in fiscal 1998, principally from increases in new customer licenses.

Cost of Revenue

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

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

Operating Expenses

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

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

General and Administrative. General and administrative expenses increased from $264,000 in fiscal 1996, to $479,000 in fiscal 1997 and to $1.6 million in fiscal 1998. These costs, which represented 123% of total revenue in fiscal 1997 and 23% of total revenue in 1998, were the result of increases in personnel, facility-related costs and legal expenses. Legal expenses, were $173,000 in fiscal 1997 and $762,000 in fiscal 1998, and related principally to the Compuware litigation that commenced in September 1996 for which a settlement was reached in January 1999 and final documentation was entered into and the claims dismissed in March 1999. The decrease as a percentage of total revenue was the result of growth in our total revenue.

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

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

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

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

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

Total cost of revenue	7	9	15	8	6	10	11
Gross margin	93	91	85	92	94	90	89
Operating expenses:							
Sales and marketing	163	78	114	59	52	56	16
Research and development	76	32	42	20	22	16	52
General and administrative	47	20	30	16	13	14	16
Stock-based compensation	0	0	6	5	9	13	6
Total operating expenses	286	130	192	100	96	99	90
Loss from operations	(193)	(39)	(107)	(8)	(2)	(9)	(1)
Interest income, net	16	4	4	1	1	1	1
Net loss	(177)%	(35)%	(103)%	(7)%	(1)%	(8)%	(0)%
Cost of software license revenue, as a percentage of software license revenue	3%	5%	6%	2%	2%	3%	6%
Cost of service revenue, as a percentage of service revenue	87%	87%	87%	88%	39%	61%	37%

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

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

Cost of software license revenue ranged from 2% to 6% of related software license revenue during the seven quarters ended March 31, 1999, as a result of the timing of the purchase of user manuals, packaging materials and CDs, which are expensed when purchased in volume. Cost of service revenue was approximately 87% of related service revenue in each of the four quarters ended June 30, 1998 due to a constant estimate of effort applied to generating that revenue. Cost of service revenue declined in fiscal 1999 as a percentage of total revenue due primarily to economies of scale achieved as our revenue and installed base grew. During the quarter ended December 31, 1998, we incurred a one-time charge of $131,000 relating to a special consulting project for one customer. Excluding this one-time charge, the cost of service revenue as a percentage of service revenue would have been 40% for that quarter.

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

resources to product development and expansion of our sales and marketing efforts, and expect that total operating expenses to increase in absolute dollars in future periods, although the percentage of revenue will vary depending on the level of revenue.

We have experienced some seasonality of buying patterns in certain of our markets resulting in generally higher orders in the quarters ended December 31 and June 30 and we expect these seasonal trends to continue for the foreseeable future. See "Risk Factors--Seasonal trends in sales of our software products may affect our quarterly operating results."

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

In June 1998, FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedge accounting when certain conditions are met. SFAS No. 133 is effective for us in fiscal 2000. Although we have not fully assessed the implications of SFAS No. 133, we do not believe that adoption of this statement will have a material impact on our financial position, results of operations or cash flows.

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

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

Our operating activities resulted in net cash outflows of $834,000, $2.0 million and $3.9 million in fiscal 1996, 1997 and 1998, respectively. Sources of cash during these periods were principally from increases in deferred revenue, accrued compensation and other liabilities. Uses of cash in these periods were principally from net losses and increases in accounts receivable. In the nine months ended March 31, 1999, our operating activities provided positive cash flow of $3.4 million derived principally from increases in deferred revenue and stock-based compensation.

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

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

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

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

We believe that the net proceeds from this offering, together with our cash balances and cash flow generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Thereafter, we may require additional funds to support our working capital requirements, or for other purposes, and may seek to raise such additional funds through public or private equity financings or from other sources. We may not be able to obtain adequate or favorable financing at that time. Any financing we obtain may dilute your ownership interests. A portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we may evaluate potential acquisitions of businesses, products or technologies. We have no current plans, agreements or commitments, and are not currently engaged in any negotiations with respect to any such transaction.

Year 2000 Compliance

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

Our Products

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

Our State of Readiness Our business depends on the operation of numerous systems that could potentially be impacted by year 2000 related problems. The systems include: computer and communications hardware and software systems used to deliver our software enabling keys and allow our customers and employees to download product documentation and Knowledge Scripts; communications networks such as the Internet and private intranets; the internal systems of our customers and suppliers; the computer and communications hardware and software systems we use internally in the management of our business; and non-information technology systems and services we use to manage our business, such as telephone, security and building management systems.

Based on an analysis of all systems potentially impacted by conducting business in the year 2000 and beyond, we are pursuing a phased approach to making such systems, and accordingly our operations, ready for the year 2000. Beyond awareness of the issues and scope of systems involved, the phases of activities in progress include: an assessment of specific underlying computer and communications systems, programs and/or hardware; remediation or replacement of year 2000 non-compliant technology; validation and testing of technologically-compliant year 2000 solutions; and implementation of year 2000 compliant systems.

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

Impacted Systems	Status	Targeted Implementation
Hardware and software systems used to deliver services	Systems upgraded or replaced as appropriate, conducting validation and testing	July 31, 1999
Hardware and software systems used to manage our business	Systems upgraded or replaced as appropriate, conducting validation and testing	July 31, 1999
Communication networks	Assessment completed,	September 30, 1999

used to provide services	conducting validation and testing	
Operability with internal systems of customers and suppliers	Assessment completed, conducting validation and testing	September 30, 1999
Non-information technology systems and services	Assessment completed, remediation underway, conducting validation and testing	September 30, 1999

Inoperability of such services due to year 2000 issues could harm our business. We have completed our assessment of the underlying systems and hardware. Certain components have been replaced, and we are conducting validation and testing.

Costs to Address Year 2000 Issues To date, we have not incurred any material costs directly associated with our year 2000 compliance efforts, except for compensation expense associated with our salaried employees who have devoted some of their time to our year 2000 assessment and remediation efforts. We do not expect the total cost of year 2000 problems to be material to our business, financial condition and operating results. We would have incurred the replacement cost of non-information technology systems regardless of the year 2000 issue due to technology obsolescence and/or our growth. We have and will continue to expense all costs arising from year 2000 issues, funding them from working capital.

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

See "Risk Factors--Potential year 2000 problems with our software, third party equipment or our internal operating systems could adversely affect our business."

Contingency Plans

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

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

results and financial condition. In addition, year 2000 compliance issues also could cause a significant number of companies, including our current customers, to reevaluate their current system needs and, as a result, consider switching to other systems and suppliers.

Business

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

NetIQ Overview

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

Our products are used by organizations in a wide variety of industries and computing environments. As of March 31, 1999, we licensed our AppManager products to more than 375 customers, including AT&T, Charles Schwab & Co., Countrywide Home Loans, Dell Computer, EDS, General Electric, Georgia-Pacific, Glaxo Wellcome, MCI, Microsoft, Nasdaq, NationsBank, Nordstrom Information Systems, Pfizer, Salomon Smith Barney, Shell Services International, Southern Company Services, the Department of Veterans Affairs and Wells Fargo Bank, N.A.

Industry Background

The Windows NT operating system is a leading platform for distributed computing. According to International Data Corporation, or IDC, a leading IT research firm, the market for Windows NT-based servers will grow from 1.3 million servers in 1998, or 32% of all server operating systems shipped in that year, to an estimated 3.3 million servers by 2003, or 51% of server operating systems shipped in that year. The growth of Windows NT has been driven by the use of this platform for applications that are increasingly business-critical such as electronic messaging, Internet, group collaboration and database applications. For example, organizations are increasingly deploying electronic mail servers over the Windows NT platform. According to IDC, the worldwide market for all new electronic mail

server software, for example Microsoft Exchange and Lotus Domino/Notes, will grow from 698,000 servers in 1998 to 868,000 servers in 2001. In addition, IDC also estimates that the percentage of electronic server software deployed on Windows NT will grow from approximately 43% in 1998 to approximately 65% in 2001. Because of their business-critical nature, Windows NT-based systems and applications require high performance and availability standards, including around-the-clock uptime.

The growth and deployment of Windows NT-based systems and applications in distributed computing and Internet environments have created a number of unique performance and application management challenges. These challenges range from basic tasks such as monitoring CPU utilization and memory and disk-space availability to tasks as complex as monitoring Internet traffic and e-mail response times or identifying specific database commands that are creating bottlenecks for system performance. The consequences of failing to meet these challenges are particularly high because of the business-critical nature of the applications being deployed on Windows NT. Moreover, the manner in which organizations are deploying these systems and applications can increase the likelihood of system failure. According to the Gartner Group, an industry research firm, in a survey of more than 100 companies, Windows NT-specific issues created an average of 224.5 hours of unscheduled downtime per machine per year, as compared to UNIX system-specific issues which averaged 23.6 hours of downtown and AS/400 system-specific issues which averaged 5.2 hours of downtime.

A new and rapidly growing market has emerged to address the performance and availability management challenges created by the evolution of enterprise distributed computing on the Windows NT platform. The goal of performance and availability management solutions is to ensure the availability of distributed computing resources and to optimize the performance of these resources through automated monitoring, correction and reporting procedures. According to IDC, the Windows NT-based systems management market is expected to grow from $1.2 billion in 1997 to $2.8 billion by 2002. Furthermore, IDC estimates that the distributed performance and availability management market, including Windows NT and other platforms, is expected to grow from $774 million in 1997 to $2.2 billion by 2002.

We believe that traditional systems management solutions have not been able to adequately address the unique challenges of the complex deployment of systems and applications within the Windows NT environment. Among these traditional systems management solutions are "framework" products that attempt to address all aspects of system and application management problems across multiple platforms, such as Windows NT, UNIX and AS/400, with a single product suite. According to the Gartner Group, these framework products have generally performed poorly, have been difficult to implement and Gartner Group estimates that 36 months after purchase, 70% of enterprise management framework implementations fail to be fully and successfully implemented and utilized. UNIX-based systems management vendors have attempted to modify their UNIX-based platforms to address specific systems and application management needs for Windows NT. In addition, because these framework and UNIX-based systems management solutions have not been designed specifically for the Windows NT platform, they often are not easy to use because they do not incorporate the "look and feel" of Windows NT. Furthermore, many of these systems management solutions offer only limited reporting functions and utilize a two-tier architecture that does not scale well as organizations

incrementally roll out more Windows NT servers in across their computing enterprises. Because of their limitations, framework and UNIX-based system management solutions often require extensive and costly customization, long deployment times and significant ongoing support, thereby increasing organizations' total cost of ownership.

The unique challenges for managing Windows NT-based systems and applications have created the need for best-of-breed, Windows NT-based system management solutions. We believe a complete performance and availability management software solution for the distributed Windows NT environment must incorporate the following characteristics:

. Comprehensive breadth and depth of performance and availability management capabilities optimized for the Windows NT environment . Familiar "look and feel" of Microsoft Windows NT-based products that IT professionals can easily adopt and use . Advanced, scalable multi-tier architecture that supports rapid growth in the number of servers and applications deployed on the Windows NT platform with centralized access and control . Rapid deployment capabilities and low maintenance costs that result in improved return on investment . Close integration with other systems, network and hardware management solutions The NetIQ Solution Our AppManager products provide a comprehensive solution for centrally managing the performance of organizations' Windows NT environments. Utilizing a centralized console with automated monitoring, correction and reporting capabilities, our products help optimize the performance and availability of business-critical Windows NT systems and applications and reduce associated support costs. Key features of our solution include:

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

Utilizes and Builds Upon Microsoft Technology and Standards AppManager utilizes and builds upon leading Microsoft technologies and standards, protocols and application programming interfaces. As a result, AppManager looks, feels and operates in the same manner as Microsoft Windows NT products, helping IT professionals adopt and use AppManager more easily than system management solutions that have been ported from non-Windows platforms. Furthermore, as new and emerging Windows NT standards and product features develop, we will incorporate these standards and features into AppManager.

Multi-Tier, Scalable Architecture; Centralized Control AppManager's multi-tier architecture scales easily as organizations increase their deployment of Windows NT servers and Windows NT-based applications. Many of our customers gradually adopt and roll-out Windows NT throughout their enterprise on a server-by-server basis, and deploy additional Windows NT-based applications on an

application-by-application basis. As customers increase their use of Windows NT-based systems and applications, our scalable architecture accommodates this growth and continues to enable IT professionals to manage their server base from a centralized console.

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

Open Architecture that Integrates with Existing System, Network and Hardware Management Products Since many of our customers have made significant investments in legacy system and network management applications, we have designed our products to integrate closely with these solutions. We have developed "connectors" that integrate with leading enterprise management framework products by sharing performance and event information. In addition, because many organizations have purchased Windows NT servers from multiple hardware vendors, AppManager includes product modules that integrate with hardware management tools to monitor the status and performance of the hardware underlying Windows NT systems.

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

Strategy

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

Enhancing Position as a Leading Provider of Windows NT Performance and Availability Management Solutions We intend to strengthen our technology leadership position in the Windows NT performance and availability management software market by continuing to focus on managing business-critical electronic messaging, Internet, group collaboration and database applications. We intend to enhance our comprehensive solutions by offering broader "out-of-the box" functionality and closer integration with third party system, network and hardware management products. We also intend to continue to introduce additional AppManager modules for managing additional business-critical applications such as Microsoft's Commerce Server.

Target Enterprise-wide Deployment within Existing Customer Base As of March 31, 1999, we licensed our products to over 375 customers across a broad range of industries. A number of our customers initially deploy AppManager on a departmental basis or for managing particular Windows NT-based systems or applications. We have focused and will continue to focus on expanding existing customers' use of AppManager to an enterprise-wide deployment managing multiple business-critical applications.

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

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

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

Products and Technology We develop, market and support the NetIQ AppManager Suite, a leading performance and availability management software solution for distributed Windows NT environments. AppManager's automated monitoring, correction and reporting features help IT professionals optimize the performance and increase the availability of their Windows NT-based systems and electronic messaging, Internet and database applications, while reducing associated support costs. Additionally, AppManager can monitor the status and performance of the hardware underlying Windows NT systems. By using our AppManager connector integration products, IT professionals can use AppManager with system and network management framework products to share performance and event information. The following diagram illustrates how AppManager enables IT professionals to comprehensively manage business-critical applications, underlying operating systems and hardware platforms in their Windows NT environment from a central console.

NetIQ's Comprehensive Approach to Managing Windows NT Environments [Graphic depiction of the interface between the company's product, the applications, the Windows NT operating system and hardware platforms.]

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

Server or Product Category	NetIQ Products (Year Introduced)	Representative Functionality
Windows NT Operating Systems	AppManager for . Microsoft Windows NT (1996) . Microsoft Cluster Server (1997) . Windows NT Server, Terminal Server Edition (1998) . Citrix WinFrame (1998) . Microsoft Windows Load Balance Service (1999)	. Identifies CPU bottlenecks and terminates runaway processes . Checks if key services are down and auto-starts . Tracks disk space utilization . Determines if running low on DHCP leases . Resets terminal server session . Reboots downed Windows NT server
Messaging Servers	AppManager for . Microsoft Exchange Server (1996) . Lotus Domino/Notes (1997) . Microsoft Message Queue Server (1997)	. Monitors e-mail connectivity and response time . Reports on e-mail traffic flow .Identifies top senders and receivers of e-mail . Monitors e-mail space usage
Internet/Web Servers	AppManager for . Microsoft Internet Information Server (1996) . Microsoft Commercial Internet System News Server (1997) . Microsoft Proxy Server (1998) . Microsoft Site Server (1999) . Microsoft Site Server, Commerce Edition (1999)	. Monitors connection to URLs . Examines contents of URLs and checks for changes . Monitors the availability of a web server . Displays HTTP connections . Detects unauthorized login attempts .Detects if an Internet port or IP address can be accessed
Database Servers	AppManager for . Microsoft SQL Server (1996) . Microsoft Transaction Server (1997) . Oracle (1998)	. Identifies SQL statements utilizing most amount of system resources . Monitors database space usage . Tracks locking conditions .Truncates transaction log if running out of space
Hardware	AppManager for	. Monitors computer

Management Tools	. Compaq Insight Manager (1997) . HP TopTools for Servers (1998) . Dell OpenManage (1998) . NEC ESMPro* (1998) . IBM NetFinity (1999)	temperature . Detects if UPS battery is running low .Reports error status of network interface cards . Monitors system voltage .Tracks asset information such as serial numbers
Third-Party Tools	AppManager for . Microsoft Systems Management Server (1996) . Microsoft SNA Server (1999) . CA ARCServe (1999) . Seagate Backup Exec (1999)	.Detects if software distribution has failed . Checks status of tool's services and auto-restart . Monitors SNA connections . Determines if backup job has failed
"Connector" to Management Frameworks	AppManager Connector for . Tivoli Enterprise (1998) . CA Unicenter TNG (1998) . HP OpenView Network Node Manager (1998)	. Receives events from AppManager . Invokes AppManager console from within framework . Distributes AppManager software
Console Products	AppManager for . Operator Console (1996) . Developer Console (1996) . Web Access Console (1997)	. Views and acknowledges events . Generates service level agreement reports . Edits pre-defined Knowledge Scripts . Displays performance metrics

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

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

Native Windows NT Implementation AppManager uses standard Microsoft technology such as Visual Basic for Applications scripting, the Microsoft COM object model and SQL Server. As a result, AppManager looks, feels and operates the same as Microsoft products. Our use of widely accepted Microsoft standards also makes our AppManager products easy to customize and implement in a customer's existing IT environment. We intend to continue to support new Microsoft technology, including emerging Windows 2000-based technologies such as Active Directory and Windows Management Instrumentation, a component of Microsoft's Web-based Enterprise Management initiative, or WBEM.

A Scaleable and Open Architecture AppManager's advanced multi-tier architecture is scalable and includes an exception-based communication mechanism that minimizes network traffic and intelligent management agents that can continue to monitor systems and applications regardless of the status of the network connection. AppManager also offers IT professionals the flexibility to work from a robust Web-based interface to start and stop monitoring jobs and view performance and event data.

AppManager's architecture is comprised of the following components:

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

The following graphic illustrates the relationships among these components:

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

Customers

As of March 31, 1999, we licensed our AppManager products to more than 375 customers. The following is a representative list of our customers that have purchased at least $100,000 in software licenses and services since the beginning of fiscal 1998:

Government

Utilities/Energy

Defense Intelligence Agency	Exxon Computing Services
Department of Veterans Affairs	Fina Oil and Chemical Company
Ministere Emploi et Solidarite	Koch Industries
US Postal Inspection Service	

Shell Services International Financial Services Southern Company Services Williams Information Services Charles Schwab & Co. Manufacturing/Distribution

Dresdner Bank AG	
Great West Life & Annuity Insurance	Aluminum Company of America
JC Bradford & Co.	General Electric
NationsBank/Bank of America	Georgia-Pacific

Northern Trust Pharmaceuticals/Health Care

Safeco Insurance Companies	Baptist Memorial Hospital
Standard & Poor's	Cerner Corporation
Unum Corp.	Glaxo Wellcome
Wells Fargo Bank N.A.	

Mayo Foundation for Medical High Technology Education and Research

```
Dell Computer                          Merck & Co.
Interliant                             Pfizer
```

Microsoft Corporation Retail/Consumer Packaged Goods

```
Microstrategy                          London Drugs
NCR Corporation                        Nabisco Foods
Network Associates                     Nordstrom Information Systems
PeopleSoft                             Office Depot
Siemens Business Services              Pepsi-Cola
                                       Philip Morris Europe
```

Telecommunications

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

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

VARs, System Integrators, Distributors and OEMs We have implemented a channel partner program, our NetIQ Partner Network, that provides training, certification, technical support, priority communications regarding upcoming activities and products, and joint sales and marketing activities. In North America, Tech Data is the primary distributor of our product and, as of March 31, 1999, we had over 50 third party channel partners who purchase our products through Tech Data. We have also established a network of VARs and system integrators in Europe, Latin America and Asia- Pacific who perform marketing, sales and technical support functions in their country or region. Each VAR may distribute our products directly to the customer, and/or through other resellers. We had 25 channel partners outside of North America as of March 31, 1999. In addition, we have worked with NEC, Fujitsu and Hitachi to develop branded Japanese versions of AppManager that each of these OEMs markets, sells and supports.

Marketing

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

Product-Based Relationships We have product-based relationships with Citrix, Compaq, Computer Associates, Dell Computer, Hewlett-Packard, IBM, including both its Lotus and Tivoli subsidiaries, Microsoft and Oracle. As part of these relationships, we often develop joint marketing programs with these software and hardware vendors. Our relationship with Microsoft is an example of this type of product-based relationship. Microsoft is one of our largest customers, has standardized on AppManager to monitor its own internal Windows NT and BackOffice deployment and currently distributes our AppManager for WBEM Agent on its Windows 2000 operating system software. Recently, Microsoft has permitted one of our engineers to work with its Windows NT development group at its Redmond, Washington headquarters. Microsoft also contracts for one of our engineers to provide support for Microsoft's use of our products. Another example of our product-based relationship is our relationship with Compaq, whose service organization is a worldwide reseller of AppManager.

International Sales

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

Customer Support

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

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

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

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

We have made substantial investments in research and development. Our research and development expenses were $0.7 million, $1.0 million, $2.2 million and $2.7 million in fiscal 1996, 1997 and 1998 and the nine months ended March 31, 1999. The dollar increase in fiscal 1997 and fiscal 1998 was due primarily to increased staffing and the purchasing of additional hardware and software for development and testing purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors--Our industry changes rapidly due to evolving technology standards..."

Competition

The market for performance and availability management software for Windows NT-based systems and applications is new, rapidly evolving and highly competitive, and we expect competition in this market to persist and intensify. New products for this market are frequently introduced and existing products are continually enhanced. We may not be able to compete successfully against current and/or future competitors and such inability would materially adversely affect our business, future quarterly and annual operating results and financial condition. See "Risk Factors--Failure to maintain and enhance our competitive position...."

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

. Providers of network and systems management framework products such as IBM, Computer Associates and Hewlett-Packard . Providers of performance and availability management solutions such as BMC Software . Customers' internal IT departments that develop or integrate system and

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

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

In addition to Microsoft, other potential competitors may bundle their products or incorporate performance and availability management software for Windows NT-based systems and applications into existing products including for promotional purposes. In addition, our ability to sell our products will depend, in part, on the compatibility of our products with other third party products. Certain of these third party software developers may change their products so that they will no longer be compatible with our products. If our competitors were to bundle their products in this manner or make their products non-compatible with ours, this could materially adversely affect our ability to sell our products and could lead to price reductions for our products which could reduce our profit margins.

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

We license certain technology that is incorporated in certain of our AppManager products from Summit Software on a non-exclusive, worldwide basis. Substantially all of our AppManager products rely on this Summit technology. Under the terms of our license agreement, we pay certain limited royalties to Summit. We license this technology on a year-to-year basis which is automatically renewed

each August and, in the event our license agreement for this technology is terminated, we may continue to sell our AppManager products that incorporate the Summit technology for a period of 24 months following such termination. Our license for this technology is terminable upon 60 days notice in the event certain conditions occur, including our failure to pay royalty fees on a timely basis or any other material breach by us of the license agreement.

Employees

As of March 31, 1999, we had 110 full-time employees, 35 of whom were engaged in research and development, 37 in sales and marketing, 26 in customer support and 12 in finance and administration. None of our employees is represented by a collective bargaining agreement. We have not experienced any work stoppages and consider our relations with our employees to be good. See "Risk Factors--We will need to recruit and retain additional qualified personnel..."

Facilities

Our principal administrative, sales, marketing, customer support and research and development facility is located at our headquarters facility in Santa Clara, California. We currently occupy an aggregate of approximately 23,000 square feet of office space in the Santa Clara facility under the terms of a lease expiring in July 2003. We believe our current facility will be adequate to meet our needs for at least the next twelve months. We believe that suitable additional facilities will be available in the future as needed on commercially reasonable terms.

We also lease space for sales and marketing offices in Denver, Colorado, New York, New York, Dallas, Texas, and Fairfax, Virginia, and have international field offices in Singapore, Sydney, Australia, London, England, Munich, Germany, and Tokyo, Japan.

Management

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

Executive Officers And Directors Name Age Position

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

(1) Member of Audit Committee (2) Member of Compensation Committee Ching-Fa Hwang co-founded NetIQ in June 1995 and has served as our President and Chief Executive Officer and as a director since our inception. From June 1995 to March 1999, Mr. Hwang also served as our Chief

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

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

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

Thomas R. Kemp has served as our Vice President, Marketing since May 1997. From January 1996 to April 1997, Mr. Kemp served as our Director of Products. From April 1995 to November 1995, Mr. Kemp served as a Director of Product Management at Compuware and from August 1993 to March 1995, he served as a Manager of Systems Engineers at Compuware. From July 1992 to July 1993, Mr. Kemp served as a Manager of System Engineers at EcoSystems until its sale to Compuware. Prior to July 1992, Mr. Kemp held various consulting and marketing positions at Oracle Corporation, a database management company. Mr. Kemp holds a B.S. in computer science and history from the University of Michigan.

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

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

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

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

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

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

Classified Board

Our certificate of incorporation and bylaws provide for a board of directors of six members consisting of three classes of directors, each serving staggered three-year terms. As a result, a portion of our board of directors will be elected each year. To implement the classified structure, prior to the consummation of the offering, two of the nominees to the board will be elected to a one-year term, two will be elected

to two-year term and two will be elected to a three-year term. Thereafter, directors will be elected for three-year terms. Herbert Chang and Ying-Hon Wong have been designated Class I directors whose terms expire at the 1999 annual meeting of stockholders. Alan Kaufman and Her-Daw Che have been designated Class II directors whose terms expire at the 2000 annual meeting of stockholders. Louis Cole and Ching-Fa Hwang have been designated Class III directors whose terms expire at the 2001 annual meeting of stockholders. See "Description of Capital Stock--Antitakeover Effects of Some Provisions of Our Certificate of Incorporation and Bylaws."

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

Audit Committee

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

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

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

In May 1997, we granted an option to Herbert Chang in his capacity as a director to purchase up to 275,000 shares of common stock with an exercise price of $0.20 per share which vests in annual installments over three years. Pursuant to Mr. Chang's contractual obligations with Investar Burgeon Venture Capital, the option was issued in the name of Investar Burgeon Venture Capital. The vesting of this option terminates if Mr. Chang ceases to be a member of the board of directors.

In August 1997, we granted options to Alan Kaufman as a director to purchase up to an aggregate of 100,000 shares of common stock at an exercise price of $0.20 per share. This option vests in annual installments over four years.

In November 1998, we granted an option to Louis Cole as a director to purchase up to an aggregate of 75,000 shares of common stock at an exercise price of $1.00 per share. 25% of the option shares vest on the first anniversary of the grant date and the remaining shares vest ratably on a quarterly basis over the next three years.

In November 1998, the board of directors granted non-statutory options to purchase up to 100,000 and 120,000 shares of common stock to Her-Daw Che and Ching-Fa Hwang, respectively, each with an exercise price of $1.00 per share. 37.5% of the shares subject to these options were vested at the time of grant, and 6.25% of the remaining shares subject to these options vest on a quarterly basis through April 2001.

In November 1998, we granted an option to Ying-Hon Wong in his capacity as a director to purchase up to 80,000 shares of common stock with an exercise price of $1.00 per share. Pursuant to Mr. Wong's contractual obligations with Wongfratris Investment Company, the option was issued in the name of Wongfratris Investment Company. In January 1999 this option was exercised in full subject to a right of repurchase in favor of NetIQ with respect to 63.5% of the shares acquired if Mr. Wong ceases to be a member of the board of directors. This repurchase right lapses as to 6.25% of the shares purchased each quarter through April 2001.

See "Certain Transactions" for additional information about a consulting arrangement we have with one of our directors.

Our Stock Plan includes an automatic nondiscretionary grant mechanism that provides that options will be granted to non-employee directors who on the date of grant do not beneficially hold 1% or more of our total voting power. Our Stock Plan specifically provides for an initial automatic grant of an option to purchase 12,500 shares of common stock to a non-employee director who first becomes a director after our initial public offering. After our initial public offering, each non-employee director who has served on the board for at least six months will be granted an option to purchase 12,500 shares of common stock on that date of the annual meeting of our stockholders. However, if the first annual meeting following our initial public offering falls within six months of the effective date of the initial public offering no grants will be made until the following annual meeting. Each option granted to a non-employee director under this program will have a term of 10 years and the shares subject to these options shall be fully vested on the date of grant. The exercise price of these options will be 100% of the fair market value per share of common stock on the date of grant. See "Incentive Stock Plans--1995 Stock Plan."

Executive Compensation The table below sets forth information concerning the compensation awarded to, earned by, or paid for services rendered to NetIQ in all capacities during the fiscal year ended June 30, 1998 by our President and Chief Executive Officer and our next most highly compensated executive officers whose salary and bonus for fiscal 1998 exceeded $100,000. These executives are referred to as the Named Executive Officers here and elsewhere in this prospectus. Other than the salary and bonus described in the table below, we did not pay any Named Executive Officer any fringe benefits, perquisites or other compensation in excess of 10% of such executive officer's salary and bonus during fiscal 1998. Bonus and commission figures for fiscal 1998 include bonuses and commissions earned and paid in fiscal 1998 as well as bonuses and commissions earned in fiscal 1998 but paid in fiscal 1999.

Summary Compensation Table

Name and Principal Position	Annual Compensation Salary	Bonus	Other Annual Compensation Commissions	Long Term Compensation Securities Underlying Options	All Other Compensation Life Insurance Premiums

Ching-Fa Hwang President and Chief Executive Officer..... $ 91,947 $ -- $ -- -- $108 Thomas R. Kemp Vice President, Marketing..... 101,919 320 -- 35,000 108 Glenn S. Winokur Vice President, Sales.. 85,212 17,858 219,029 25,000 108 Option Grants During Fiscal Year 1998 The following table sets forth certain information with respect to stock options granted to each of the Named Executive Officers during fiscal 1998, including the potential realizable value over the 10 year term of the options based on assumed rates of stock appreciation of 5% and 10%, compounded annually and subtracting from that result the aggregate option exercise price. These assumed rates of appreciation comply with the rules of the SEC and do not represent our estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock. In fiscal 1998, we granted options to acquire up to an aggregate of 1,508,500 shares to employees and directors, all under our Stock Plan and all at an exercise price equal to not less than the fair market value of our common stock on the date of grant as determined in good faith by the board of directors. Optionees may pay the exercise price by cash, check, promissory note, delivery of already-owned shares of our common stock which have been owned by the optionee for more than six months or the date of surrender or pursuant to a cashless exercise procedure, to the extent authorized by the board. Options under the Stock Plan generally vest over four years with 25% of the shares subject to option vesting on the first anniversary of the grant date, and the remaining option shares vesting ratably quarterly thereafter.

	Individual Grants					
					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciations for Options Terms	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal 1998	Exercise Price Per Share	Expiration Date	5%	10%
Ching-Fa Hwang...	--	--	--	--	--	--
Thomas R. Kemp...	25,000	1.66%	$0.20	05/07/08	$ 3,144	$ 7,969
	10,000	0.66%	0.20	06/22/08	1,258	3,187
Glenn S. Winokur.....	25,000	1.66%	0.20	06/22/08	3,144	7,969

Aggregate Option Exercises During the Last Fiscal Year and Fiscal Year-End Option Values The following table sets forth the number of shares acquired and the value realized upon exercise of stock options during fiscal 1998, and the number of shares of common stock subject to exercisable stock options held as of June 30, 1998, by the Named Executive Officers. The "Value of Unexercised In-the-Money Options at June 30, 1998" is based upon a value of $ per share, the assumed initial public offering price, minus the per share exercise price, multiplied by the number of shares underlying the option.

	Number of Shares Acquired on	Number of Securities Underlying Unexercised	Value of Unexercised In-the-Money Options at

	Exercise		Options at June 30, 1998		June 30, 1998	
Date	Exercised	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Ching-Fa Hwang.....	--	--	--	--	--	--
Thomas R. Kemp.....	128,000	$20,480	25,000	170,000	$	$
Glenn S. Winokur.....	--	--	126,250	103,750		

Incentive Stock Plans 1995 Stock Plan The board of directors adopted the Stock Plan in November 1995 and our stockholders approved the Stock Plan in April 1996. In connection with this offering, the board of directors approved the amendment and restatement of the Stock Plan in May 1999 and we anticipate that our stockholders will approve the amendment and restatement prior to the completion of this offering. The Stock Plan provides for the grant to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code, or the Code, and for the grant to employees, directors and consultants of nonstatutory stock options and stock purchase rights, or SPRs.

Number of Shares of Common Stock Available under the Stock Plan As of March 31, 1999, a total of 5,950,000 shares of common stock were authorized for issuance under the Stock Plan, of which options to acquire 3,172,106 shares were issued and outstanding as of that date. As part of the 1999 amendment and restatement of the Stock Plan, the board of directors approved an increase of 2,050,000 shares reserved for issuance under the Stock Plan to a total of 8,000,000. The Stock Plan provides for annual increases in the number of shares available for issuance thereunder, on the first day of each new fiscal year, effective beginning with fiscal 2001, equal to the lesser of 4% of the outstanding shares of common stock on the first day of the fiscal year, 2,000,000 shares or an amount as the board may determine.

Administration of the Stock Plan The stock plan administrator, which is the board of directors or a committee of the board, administers the Stock Plan. In the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the committee will consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The administrator has the power to determine the terms of the options or SPRs granted, including the exercise price, the number of shares subject to each option or SPR, the exercisability of the options and the form of consideration payable upon exercise.

Options

The administrator determines the exercise price of nonstatutory stock options granted under the Stock Plan, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the exercise price must at least be equal to the fair market value of the common stock on the date of grant. The exercise price of all incentive stock options granted under the Stock Plan must be at least equal to the fair market value of the common stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under the Stock Plan may not exceed 10 years.

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

SPRs

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

Outside Director Options The Stock Plan also provides for an initial automatic grant of an option to purchase 12,500 shares of common stock to a director who first becomes a non- employee director after our initial public offering, and who does not beneficially hold 1% or more of the total voting power of our voting securities on the date of grant. After our initial public offering, each non-employee director who has served on the board for at least the six previous months will be granted an option to purchase 12,500 shares of common stock on the date of the annual meeting of our stockholders. However, if the first annual meeting following our initial public offering falls within six months of the effective date of the initial public offering no grants will be made until the following annual meeting. Each option granted to a non-employee director under this program will have a term of 10 years and the shares subject to these options shall be fully vested on the date of grant. The exercise price of these options will be 100% of the fair market value per share of common stock on the date of grant.

Transferability of Options and SPRs An optionee generally may not transfer options and SPRs granted under the Stock Plan and only an optionee may exercise an option and SPR during his or her lifetime.

Adjustments upon Merger or Asset Sale The Stock Plan provides that in the event of our merger with or into another corporation or a sale of substantially all of our assets, the successor corporation shall assume or substitute each option or SPR. If the outstanding options or SPRs are not assumed or substituted, the administrator shall provide notice to the optionee that he or she has the right to exercise the option or SPR as to all of the shares subject to the option or SPR, including shares which would not otherwise be exercisable, for a period of 15 days from the date of the notice. The option or SPR will terminate upon the expiration of the 15- day period. If an optionee's employment with the successor corporation is terminated other than for cause or if a director's service with the successor corporation is terminated other than for voluntary resignation, which shall not be deemed voluntary if requested by the acquiring company, within twelve months after a change of control, the optionee shall fully vest in the right to exercise all of the shares subject to the option or SPR, including shares which would not otherwise be exercisable.

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

1999 Employee Stock Purchase Plan The board of directors adopted our Purchase Plan in May 1999 and we anticipate our stockholders will approve the Purchase Plan prior to completion of this offering.

Number of Shares of Common Stock Available under the Purchase Plan A total of 750,000 shares of common stock has been reserved for issuance under the Purchase Plan. In addition, the Purchase Plan provides for annual increases in the number of shares available for issuance under the Purchase Plan on the first day of each fiscal year, beginning on July 1, 2000, equal to the lesser of 2% of the outstanding shares of common stock on the first day of the fiscal year, 1,000,000 shares or an amount as the board may determine.

Administration of the Purchase Plan The board of directors or a committee appointed by the board administers the Purchase Plan. The board or its committee has full and exclusive authority to interpret the terms of the Purchase Plan and determine eligibility.

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

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

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

The Purchase Plan permits participants to purchase common stock through payroll deductions of up to 15% of the participant's "compensation." Compensation is defined as the participant's base straight time gross earnings and commissions but excludes payments for overtime, shift premium payments, incentive compensation, incentive payments, bonuses and other compensation. The maximum number of shares a participant may purchase during a single purchase period is 5,000 shares.

Purchase of Shares

Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each purchase period. The price of stock purchased under the Purchase Plan is 85% of the lower of the fair market value of the common stock at the beginning of the offering period or end of

the purchase period. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, participants will withdraw from the current offering period following the exercise and will automatically re-enroll in a new offering period. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with NetIQ.

Transferability of Rights A participant may not transfer rights granted under the Purchase Plan other than by will, the laws of descent and distribution or as otherwise provided under the Purchase Plan.

Adjustments upon Merger or Asset Sale The Purchase Plan provides that, in the event of our merger with or into another corporation or a sale of substantially all of our assets, a successor corporation may assume or substitute for each outstanding option. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened, and a new exercise date will be set.

Amendment and Termination of the Purchase Plan The 1999 Purchase Plan will terminate in 2009. However, the board of directors has the authority to amend or terminate the Purchase Plan at any time, except that, subject to certain exceptions described in the Purchase Plan, no such action may adversely affect any outstanding rights to purchase stock under the Purchase Plan.

401(k) Plan

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

Change in Control Agreements We have entered into Change of Control Severance Agreements with each of our executive officers, including the Named Executive Officers. The Agreements provide that in the event of the executive's involuntary termination without cause within 12 months after a change of control, the executive is entitled to six months of severance pay, six months of continued coverage under group health, life and other insurance arrangements, and full acceleration of all outstanding options granted to the executive. For purposes of these agreements, a "change of control" occurs if . our stockholders approve a merger or consolidation of NetIQ with any other corporation, other than a

merger or consolidation which would result in our voting securities outstanding immediately prior thereto continuing to represent more than 50% of the total voting power of the surviving entity in the merger;

. our stockholders approve a plan of complete liquidation or an agreement for the sale or disposition by us of all or substantially all of our assets;

. any person becomes the "beneficial owner," directly or indirectly, of our securities representing 50% or more of the total voting power represented our then outstanding voting securities; or . a change in the composition of the board that results in fewer than a majority of the directors being incumbent directors, meaning directors who either are directors as of the date of the change of control severance agreements, or are elected, or nominated for election, to the board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described above or in connection with an actual or threatened proxy contest relating to the election of directors.

Limitations on Directors' Liability and Indemnification Our Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for any of the following acts:

. any breach of their duty of loyalty to the corporation or its stockholders . acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law . unlawful payments of dividends or unlawful stock repurchases or redemptions . any transaction from which the director derived an improper personal benefit Such limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our Certificate of Incorporation and Bylaws provide that we will indemnify our directors and executive officers and other corporate agents to the fullest extent permitted by law. We believe that indemnification under our Bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our Bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the Bylaws would permit indemnification.

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

Certain Transactions

September 1995 Series A Preferred Stock Financing. In September 1995, we sold 7,000,000 shares of Series A Preferred Stock at a per share purchase price of $0.40. Purchasers of the Series A Preferred Stock included Sen-Tien Lee, who holds more than 5% of the outstanding common stock; Wongfratris Investment Company, which holds more than 5% of the outstanding common stock and whose representative, Ying-Hon Wong, is a member of the board of directors; Direct International Limited, which holds more than 5% of the outstanding common stock; Ching-Fa Hwang, who is our President and Chief Executive Officer and a member of the board of directors; and Her-Daw Che, who is our Vice President, Engineering and a member of the board of directors. The following table summarizes purchases of Series A Preferred Stock by the these individuals and entities:

Number of Name of Stockholder Series A Shares

Sen-Tien Lee	1,250,000
Direct International Limited	750,000
Wongfratris Investment Company	750,000
Ching-Fa Hwang (1)	500,000
Her-Daw Che (2)	250,000

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

May 1997 Series B Preferred Stock Financing. In May 1997, we sold 4,100,000 shares of Series B Preferred Stock at a per share purchase price of $2.00. Purchasers of the Series B Preferred Stock include InveStar Burgeon Venture Capital Inc., which holds more than 5% of the outstanding common stock and whose representative, Herbert Chang, is a member of the board of directors; Sen-Tien Lee; Direct International Limited; Ching-Fa Hwang; Wongfratris Investment Company; Her-Daw Che; and Thomas R. Kemp, who is our Vice President, Marketing. The following table summarizes purchases of Series B Preferred Stock by these individuals and entities:

Number of Name of Stockholder Series B Shares

InveStar Burgeon Venture Capital	1,000,000
Sen-Tien Lee	250,000
Direct International Limited	150,000
Ching-Fa Hwang (1)	150,000
Wongfratris Investment Company	145,000
Her-Daw Che (2)	100,000
Thomas R. Kemp	40,000

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

Consulting Arrangement. Ying-Hon Wong, one of our directors and a general partner of Wongfratris Investment Company, earned $55,000, $60,000, $60,000 and $45,000 in consulting fees in fiscal 1996, 1997, and 1998 and the nine months ended March 31, 1999, respectively pursuant to a consulting arrangement under which Mr. Wong is paid $5,000 per month that is terminable at any time.

Change of Control Severance Agreement. We have entered into Change of Control Severance Agreements with each of our executive officers. See "Management-- Change in Control Agreements."

Option Grants to Directors and Certain Affiliates. In November 1995 we granted an option exercisable for 200,000 shares of common stock to C. S. Ho, the director of Direct International Limited, with an exercise price of $0.04 per share which vests in annual installments over four years. In May 1999 we accelerated the vesting on this option so that Mr. Ho could purchase all of the shares subject to this option.

We also have issued options to purchase common stock to Messrs. Chang, Kaufman, Cole, Che, Hwang and Wong under our Stock Plan. Pursuant to contractual obligations involving Messrs. Chang and Wong and their affiliated investment entities, the option grant to Mr. Chang was issued in the name of InveStar Burgeon Venture Capital and the option grant to Mr. Wong was issued in the name of Wongfratris Investment Company. "See "Director Compensation."

Principal Stockholders

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

. each of our directors . each person or entity who beneficially owns more than 5% of our outstanding common stock . all directors and executive officers as a group . each of the Named Executive Officers Except as otherwise noted the address for each holder of more than 5% of our common stock is c/o NetIQ Corporation, 5410 Betsy Ross Drive, Santa Clara, California 95054. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Percentage ownership is based on 17,016,493 shares of common stock outstanding as of March 31, 1999 as adjusted to reflect the conversion of all outstanding shares of preferred stock upon the closing of this offering, and shares immediately following the completion of this offering. The figure for shares outstanding after completion of this offering also includes shares issuable in connection with the assumed exercise of a warrant held by Compuware. See "Capitalization" and "Description of Capital Stock." Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of March 31, 1999 are treated as outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person and are listed below under the "Number of Shares Underlying Options" column below, but these options are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

			Percentage of Shares Outstanding	
Name and Address	Number of Shares	Number of Shares Underlying Options	Before Offering	After Offering

5% Stockholders: Wongfratris Investment Company..... 1,625,000 -- 9.5% 51 Jordan Place Palo Alto, CA 94303 Sen-Tien Lee..... 1,500,000 -- 8.8% 29 Alley 18, Lane 325 Chien Kung Road Taipei, Taiwan R.O.C InveStar Burgeon Venture Capital..... 1,000,000 183,333 6.9% Leeware One Building Safe Haven Corporate Center Seven Mile Beach, Grand Canyon Cayman Islands British West Indies Direct International Limited(1)..... 900,000 200,000 6.4% Charlotte House, Charlotte St. P.O. Box N-341 Nassau, Bahamas

Current Named Executive Officers and Directors:			
Ching-Fa Hwang (2).....	2,850,000	60,000	17.0%
Thomas R. Kemp.....	245,500	23,750	1.6%
Glenn S. Winokur.....	135,312	19,688	*
Her-Daw Che (3).....	1,610,000	50,000	9.5%
Ying-Hon Wong (4).....	1,625,000	--	9.6%
Herbert Chang (5).....	1,000,000	183,333	6.9%
Alan W. Kaufman.....	--	25,000	*
Louis C. Cole.....	--	--	--
All directors and executive officers as a group (10 persons).....	7,512,687	361,771	45.3%

* less than 1%

(1) Includes 200,000 shares issuable upon exercise of stock options exercisable within 60 days of March 31, 1999 held by C.S. Ho, a Director of Direct International Limited and one of our consultants. (2) Includes 50,000 shares held by Mr. Hwang's children and 600,000 shares held by Mr. Hwang and his wife in joint tenancy. (3) Includes 20,000 shares held by Austin Che, Mr. Che's son, 20,000 shares held by Joyce Che, Mr. Che's daughter, and 310,000 shares held by the Che Family Trust. (4) Includes shares held by Wongfratris Company of which Mr. Wong is a general partner. Mr. Wong disclaims beneficial ownership of the shares held by Wongfratris Company, except to the extent of this pecuniary interest as a general partner. Certain of these shares are subject to a repurchase option in favor of NetIQ should Mr. Wong's membership on the board of directors terminate. See "Management--Director Compensation." (5) Includes shares and options held by InveStar Burgeon Venture Capital. Mr. Chang is the president of InveStar Capital, Inc., the investment manager of InveStar Burgeon Venture Capital, Inc. Mr. Chang disclaims beneficial ownership of the shares held by InveStar Burgeon Venture Capital.

Description of Capital Stock

General

After this offering, we will be authorized to issue 150,000,000 shares of common stock, $0.001 par value, and 5,000,000 shares of undesignated preferred stock, $0.001 par value. Immediately after this offering, we estimate there will be an aggregate of shares of common stock outstanding, shares of common stock will be issuable upon exercise of outstanding options and no shares of Preferred Stock will be issued and outstanding.

The figure for outstanding shares of common stock upon completion of this offering reflects the issuance of shares of common stock in connection with presumed exercise of a warrant to purchase shares of common stock issued to Compuware as part of the settlement arrangement relating to litigation involving Compuware. Under the terms of the warrant, the per share exercise price of the warrant is $, 90% of the per share sale price of shares sold to investors in this offering. The warrant provides that Compuware can purchase up to a maximum number of shares equal to the lesser of 10% of the shares sold in this offering or 2% of our common stock assuming exercise of all outstanding options as of May 26, 1999. The purchase price for the shares of common stock Compuware can purchase under its warrant is payable in cash or by the cancellation of indebtedness. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a discussion of our outstanding indebtedness to Compuware.

The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our amended and restated certificate of incorporation and bylaws and by the provisions of applicable Delaware law.

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

Common Stock

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

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

Preferred Stock

Effective upon the closing of this offering, we will be authorized to issue 5,000,000 shares of undesignated preferred stock. The board of directors has the authority to issue the preferred stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption

prices, liquidation preferences and the number of shares constituting a series or the designation of such series, without any further vote or action by our stockholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of NetIQ without further action by the stockholders and may adversely affect the market price of, and the voting and other rights of, the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. We have no current plans to issue any shares of preferred stock.

Registration Rights

The holders of 11,100,000 shares of common stock are entitled to certain rights with respect to registration of such shares under the Securities Act. These rights are provided under the terms of an agreement between NetIQ and the holders of registrable securities. Beginning six months following the consummation of this offering, holders of then outstanding registrable securities may require on up to two occasions that we register their shares for public resale. We are obligated to register these shares only if the outstanding registrable securities have an anticipated public offering price of at least $5,000,000. Also, holders of registrable securities who hold more than two percent of our outstanding common stock on a fully diluted basis, may require on two separate occasions in any 12 month period that shares for public resale on Form S-3 or similar short-form registration if the value of the securities to be registered is at least $1,000,000. Furthermore, in the event we determine to register any of our securities under the Securities Act, either of our own account or for the account of other security holders exercising their registration rights, the holders of registrable securities are entitled to include their shares of common stock in the registration. The registration rights are subject to certain conditions and limitations, among them the right of the underwriter to limit the number of shares included in the registration which may reduce the number of shares proposed to be registered in view of market conditions. These registration rights are not triggered by this offering. All expenses in connection with any registration, other than underwriting discounts and commissions, will be borne by us. All registration rights will terminate five years following the consummation of this offering.

Antitakeover Effects of Some Provisions of Certificate of Incorporation and Bylaws Some of the provisions of our certificate of incorporation and bylaws could make the following more difficult:

. acquisition of NetIQ by means of a tender offer;

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

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

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

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

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

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

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

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

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

See "Risk Factors--Provisions in our charter documents ..."

Effect of Delaware Antitakeover Statute We are subject to Section 203 of the Delaware General Corporation Law, or the Antitakeover Law, which regulates corporate acquisitions. The Antitakeover Law prevents certain Delaware corporations, including those whose securities are listed for trading on the Nasdaq National Market, from engaging, under certain circumstances in a "business combination" with any "interested stockholder" for three years following the date that such stockholder became an interested stockholder. For purposes of the Antitakeover Law, a "business combination" includes, among other things, a merger or consolidation involving NetIQ and the interested stockholder and the sale of more than 10% of our assets. In general, the Antitakeover Law defines an "interested stockholder" as any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person. A Delaware corporation may "opt out" of the Antitakeover Law with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws

resulting from amendments approved by the holders of at least a majority of the corporation's outstanding voting shares. We have not "opted out" of the provisions of the Antitakeover Law. See "Risk Factors--Provisions in our charter documents and in Delaware law."

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

Transfer Agent

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

Shares Eligible for Future Sale

After this offering, we will have outstanding shares of common stock based upon shares outstanding at March 31, 1999, assuming no exercise of the underwriters' over-allotment option. Excluding the shares of common stock offered hereby and assuming no exercise of the underwriters' over- allotment option, as of the effective date of the registration statement, there will be 17,016,493 shares of common stock outstanding, all of which are "restricted" shares under the Securities Act, excluding shares issuable upon the presumed exercise of the warrant held by Compuware. For more detail on the Compuware warrant see "Capitalization," "Description of Capital Stock."

All restricted shares are subject to lock-up agreements with the underwriters pursuant to which the holders of the restricted shares have agreed not to sell, pledge or otherwise dispose of such shares for a period of 180 days after the date of this prospectus. Credit Suisse First Boston Corporation may release the shares subject to the lock-up agreements in whole or in part at any time with or without notice. However, Credit Suisse First Boston Corporation has no current plans to do so. The following table indicates approximately when the 17,016,493 shares of our common stock that are not being sold in the offering but which will be outstanding at the time the offering is complete will be eligible for sale into the public market:

Eligibility of Restricted Shares for Sale in Public Market At effective date..... 0 180 days after effective date..... At various times after the effective date.....

All shares issuable upon exercise of the Compuware warrant will be "restricted" shares under the Securities Act and will become eligible after 180 days after the effective date. Many of the restricted shares that will become available for sale in the public market beginning 180 days after the effective date will be subject to certain volume and other resale restrictions pursuant to Rule 144 rbecause the holders are affiliates of NetIQ. In general, under Rule 144, an affiliate of NetIQ, or person who has beneficially owned restricted shares for at least one year, will be entitled to sell in any three- month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the common stock, approximately shares immediately after this offering, or the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the

SEC. Sales pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about NetIQ. A person who is not deemed to have been an affiliate of ours at any time during the 90 days immediately preceding the sale and who has beneficially owned his or her shares for at least two years is entitled to sell such shares pursuant to Rule 144(k) without regard to the limitations described above.

As of March 31, 1999, 5,950,000 shares were reserved for issuance under the Stock Plan, of which options to purchase 3,172,106 shares were then outstanding. Beginning 180 days after the effective date, approximately shares issuable upon the exercise of vested options will become eligible for sale and shares issued pursuant to restricted stock agreements under the Stock Plan will no longer be subject to a repurchase option and will be eligible for resale. In addition, an aggregate of restricted shares have been issued to certain of our executive officers and directors under the Stock Plan pursuant to the restricted stock agreements described above. Additionally, in May 1999, our board of directors approved an increase of 2,050,000 shares in the number of shares reserved under the Stock Plan and a reserve of 750,000 shares for options under the Purchase Plan.

We intend to file, within 180 days after the date of this prospectus, a Form S-8/S-3 registration statement under the Securities Act to register shares issued pursuant to restricted stock purchase agreements under the Stock Plan, shares issued in connection with option exercises and shares reserved for issuance under all stock plans. Shares of common stock issued pursuant to the restricted stock agreements under the Stock Plan or upon exercise of options after the effective date of the Form S-8/S-3 will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates and lock-up agreements.

Lock-Up Agreements

All officers and directors and certain holders of common stock and options to purchase common stock have agreed pursuant to certain "lock-up" agreements that they will not offer, sell, contract to sell, pledge, grant any option to sell, or otherwise dispose of, directly or indirectly, any shares of common stock or securities convertible or exchangeable for common stock, or warrants or other rights to purchase common stock for a period of 180 days after the transfer or date of this prospectus without the prior written consent of Credit Suisse First Boston Corporation.

Underwriting

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

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

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

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

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

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

Total Per Without With share over-allotment over-allotment

Underwriting discounts and commissions paid by us	$	$	$
Expenses payable by us	$	$	$

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

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

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

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

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

Prior to the offering, there has been no public market for the common stock. The initial public offering price for the common stock will be determined by negotiation between us and the representatives, and does not reflect the market price for the common stock following the offering. Among the principal factors considered in determining the initial public offering price will be: the information in this prospectus and otherwise available to the representatives; market conditions for initial public offerings; the history of and prospects for the industry in which we will compete; our past and present operations; our past and present earnings and current financial position; the ability of our management; our prospects for future earnings; the present state of our development and our current financial condition; the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; the general condition of the securities markets at the time of this offering; and other relevant factors.

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

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

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

. Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

. Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a syndicate covering transaction to cover syndicate short positions.

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

Notice to Canadian Residents

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are effected. Accordingly, any resale of the

common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

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

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

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

Notice to British Columbia Residents A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that the purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any common stock acquired by such purchaser in this offering. This report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed in respect of common stock acquired on the same date and under the same prospectus exemption.

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

Legal Matters

The validity of the common stock offered hereby will be passed upon for NetIQ by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Certain legal matters will be passed upon for the underwriters by Morrison & Forester, LLP, Palo Alto, California. As of the date of this

prospectus, WS Investment Company 95B, an investment partnership composed of certain current and former members of and persons associated with Wilson Sonsini Goodrich & Rosati, Professional Corporation, as well as certain individual attorneys of such firm, beneficially own an aggregate of 62,500 shares of NetIQ's common stock.

Experts

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

Where to Find Other Netiq Documents

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

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference rooms, our Web site and the Web site of the SEC referred to above.

NetIQ CORPORATION

Index to Consolidated Financial Statements

Page

Independent Auditors' Report..... F-2 Consolidated Balance Sheets..... F-3 Consolidated Statements of Operations..... F-4 Consolidated Statements of Stockholders' Equity..... F-5 Consolidated Statements of Cash

Flows..... F-6 Notes to Consolidated Financial Statements..... F-7

Independent Auditors' Report

To the Board of Directors and Stockholders of NetIQ Corporation:

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

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

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

San Jose, California May 19, 1999 (, 1999 as to the thirteenth paragraph of Note 1) To the Board of Directors and Stockholders of NetIQ Corporation:

The accompanying consolidated financial statements are required to disclose, pursuant to rules of the Securities and Exchange Commission, an unaudited proforma balance sheet reflecting the exercise of certain warrants to acquire shares of Common Stock at an exercise price of 90% of the planned initial public offering price whose proceeds are to be used to substantially repay a $5,000,000 loan under a subordinated secured promissory note (See Note 3). The above opinion is in the form that will be signed by Deloitte & Touche LLP upon inclusion of such disclosure in the accompanying consolidated financial statements and assuming that from May 19, 1999 to the date such information has been included, no other events shall have occurred that would affect the accompanying consolidated financial statements or notes thereto.

Deloitte & Touche LLP San Jose, California May 26, 1999 NetIQ CORPORATION CONSOLIDATED BALANCE SHEETS (In thousands, except share and per share amounts)

June 30,			Pro Forma
1997	1998	March 31, 1999	March 31, 1999

			(Note 1) (Unaudited)	
ASSETS				
Current assets:				
Cash and cash equivalents.....	$ 7,748	$ 3,358	$11,565	$
Accounts receivable, net of allowance for uncollectible accounts of $307 and $505 in 1998 and 1999 (none in 1997).....	159	4,055	4,766	
Prepaid expenses.....	1	167	146	
Total current assets.....	7,908	7,580	16,477	
Property and equipment, net.....	272	527	1,036	
Other assets.....	22	98	100	
Total assets.....	$ 8,202	$ 8,205	$17,613	$
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term debt.....	$ --	$ --	$ 5,144	$
Accounts payable.....	227	535	1,331	
Accrued compensation and related benefits.....	78	809	820	
Other liabilities.....	38	375	917	
Deferred revenue.....	72	1,547	3,189	
Total current liabilities.....	415	3,266	11,401	
Long-term debt.....	--	--	241	
Total liabilities.....	415	3,266	11,642	
Commitments and contingencies (Note 8)				

Stockholders' equity: Convertible preferred stock--$0.001 (aggregate liquidation preference of $11,000,000); 11,100,000 shares authorized and outstanding, actual; 5,000,000 shares authorized, none outstanding, pro forma..... 10,955 10,955 10,955 Common stock--$0.001; 30,000,000 shares authorized; shares outstanding: 1997, 4,541,375; 1998, 4,826,750; 1999, 5,916,493, actual; 150,000,000 shares authorized, shares outstanding, pro forma..... 48 1,302 4,143 Note receivable from stockholder..... (6) (6) -- Deferred stock-based compensation.... (20) (1,011) (2,325) Accumulated deficit..... (3,190) (6,301) (6,802) Total stockholders' equity..... 7,787 4,939 5,971 Total liabilities and stockholders' equity..... $ 8,202 $ 8,205 $17,613 $ See notes to consolidated financial statements.

NetIQ CORPORATION

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

	Years Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998 (Unaudited)	1999
Revenue:					
Software license.....	$ --	$ 369	$ 6,603	$ 3,186	$13,137
Service.....	--	19	467	234	1,972
Total revenue.....	--	388	7,070	3,420	15,109
Cost of revenue:					
Software license.....	--	9	235	159	532
Service.....	--	46	407	203	894
Total cost of revenue.....	--	55	642	362	1,426
Gross profit.....	--	333	6,428	3,058	13,683
Operating expenses:					
Sales and marketing.....	77	1,238	5,748	3,600	8,027
Research and development.....	665	1,003	2,192	1,462	2,652
General and administrative...	264	479	1,611	994	2,239

Stock-based compensation.....	--	10	250	83	1,355
Total operating expenses...	1,006	2,730	9,801	6,139	14,273
Loss from operations.....	(1,006)	(2,397)	(3,373)	(3,081)	(590)
Interest income (expense):					
Interest income.....	98	119	262	215	119
Interest expense.....	(1)	(3)	--	--	(30)
Interest income, net.....	97	116	262	215	89
Net loss.....	$ (909)	$(2,281)	$(3,111)	$(2,866)	$ (501)
Basic and diluted net loss per share.....	$ (1.03)	$ (1.07)	$ (0.89)	$ (0.87)	$ (0.10)
Shares used to compute basic and diluted net loss per share.....	881	2,122	3,496	3,299	4,993
Pro forma basic and diluted net loss per share (Note 1).....			$ (0.21)		$ (0.03)
Shares used to compute pro forma basic and diluted net loss per share (Note 1).....			14,596		16,093

See notes to consolidated financial statements.

NetIQ CORPORATION

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

	Convertible Preferred Stock		Common Stock		Note Receivable from	Deferred Stock-based Compensation	Accumulated Deficit
	Shares	Amount	Shares	Amount	Stockholder		
July 1995--Issuance of common stock to founders at $0.0005 per share.....	--	$ --	4,150,000	$ 2	$--	$ --	$ --
September 1995--Issuance of Series A preferred stock at $0.40 per share, net of issuance costs of $14.....	7,000,000	2,786	--	--	--	--	--
December 1995 and April 1996--issuance of common stock at $0.04 per share....	--	--	174,000	7	(6)	--	--
Net loss.....	--	--	--	--	--	--	(909)
Balances, June 30, 1996.....	7,000,000	2,786	4,324,000	9	(6)	--	(909)
May 1997--Issuance of Series B preferred stock at $2.00 per share, net of issuance costs of $31.....	4,100,000	8,169	--	--	--	--	--
Exercise of stock options.....	--	--	217,375	9	--	--	--
Deferred stock-based compensation.....	--	--	--	30	--	(30)	--
Amortization of deferred stock compensation.....	--	--	--	--	--	10	--
Net loss.....	--	--	--	--	--	--	(2,281)
Balances, June 30, 1997.....	11,100,000	10,955	4,541,375	48	(6)	(20)	(3,190)

Exercise of stock options.....	--	--	285,375	13	--	--	--
Deferred stock-based compensation.....	--	--	--	1,241	--	(1,241)	--
Amortization of deferred stock compensation.....	--	--	--	--	--	250	--
Net loss.....	--	--	--	--	--	--	(3,111)
Balances, June 30, 1998.....	11,100,000	10,955	4,826,750	1,302	(6)	(1,011)	(6,301)
Exercise of stock options.....	--	--	1,177,243	178	--	--	--
Repurchase of common stock.....	--	--	(87,500)	(4)	6	--	--
Deferred stock-based compensation.....	--	--	--	2,667	--	(2,667)	--
Amortization of deferred stock compensation.....	--	--	--	--	--	1,353	--
Net loss.....	--	--	--	--	--	--	(501)
Balances, March 31, 1999.....	11,100,000	$10,955	5,916,493	$4,143	$--	$(2,325)	$(6,802)

Total

July 1995--Issuance of common stock to founders at $0.0005 per share.....	$ 2
September 1995--Issuance of Series A preferred stock at $0.40 per share, net of issuance costs of $14.....	2,786
December 1995 and April 1996--issuance of common stock at $0.04 per share....	1
Net loss.....	(909)
Balances, June 30, 1996.....	1,880
May 1997--Issuance of Series B preferred stock at $2.00 per share, net of issuance costs of $31.....	8,169
Exercise of stock options.....	9
Deferred stock-based compensation.....	--
Amortization of deferred stock compensation.....	10
Net loss.....	(2,281)
Balances, June 30, 1997.....	7,787
Exercise of stock options.....	13
Deferred stock-based compensation.....	--
Amortization of deferred stock compensation.....	250
Net loss.....	(3,111)
Balances, June 30, 1998.....	4,939
Exercise of stock options.....	178
Repurchase of common stock.....	2
Deferred stock-based compensation.....	--
Amortization of deferred stock compensation.....	1,353
Net loss.....	(501)
Balances, March 31, 1999.....	$5,971

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	Years Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
				(Unaudited)	
Cash flows from operating activities: Net loss	$ (909)	$(2,281)	$(3,111)	$(2,866)	$ (501)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation	26	70	198	138	271
Stock-based compensation	--	10	250	83	1,355
Gain on the sale of property and equipment	--	--	--	--	8
Changes in: Accounts receivable	--	(159)	(3,896)	(1,257)	(711)
Prepaid expenses	(12)	10	(166)	(29)	21
Accounts payable	29	199	308	235	796
Accrued compensation and related benefits	32	46	731	238	11
Other liabilities	--	38	337	131	542
Deferred revenue	--	72	1,475	516	1,642
Net cash provided by (used in) operating activities	(834)	(1,995)	(3,874)	(2,811)	3,434
Cash flows from investing activities: Purchases of property and equipment, net	(149)	(220)	(453)	(322)	(799)
Purchase/maturity of short- term investments	(2,085)	2,085	--	--	--
Other	(3)	(18)	(76)	4	(2)
Proceeds from the sale of property and equipment	--	--	--	--	11
Net cash provided by (used in) investing activities	(2,237)	1,847	(529)	(318)	(790)
Cash flows from financing activities: Borrowings on line of credit facility	314	133	--	--	
Payments on line of credit facility	--	(447)	--	--	--
Proceeds from borrowings	--	--	--	--	5,433
Payments on borrowings	--	--	--	--	(48)
Proceeds from sale of common stock	3	9	13	9	178
Proceeds from issuance of preferred stock	2,786	8,169	--	--	--
Net cash provided by financing activities	3,103	7,864	13	9	5,563
Net increase (decrease) in cash and cash equivalents	32	7,716	(4,390)	(3,120)	8,207
Cash and cash equivalents, beginning of year	--	32	7,748	7,748	3,358
Cash and cash equivalents, end of year	$ 32	$ 7,748	$ 3,358	$ 4,628	$11,565
Noncash investing and financing activities: Issuance (receipt) of common stock for stockholder's note receivable	$ 6	$ --	$ --	$ --	$ (6)
Supplemental disclosure of cash flow information--cash paid for: Interest	$ 1	$ 3	$ --	$ --	$ 12
Income taxes	$ 2	$ 1	$ 3	$ 3	$ 45

See notes to consolidated financial statements.

NetIQ CORPORATION

Notes to Consolidated Financial Statements

Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 1. Organization and Summary of Significant Accounting Policies Organization--NetIQ Corporation (the Company) was incorporated in California in June 1995 to develop, market and support performance and availability management software for the Microsoft Windows NT environment. The Company markets its products through its field and inside sales organization and reseller channel partners, which are focused on customers primarily located in the United States, Europe and Asia.

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

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

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

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

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

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

Software license revenue is recognized upon meeting each of the following criteria: execution of a written purchase order, license agreement or contract; delivery of software and authorization keys; the license fee is fixed and determinable; collectibility of the proceeds within six months is assessed as being probable; and vendor specific objective evidence exists to allocate the total fee to elements of the arrangement. Vendor-specific objective evidence is based on the price generally charged when an element is sold separately, or if not yet sold separately, is established by authorized management. All elements of each order are valued at the time of revenue recognition. For sales made through distributors, resellers and original equipment manufacturers the NetIQ CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 Company recognizes revenue at the time these partners report to the Company and all revenue recognition criteria have been met. Service revenue includes maintenance revenue, which is deferred and recognized ratably over the maintenance period, and revenue from consulting and training services, which is recognized as services are performed.

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

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

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

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

Unaudited Pro Forma Information--The unaudited pro forma balance sheet presents the Company's balance sheet as if the following had occurred at March 31, 1999:

(i) the exercise of warrants to acquire shares of common stock at an exercise price of 90% of an assumed initial public offering price of $, which warrants must be exercised or expire upon the closing of the initial public offering contemplated by the Company (see Note 3); (ii) the repayment of a $5 million promissory note and accrued interest thereon which is payable upon the initial public offering contemplated by the Company (see Note 3); and (iii) the conversion of each share of preferred stock to one share of common stock upon closing of the initial public offering . Estimated proceeds from the common stock to be issued as a result of such initial public offering are excluded.

Unaudited Interim Financial Information--The interim financial information for the nine months ended March 31, 1998 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited financial information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim information.

Foreign Currency Transactions--The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Accordingly, all monetary assets and liabilities are translated at the current exchange rate at the end of each period reported, nonmonetary assets and liabilities are translated at historical rates and

revenues and expenses are translated at average exchange rates in effect during the period. Transaction gains and losses, which are included in other income (expense) in the accompanying consolidated statements of operations, have not been significant.

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 Concentration of Credit Risk--Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. The Company sells its products to companies in diverse industries and generally does not require its customers to provide collateral to support accounts receivable. To reduce credit risk, management performs ongoing credit evaluations of its customers' financial condition. The Company maintains allowances for potential credit losses.

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

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

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedge accounting when certain conditions are met. SFAS No. 133 is effective for the Company in fiscal 2000. Although the Company has not fully assessed the implications of SFAS No. 133, the Company does not believe that adoption of this statement will have a material impact on the Company's financial position or results of operations.

2. Property and Equipment Property and equipment consist of (in thousands):

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

Computer equipment and software	$317	$ 760	$1,173
Furniture and fixtures	51	55	336
Construction in progress	--	6	72
	368	821	1,581
Less accumulated depreciation	(96)	(294)	(545)
Property and equipment, net	$272	$ 527	$1,036

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 3. Settlement of Litigation In September 1996, Compuware Corporation filed a complaint against the Company alleging misappropriation of certain trade secrets, copyright infringement, unfair competition and other claims. A settlement of these claims was reached in January 1999 and final documentation ("Settlement Agreement") was entered into and the charges dismissed in March 1999.

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

Also in March 1999, as a part of the Settlement Agreement, the Company issued a warrant to purchase up to 2% of the total of the outstanding common stock and common stock equivalents of the Company, calculated immediately prior to the events described in (i) or (ii) as follows, contingent upon (i) the filing of a registration statement relating to the public offering of Company's common stock or (ii) the signing of a definitive agreement regarding a change in control occurring prior to the initial public offering of the Company's common stock. The total number of shares subject to the contingent warrant outstanding based on the number of outstanding common stock and common stock equivalents at March 31, 1999 was 403,772. The exercise price, in the case of (i), is 90% of the price to the public or, in the case of (ii), is 80% of the cash value of a share of common stock if the event takes place before December 31, 1999 or 90% of the cash value of a share of common stock if the event takes place on or after January 1, 2000. In the event of an exercise of the warrants pursuant to the filing of a registration statement, the maximum number of shares of common stock purchased at that point shall not exceed 10% of the number of shares registered for sale in the public offering and any residual unexpired warrants shall become exercisable at the next public offering of the Company's common stock. The value of such warrants will be charged to operating results in the period they become exercisable.

4. Debt

The Company has a Loan and Security Agreement (the "Agreement") with a financial institution, which provides for a maximum credit facility of $2,000,000. The credit facility is limited to the Company's eligible receivables, as defined, plus outstanding letters of credit with the bank. Borrowings bear

interest at the bank's prime rate (7.75% at March 31, 1999) plus 0.25%. The Company may request a maximum of $400,000 in letters of credit to be issued against the credit facility. At March 31, 1999, there were no obligations outstanding under this facility. This facility expired in May 1999.

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

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 5. Stockholders' Equity At March 31, 1999, convertible preferred stock (no par value) consists of:

	Shares Designated	Shares Outstanding	Price Per Share	Amount (Net of Issuance Costs)	Aggregate Liquidation Preference
Series A.....	7,000,000	7,000,000	$0.40	$ 2,786,304	$ 2,800,000
Series B.....	4,100,000	4,100,000	$2.00	8,169,049	8,200,000
	11,100,000	11,100,000		$10,955,353	$11,000,000

Significant terms of the convertible preferred stock are as follows:

. Each share is convertible, at the option of the holder, into one share of common stock (subject to adjustments for events of dilution). Shares of Series A and B will be automatically converted into common stock upon the closing of a public offering yielding proceeds in excess of $7,500,000 and at a price of not less than $1.60 and $4.00 per share, respectively, or upon the approval (by vote or written consent) of at least 66 2/3% of the then outstanding shares of Series A or at least a majority of the then outstanding shares of Series B.

. Each share has the same voting rights as the number of shares of common stock into which it is convertible.

. In the event of liquidation, dissolution or winding up of the Company, the preferred shareholders of Series A and Series B shall receive an amount equal to $0.40 and $2.00 per share, respectively, plus an amount equal to all declared but unpaid dividends on each share. Any remaining assets will be distributed among the holders of Series A and Series B preferred stock and common stock, pro rata, based on the number of shares of common stock held by each shareholder on an as-converted basis. In total, the holders of Series A and Series B preferred stock shall not be entitled to receive more than $1.00 and $5.00 per share, respectively.

. Holders of preferred stock are entitled to annual noncumulative dividends of $0.04 and $0.16 per share for Series A and Series B, respectively, when and if declared by the Board of Directors, prior to any dividends declared on common stock. No such dividends have been declared.

Restricted Stock--During fiscal year 1996 and the nine months ended March 31, 1999, the Company issued 4,324,000 and 80,000 shares of common stock at a total price of $9,035 and $80,000, respectively, to officers and employees of the Company. The shares are subject to repurchase by the Company at the original purchase price per share upon termination of employment prior to vesting of such shares. The restricted shares vest over periods ranging from one to four years in accordance with the terms of the original stock purchase agreement. At March 31, 1999, approximately 136,250 outstanding shares of such stock were subject to repurchase.

Stock-Based Compensation--In connection with options granted to purchase common stock, the Company recorded deferred stock compensation of $30,000, $1,241,000 and $2,667,000 in fiscal years 1997 and 1998 and the nine months ended March 31, 1999, respectively. Such amounts represent, for employee stock options, the difference between the exercise price and the fair value of the Company's common stock at the date of grant, and, for non-employee options, the deemed fair value of the option at the date of vesting. At March 31, 1999, unvested options granted to non-employees totaled 44,427. The deferred charges for employee options are being amortized to expense through fiscal year 2003 and the deferred charges for non employee options are NetIQ CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 being amortized to expense through the end of fiscal year 1999. Stock-based compensation expense of $10,000, $250,000 and $1,355,000 was recognized during fiscal years 1997 and 1998 and the nine months ended March 31, 1999, respectively.

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

Conversion of convertible preferred stock..... 11,100,000 Issuance under stock option plan..... 4,270,007 Contingent common stock warrants outstanding..... 403,772 Total..... 15,773,779 Stock Option Plan--Under the Company's 1995 Stock Option Plan (the "Plan") 5,950,000 shares are reserved for issuance to employees, consultants and directors. Incentive stock options are granted at fair market value (as determined by the Board of Directors) at the date of grant; nonstatutory options and stock sales may be offered at not less than 85% of fair market value. Generally, options become exercisable over four years and expire ten years after the date of grant.

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

	Shares	Weighted-Average Exercise Price
Outstanding, July 1, 1995.....	--	--
Granted (weighted-average fair value of $0.00).....	1,151,000	$0.04
Outstanding, June 30, 1996 (80,000 shares exercisable at $0.04).....	1,151,000	0.04

Granted (weighted-average fair value of $0.02)	1,426,750	0.07
Exercised	(217,375)	0.04
Canceled	(225,000)	0.04
Outstanding, June 30, 1997 (412,062 shares exercisable at $0.04)	2,135,375	0.06
Granted (weighted-average fair value of $0.84)	1,508,500	0.20
Exercised	(285,375)	0.05
Canceled	(4,000)	0.20
Outstanding, June 30, 1998 (1,035,321 shares exercisable at a weighted average price of $0.09)	3,354,500	0.13
Granted (weighted-average fair value of $2.04)	1,028,599	1.33
Exercised	(1,177,243)	0.15
Canceled	(33,750)	0.20
Outstanding, March 31, 1999	3,172,106	$0.51

At March 31, 1999, 1,097,901 shares were available under the Plan for future grant.

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 The following table summarizes information concerning options outstanding as of March 31, 1999:

	Options Outstanding			Options Vested	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Vested at March 31, 1999	Weighted Average Exercise Price
$0.04-$0.20	2,374,943	8.30	$0.15	601,447	$0.12
$1.00-$2.00	730,163	9.69	1.17	259,750	1.00
$6.00	67,000	9.97	6.00	3,000	6.00
$0.04-$6.00	3,172,106	8.65	$0.51	864,197	$0.41

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

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

	Year Ended June 30,			Nine Months Ended March 31,
	1996	1997	1998	1999
Estimated life (in years)	3.97	3.67	4.0	4.0
Expected volatility	0	0	0	0
Risk-free interest rate	6.0%	6.0%	5.6%	6.0%

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

	Year Ended June 30,			Nine Months Ended March 31,
	1996	1997	1998	1999
Net Loss:				
As reported	$(909)	$(2,281)	$(3,111)	$ (501)
Pro forma	(909)	(2,281)	(3,395)	(1,336)
Basic and diluted net loss per share:				
As reported	$(1.03)	$ (1.07)	$ (0.89)	$(0.10)
Pro forma	(1.03)	(1.07)	(0.97)	(0.27)

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 6. Net Loss per Share The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share (in thousands).

Year Ended June 30,			Nine Months Ended March 31,	
1996	1997	1998	1998	1999
			(Unaudited)	
Net loss (numerator), basic and diluted	$ (909)	$(2,281)	$(3,111)	$(2,866)	$ (501)
Shares (denominator):					
Weighted average common shares outstanding	3,962	4,416	4,649	4,619	5,255
Weighted average common shares outstanding subject to repurchase	(3,081)	(2,294)	(1,153)	(1,320)	(262)
Shares used in computation, basic and diluted	881	2,122	3,496	3,299	4,993
Net loss per share, basic and diluted	$ (1.03)	$ (1.07)	$ (0.89)	$ (0.87)	$(0.10)

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

	Year Ended June 30,			Nine Months Ended March 31,	
	1996	1997	1998	1998	1999
				(Unaudited)	
Convertible preferred stock	7,000	11,100	11,100	11,100	11,100
Shares of common stock subject to repurchase	2,729	1,573	440	714	136
Outstanding options	1,151	2,135	3,355	2,740	3,172
Warrants	--	--	--	--	404
Total	10,880	14,808	14,895	14,554	14,812

7. Income Taxes

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

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

Net deferred tax assets:			
Net operating loss carryforwards	$ 1,212	$ 2,897	$ 861
Accruals deductible in different periods	(7)	(373)	783
Research and development and alternative minimum tax credit	--	140	508
Other	--	(173)	(75)
	1,205	2,491	2,077
Valuation allowance	(1,205)	(2,491)	(2,077)
Total	$ --	$ --	$ --

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as net operating loss and tax credit carryforwards. Due to the uncertainty surrounding the realization of the benefits of its favorable tax attributes in future tax returns, the Company has fully reserved its net deferred tax assets.

For all years presented, the Company's effective tax rate differs from the federal statutory tax rate primarily due to changes in the valuation allowance against net deferred tax assets.

Due to the Company's net losses, no provision for income taxes was recorded for fiscal years 1996, 1997 and 1998 and the nine months ended March 31, 1999.

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

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

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

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

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

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 10. Major Customers Five customers accounted for 33%, 28%, 15%, 14% and 10% of accounts receivable at June 30, 1997. One customer accounted for 10% of accounts receivable at June 30, 1998. No single customer accounted for 10% of accounts receivable at March 31, 1999. Two customers accounted for 45% and 12% of total revenue in fiscal 1997. No single customer accounted for greater than 10% of total revenue in fiscal 1998 or for the nine months ended March 31, 1999.

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

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

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

12. Related Party Transaction During fiscal years 1996, 1997 and 1998 and the nine months ended March 31, 1999, a member of the Company's board of directors earned $55,000, $60,000, $60,000 and $45,000, respectively, in consulting fees.

13. Subsequent Events On May 19, 1999, the Board of Directors approved, subject to stockholders approval, the following:

. adoption of the 1999 Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, eligible employees are allowed to have salary withholdings of up to 15% of their base compensation to purchase shares of common stock at a price equal to 85% of the lower of the market value of the stock at the beginning or end of defined purchase periods. The initial purchase period commences upon the effective date for the initial public offering of the Company's common stock. The Company has initially reserved 750,000 shares of common stock under this plan, plus an annual increase to be added on the first day of the Company's fiscal year beginning July 1, 2000 equal to the lesser of (i) 1,000,000 shares, (ii) 2% of the shares of common stock outstanding on the last day of the preceding fiscal year or (iii) an amount determined by the Board.

NetIQ CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Years Ended June 30, 1996, 1997 and 1998 and the Nine Months Ended March 31, 1999 . amendment of the 1995 Stock Option Plan ("Stock Plan"). The number of shares of common stock of the Company available for issuance under the Stock Plan was increased by 2,050,000 shares from 5,950,000 to 8,000,000 shares, plus an annual increase, effective on the first day of each fiscal year, beginning July 1, 2000, equal to the lesser of (i) 4% of the shares of common stock outstanding on the last day of the preceding fiscal year, (ii) 2,000,000 shares or (iii) an amount determined by the Company's Board of Directors. Additionally, the Stock Plan includes an automatic nondiscretionary grant mechanism that provides that options will be granted to non-employee directors who on the date of grant do not beneficially own 1% or more of the total voting power of the Company's voting securities. The Stock Plan specifically provides for an initial automatic grant of an option to purchase 12,500 shares of common stock to a non-employee director who first becomes a director after the Company's initial public offering. Each non-employee director who has served on the board for at least six months will subsequently be granted an option to purchase 12,500 shares of common stock on the date of the annual meeting of stockholders. However, if the first annual meeting following the Company's initial public offering falls within six months of the effective date of the initial public offering no grants will be made until the following annual meeting. Each option granted to an outside director under this program will have a term of five years and the shares subject to these options will be fully vested on the date of grant. The exercise price of these options will be 100% of the fair market value per share of common stock on the date of grant.

. reincorporation of the Company in the State of Delaware and the associated exchange of one share of common stock or preferred stock of the Company for every share of Common Stock or preferred stock, as the case may be, of the Company's California predecessor. Such reincorporation and stock exchange will become effective prior to the effective date of the initial public offering contemplated by the Company, and . an increase of authorized shares of common stock to 150,000,000 shares and creation of newly undesignated preferred stock totaling 5,000,000 shares, contingent upon the reincorporation of the Company in Delaware and the closing of the initial public offering contemplated by the Company.

[Descriptive text accompanying NetIQ logo and awards logo] NetIQ is a leading provider of performance and availability management solutions for Windows NT-based systems and business-critical applications. The NetIQ AppManager Suite enables organizations to centrally manage the performance of their distributed Windows NT environment, help ensure availability through automated monitoring, correction and reporting features and help lower the total cost of ownership.

NetIQ's technological innovation and customer acceptance has led to numerous industry awards, including:

. Named Industry's Fastest Growing Windows ISV - Microsoft and CMP Media (1999) . Codie Award Finalist for Best Enterprise Management Tool (1999) . Well-Connected Award for Best Messaging Management Solution - Networld+Interop 98 Las Vegas (1998) . CrossRoads98 A-List Award - Open Systems Advisor (1998) . One of the 100 Hottest Emerging Technology Companies - Computerworld (1997) . PC Week "Best of Comdex" Finalist (1997) [NetIQ LOGO APPEARS HERE]

Part Ii

Information Not Required in Prospectus

ITEM 13. Other Expenses of Issuance and Distribution The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by NetIQ in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee.

SEC registration fee	$ 12,778
NASD filing fee	5,100
Nasdaq National Market listing fee	95,000
Printing and engraving costs	200,000
Legal fees and expenses	400,000
Accounting fees and expenses	400,000
Blue Sky fees and expenses	5,000
Transfer Agent and Registrar fees	10,000
Miscellaneous expenses	7,122
Total	1,135,000

ITEM 14. Indemnification of Directors and Officers Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

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

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

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

ITEM 15. Recent Sales of Unregistered Securities Since incorporation in June 1995, we have issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under such Rule 701. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationships with NetIQ, to information about NetIQ.

1. In July 1995, NetIQ issued and sold 4,150,000 shares of common stock to founders and directors at a purchase price per share of $0.0005.

. In December 1995 and April 1996, NetIQ issued and sold a total of 174,000 shares of common stock to two directors at a purchase price of $0.04.

3. Pursuant to NetIQ's 1995 Stock Option Plan, from inception to March 31, 1999, we issued and sold an aggregate of 1,679,993 shares of common stock to certain of its employees, officers, directors and consultants.

4. On September 14, 1995, we issued and sold 7,000,000 shares of Series A Preferred Stock to a total of 28 investors for an aggregate purchase price of $2,800,000.

5. On May 14, 1997 we issued and sold 4,100,000 shares of Series B Preferred Stock to a total of 32 investors for an aggregate purchase price of $8,200,000.

6. On March 10, 1999, we issued to one party a warrant to purchase that number of shares of Common Stock equal to 2% of the outstanding voting stock of the company on a fully diluted basis as of the date of exercise at an exercise price of 90% of the price to public in an initial public offering undertaken by us.

ITEM 16. Exhibits and Financial Statement Schedules (a) Exhibits Number Exhibit Title 1.1 Form of Underwriting Agreement 3.1A Certificate of Incorporation of NetIQ currently in effect 3.1B Form of Restated Certificate of Incorporation of NetIQ to be in effect after the closing of the offering made under this Registration Statement 3.2A Bylaws of NetIQ currently in effect 3.2B Bylaws of NetIQ to be in effect after the closing of the offering made under this Registration Statement 4.1 Specimen Common Stock Certificate 4.2 Registration Rights Agreement, dated May 14, 1997, by and among NetIQ and certain NetIQ stockholders identified therein 5.1 Form of Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation 10.1 Form of Indemnification Agreement between NetIQ and each of its directors and executive officers 10.2 Form of Change of Control Severance Agreements

between NetIQ and each of its executive officers 10.3A Amended and Restated 1995 Stock Plan 10.3B Form of Stock Option Agreement under the Amended and Restated 1995 Stock Plan 10.3C Form of Director Option Agreement under 1995 the Amended and Restated Stock Plan 10.4A 1999 Employee Stock Purchase Plan 10.4B Form of Subscription Agreement under the 1999 Employee Stock Purchase Plan 10.5A+ BasicScript License Agreement, dated August 27, 1996, between NetIQ and Henneberry Hill Technologies Corporation doing business as Summit Software Company 10.5B Amendment, dated May 21, 1999, to the BasicScript License Agreement between NetIQ and Henneberry Hill Technologies Corporation doing business as Summit Software Company Number Exhibit Title

```
10.6+  Software Distribution Agreement, dated June 23, 1998, between NetIQ and
       Tech Data Product Management, Inc.
10.7   Agreement of Sublease, dated July 31, 1998, between NetIQ and AMP
       Incorporated
10.8   Confidential Settlement Agreement, dated March 10, 1999, by and between
       Compuware Corporation, NetIQ Corporation and the individuals named
       therein
21.1   List of subsidiaries
23.1*  Independent Auditors' Consent
23.3   Form of Consent of Counsel (included in Exhibit 5.1)
24.1   Power of Attorney (see Page II-4)
27.1   Financial Data Schedule
```

* To be filed by amendment + Confidential treatment requested for portions of these agreements.

(b) Financial Statement Schedules (1) Schedule II - Valuation and Qualifying Accounts.

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

ITEM 17. Undertakings The undersigned hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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

The undersigned Registrant hereby undertakes that:

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

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

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

Signatures

Pursuant to the requirements of the Securities Act, NetIQ Corporation has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on the 26th day of May, 1999.

Netiq Corporation

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

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ching-Fa Hwang and James A. Barth and each of them, his attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Name	Title	Date
/s/ Ching-Fa Hwang _____ (Ching-Fa Hwang)	President, Chief Executive Officer and Director (Principal Executive Officer)	May 26, 1999

/s/ James A. Barth _____ (James A. Barth)	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	May 26, 1999

/s/ Kuo-Wei Chang Director May 26, 1999 (Kuo-Wei Chang) /s/ Her-Daw Che Vice President, May 26, 1999 _____ Engineering and Director (Her-Daw Che) /s/ Louis Cole Director May 26, 1999 (Louis Cole) /s/ Alan W. Kaufman Director May 26, 1999 (Alan W. Kaufman) /s/ Ying-Hon Wong Director May 26, 1999 (Ying-Hon Wong))

Independent Auditors' Report on Schedule

To the Board of Directors and Stockholders of NetIQ Corporation:

Our audits of the consolidated financial statements of NetIQ Corporation (the Company) for the years ended June 30, 1996, 1997, 1998, and the nine months ended March 31, 1999 also included the financial statement schedule of the Company, listed in Item 16(b). The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

San Jose, California May 19, 1999 To the Board of Directors and Stockholders of NetIQ Corporation:

The accompanying consolidated financial statements/schedule are required to disclose, pursuant to rules of the Securities and Exchange Commission, an unaudited proforma balance sheet reflecting the exercise of certain warrants to acquire shares of Common Stock at an exercise price of 90% of the planned initial public offering price whose proceeds are to be used to substantially repay a $5,000,000 loan under a subordinated secured promissory note (See Note 3). The above opinion is in the form that will be signed by Deloitte & Touche LLP upon inclusion of such disclosure in the accompanying consolidated financial statements and assuming that from May 19, 1999 to the date such information has been included, no other events shall have occurred that would affect the accompanying consolidated financial statements/schedule or notes thereto.

Deloitte & Touche LLP San Jose, California May 26, 1999 SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS (in thousands)

	Balance at Beginning of Period	Charged to cost and expenses	Deductions/end of period	Balance at end of period
Year ended June 30, 1996				
Allowance for doubtful accounts.....	$ --	$ --	$--	$ --
Year ended June 30, 1997				
Allowance for doubtful accounts.....	$ --	$ --	$--	$ --
Year ended June 30, 1998				
Allowance for doubtful accounts.....	$ --	$307	$--	$307
Nine months ended March 31, 1999.....	$307	$198	$--	$505

Exhibit Index

Number Exhibit Title

1.1 Form of Underwriting Agreement 3.1A Certificate of Incorporation of NetIQ currently in effect 3.1B Form of Restated Certificate of Incorporation of NetIQ to be in effect after the closing of the offering made under this Registration Statement 3.2A Bylaws of NetIQ currently in effect 3.2B Bylaws of NetIQ to be in effect after the closing of the offering made under this Registration Statement 4.1 Specimen Common Stock Certificate 4.2 Registration Rights Agreement, dated May 14, 1997, by and among NetIQ and certain NetIQ stockholders identified therein 5.1 Form of Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation 10.1 Form of Indemnification Agreement between NetIQ and each of its directors and executive officers 10.2 Form of Change of Control Severance Agreements between NetIQ and each of its executive officers 10.3A Amended and Restated 1995 Stock Plan 10.3B Form of Stock Option Agreement under the Amended and Restated 1995 Stock Plan 10.3C Form of Director Option Agreement under 1995 the Amended and Restated Stock Plan 10.4A 1999 Employee Stock Purchase Plan 10.4B Form of Subscription Agreement under the 1999 Employee Stock Purchase Plan 10.5A+ BasicScript License Agreement, dated August 27, 1996, between NetIQ and Henneberry Hill Technologies Corporation doing business as Summit Software Company 10.5B Amendment, dated May 21, 1999, to the BasicScript License Agreement between NetIQ and Henneberry Hill Technologies Corporation doing business as Summit Software Company 10.6+ Software Distribution Agreement, dated June 23, 1998, between NetIQ and Tech Data Product Management, Inc. 10.7 Agreement of Sublease, dated July 31, 1998, between NetIQ and AMP Incorporated 10.8 Confidential Settlement Agreement, dated March 10, 1999, by and between Compuware Corporation, NetIQ Corporation and the individuals named therein 21.1 List of subsidiaries 23.1* Independent Auditors' Consent 23.3 Form of Consent of Counsel (included in Exhibit 5.1) 24.1 Power of Attorney (see Page II-4) 27.1 Financial Data Schedule * To be filed by amendment + Confidential treatment requested for portions of these agreements. </TEXT>