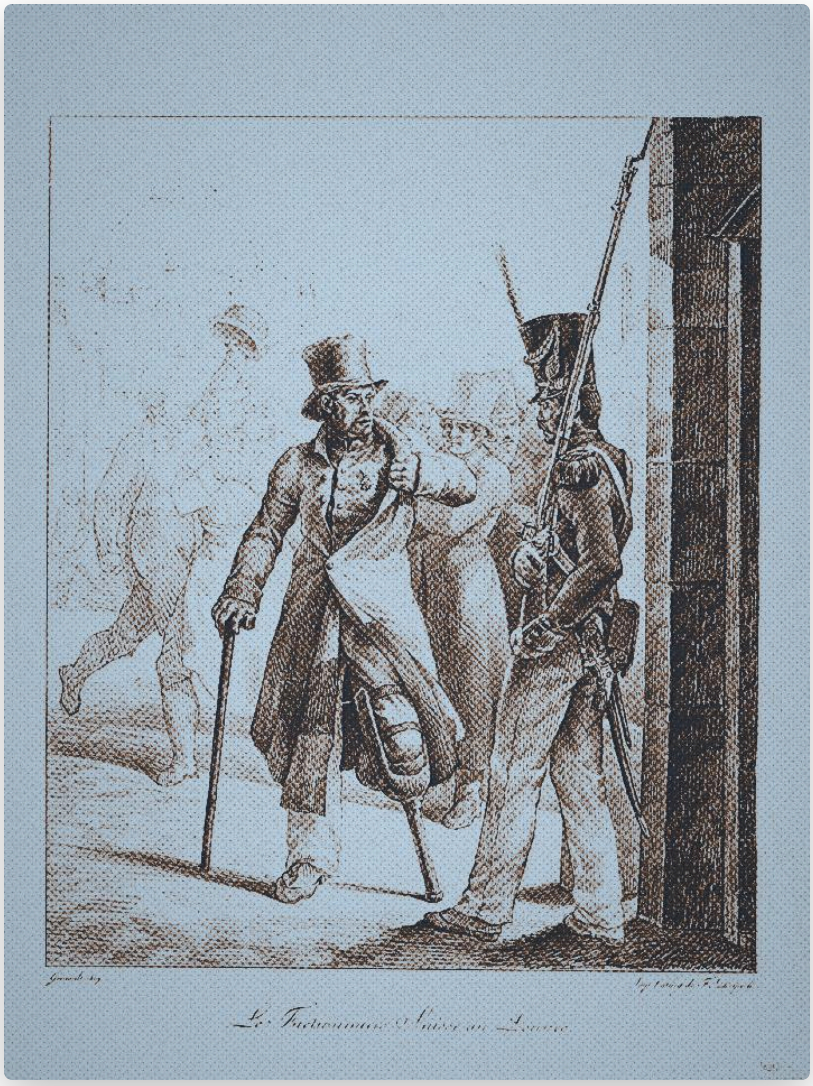
FORM S-1 · REGISTRATION STATEMENT

Websense Inc

IPO priced 2000-03-27 · $18.00 a share · WBSN



From S1 Directory · www.s1directory.com/s1/websense-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1098277/0000936392-00-000076.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 28, 2000

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

WEBSENSE, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7373	51-0380839
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

10240 SORRENTO VALLEY ROAD SAN DIEGO, CALIFORNIA 92121 (858) 320-8000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

JOHN B. CARRINGTON

PRESIDENT, CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD WEBSENSE, INC. 10240 SORRENTO VALLEY ROAD SAN DIEGO, CALIFORNIA 92121 (858) 320-8000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

RICHARD A. FINK, ESQ. MICHAEL S. KAGNOFF, ESQ. JEFFREY C. THACKER, ESQ. BROBECK, PHLEGER & HARRISON LLP 38 TECHNOLOGY DRIVE IRVINE, CALIFORNIA 92618 (949) 790-6408	MARGARET H. KAVALARIS, ESQ. SCOTT M. STANTON, ESQ. MARTY B. LORENZO, ESQ. GRAY CARY WARE FREIDENRICH LLP 4365 EXECUTIVE DRIVE, SUITE 1600 SAN DIEGO, CALIFORNIA 92121 (858) 677-1400

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

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, 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, $.01 par value.....	$60,000,000	$ 15,840

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE IN ACCORDANCE WITH RULE 457(O) UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

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

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. UNDERWRITERS MAY NOT CONFIRM SALES OF THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JANUARY 28, 2000

PRELIMINARY PROSPECTUS

SHARES

WEBSENSE LOGO

COMMON STOCK

This is an initial public offering of common stock by Websense, Inc. The estimated initial public offering price will be between $ and $ per share.

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. WE HAVE APPLIED TO HAVE OUR COMMON STOCK APPROVED FOR QUOTATION ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL WBSN.

	PER SHARE	TOTAL
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to Websense, Inc., before expenses	$	$

WE HAVE GRANTED THE UNDERWRITERS AN OPTION FOR A PERIOD OF 30 DAYS TO PURCHASE UP TO ADDITIONAL SHARES OF COMMON STOCK.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

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

CHASE H&Q SG COWEN WIT CAPITAL CORPORATION , 2000

[COLOR ARTWORK AND GRAPHICS TO FOLLOW]

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We own or have rights to trademarks on tradenames that we use in conjunction with the sale of our products and services. Websense is a registered trademark that we own. Websense Enterprise, AfterWork and AfterWork.com are trademarks that we own. This prospectus also contains trademarks and tradenames of other companies.

We use market data and industry forecasts in this prospectus, which we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, we believe that the surveys and market research we or others have performed are reliable, but we have not independently verified this information. Neither we nor any of the underwriters represents that any such information is accurate.

Prospectus Summary

This summary highlights selected information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in the common stock. You should read the entire prospectus carefully, including "Risk Factors" and the financial statements and notes thereto, before making an investment decision.

Websense, Inc.

We are the leading provider of employee Internet management solutions that enable businesses to monitor, report and manage how their employees use the Internet. Our Websense Enterprise solution gives business managers the ability to implement Internet access policies for different users and groups within their businesses, and supports their efforts to improve employee productivity, conserve network bandwidth and mitigate potential legal liability. Our solution, which is sold on a subscription basis, consists of a scalable, multi-platform software application that references our proprietary database of Web site addresses. As of January 31, 2000, our solutions were in use by more than 7,500 organizations in over 50 countries, including more than 200 of the Fortune 500 and over 25 of the Nikkei 225. Users of our solution include American Express Company, Bell South Corporation, Coca-Cola Company, Compaq Computer Corporation, Deloitte & Touche LLP, General Motors Corporation, International Business Machines Corporation, JP Morgan & Co., Mobil Corporation, Pfizer Inc., Proctor & Gamble Co., Siemens AG, Texas Instruments Incorporated and Toshiba Corporation.

The Internet has emerged as an important communications and commerce platform for enterprises around the world. Many companies are using the Internet to streamline business processes and enable business applications that are accessed over the corporate network. These companies are making substantial investments in Internet connectivity and are providing high-speed Internet access to large

numbers of their employees. The Internet has also become a highly popular consumer medium for entertainment, information and commerce. International Data Corporation, or IDC, a market research firm, projects that the number of Internet users worldwide will reach 316 million by 2002. Because Internet access in the workplace is fast, convenient and essentially free to employees, employees tend to use their employers' Internet connections for personal or recreational purposes during work hours. IDC estimates that between 30% and 40% of employee Internet activity in the workplace is non-work-related, and that roughly 70% of non-business-related e-commerce is conducted through an Internet connection at work. Employees' personal use of company Internet access during business hours can result in lost employee productivity, increased network bandwidth consumption and potential legal liability.

Given the Internet's increasingly important role as a business tool and its continuing adoption as a consumer medium for entertainment, information and commerce, management of employee Internet access is increasingly becoming a priority for businesses worldwide. Our solution enables businesses to rapidly implement and configure Internet access policies for specific groups, user types and individuals within an organization. Our flexible and easy-to-use software applications operate in conjunction with our proprietary database, which is available for daily incremental downloads. The software component of our solutions provides managers with policy options such as blocking Web sites completely or partially, setting time periods for access, allowing access but generating an exception report, or postponing access until after work hours. Our database is organized in 54 categories and encompasses more than 800,000 Web sites representing approximately 85 million Web page addresses. We add approximately 2,000 newly categorized Web sites each business day using a proprietary process of automated site collection, algorithmic classification and manual verification. Websense Enterprise is easy to deploy and use, and has minimal impact on an organization's information technology, or IT, department. Our highly scalable solution requires no additional hardware and supports a broad range of network platforms, including leading proxy servers, firewalls and cache engines.

Our primary strategic objective is to maintain and strengthen our position as the leading provider of employee Internet management solutions. We plan to achieve this objective by pursuing both subscription renewals and enterprise-wide deployment of our solution within existing customers. We also believe that by using our installed base of large, established companies as reference accounts, we can attract new customers and deepen our market penetration. We also intend to expand our global network of more than 450 value-added resellers, or VARs, and distributors which include AT&T Corporation, GTE Network Services, Unipalm and UUNET Technologies, Inc. We plan to leverage our key relationships with original equipment manufacturers, or OEMs, and technology providers such as CacheFlow Inc., Check Point Software Technologies Ltd., Cisco Systems, Inc., Inktomi Corporation and Nokia Corporation. We also plan to expand the functionality of Websense Enterprise, further develop our database-building technologies and capitalize on incremental revenue opportunities through the introduction of new products and databases.

Our business was founded in 1994 as NetPartners Internet Solutions, a reseller of computer network security solutions. In 1996, we released Websense Internet Screening System, our first product as a software developer, and, in 1999, we changed our name to Websense, Inc.

We maintain a Web site at www.websense.com. Information contained on our Web site does not constitute part of this prospectus. Our principal executive offices are located at 10240 Sorrento Valley Road, San Diego, California 92121, and our telephone number is (858) 320-8000.

The Offering

Common stock offered by us ..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... Selling and marketing, research and development, operating losses, working capital and general corporate purposes. See "Use of Proceeds."

Proposed Nasdaq National Market Symbol..... WBSN This table is based on shares outstanding as of December 31, 1999, and excludes the following:

- 3,161,551 shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price of $0.83 per share;

- 112,500 shares of common stock issuable upon exercise of outstanding warrants at a weighted average exercise price of $1.69 per share; and - 336,328 shares of common stock available for future issuance under our various stock plans.

Except as otherwise indicated, all information in this prospectus is based on the following assumptions:

- the conversion of each outstanding share of preferred stock into one share of common stock upon completion of this offering;

- no exercise of the underwriters' overallotment option; and - amendments to our certificate of incorporation and bylaws to be effective upon completion of this offering.

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

The following table sets forth summary financial data for our company. You should read this information together with the financial statements and the notes to those statements appearing elsewhere in this prospectus and the information under "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Years Ended December 31, 1995 1996 1997 1998 1999

STATEMENT OF OPERATIONS DATA:					
Revenues:					
Subscriptions	$ --	$ 14	$ 637	$ 2,503	$ 7,141
Other products and services	882	2,576	4,383	4,416	1,506
Total revenues	882	2,590	5,020	6,919	8,647
Gross margin	404	1,021	1,588	2,459	6,372

Income (loss) from operations	276	31	(1,427)	(5,642)	(9,479)
Net income (loss)	276	27	(1,462)	(5,609)	(9,254)
Historical net income (loss) per share:					
Basic and diluted(1)	--	$ 0.00	$ (0.21)	$ (0.80)	$ (1.25)
Weighted average shares -- basic and diluted	--	7,000	7,000	7,000	7,403

AS OF DECEMBER 31, 1999 PRO FORMA ACTUAL AS ADJUSTED

BALANCE SHEET DATA:			
Cash and cash equivalents	$10,735	$	
Working capital	5,222		
Total assets	16,756		
Deferred revenue	11,593	11,593	
Long-term debt	1,497	1,497	
Total stockholders' equity	1,642		

The pro forma as adjusted column in the balance sheet data reflects:

- the conversion of all of our outstanding preferred stock into common stock upon completion of this offering; and - our sale of shares of common stock at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses that we will pay. (1) See Note 1 of "Notes to Financial Statements" for a description of the computation of per share information. We have not presented share and per share data for 1995 because we operated as a sole proprietorship during that period.

Risk Factors

You should carefully consider the following risk factors in addition to other information in this prospectus before purchasing our common stock. The risks and uncertainties described below are those that we currently deem to be material and that we believe are specific to our company, our industry and this offering. If any of these or other risks actually occur, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

WE HAVE A HISTORY OF LOSSES AND, BECAUSE WE EXPECT OUR OPERATING EXPENSES TO INCREASE IN THE FUTURE, WE MAY NEVER BECOME PROFITABLE.

We have experienced net losses in each of the last 12 fiscal quarters, and as of December 31, 1999, we had an accumulated deficit of $16.4 million. We expect to continue to incur net losses for at least the next several quarters. While we are unable to predict accurately our future operating expenses, we currently expect these expenses to increase substantially, as we, among other things:

- expand our domestic and international selling and marketing activities;

- increase our research and development efforts to upgrade our existing solutions and develop new products and technologies;

- develop and expand our proprietary database and systems;

- upgrade our operational and financial systems, procedures and controls;

- hire additional personnel, including additional engineers and other technical staff; and - assume the responsibilities of being a public company.

We will need to significantly increase our revenues to achieve and maintain profitability. If we fail to increase revenues from subscription fees to Websense Enterprise, we will continue to experience losses indefinitely. Although our revenues have grown in recent quarters, we may not be able to continue this growth or achieve or maintain profitability. We also may fail to accurately estimate and assess our increased operating expenses as we grow. If our operating expenses exceed our expectations, our financial performance will be adversely affected, which could cause the price of our common stock to decline.

WE ARE AN EARLY-STAGE COMPANY WITH AN UNPROVEN BUSINESS MODEL, WHICH MAKES IT DIFFICULT TO EVALUATE OUR CURRENT BUSINESS AND FUTURE PROSPECTS.

We have only a limited operating history upon which to base an evaluation of our current business and future prospects. We began offering our employee Internet management solutions in September 1996, but only since May 1998 have we directed a majority of our focus on these solutions. We introduced the most recent version of Websense Enterprise in December 1999. The revenue and income potential of our business and our market are unproven. In addition, because of our limited operating history and because the market for employee Internet management solutions is relatively new and rapidly evolving, we have limited insight into trends that may emerge and affect our business. We may make errors in predicting and reacting to relevant business trends, which could harm our business. Before investing, you should consider an investment in our stock in light of the risks, uncertainties and difficulties frequently encountered by early-stage companies in new and rapidly evolving markets such as ours. We may not be able to successfully address any or all of these risks. Failure to adequately do so could cause our business, results of operations and financial condition to suffer.

BECAUSE WE EXPECT TO DERIVE SUBSTANTIALLY ALL OF OUR FUTURE REVENUE FROM SUBSCRIPTION FEES FOR WEBSENSE ENTERPRISE, ANY FAILURE OF THIS SOLUTION TO SATISFY CUSTOMER DEMANDS OR TO ACHIEVE MORE WIDESPREAD MARKET ACCEPTANCE WILL SERIOUSLY HARM OUR BUSINESS.

Substantially all of our revenues come from subscriptions for Websense Enterprise, and we expect this trend will continue for the foreseeable future. As a result, if for any reason revenues from our solutions decline or do not grow as rapidly as we anticipate, our operating results and our business will be significantly impaired. If Websense Enterprise fails to meet the needs of our target customers, or if it does not compare favorably in price and performance to competing solutions, our growth will be limited. We cannot assure you that our solution will achieve continued market acceptance. Our future financial performance also will depend, in part, on our ability to diversify our offerings by successfully developing, introducing and gaining customer acceptance of new solutions and enhanced versions of Websense Enterprise. We cannot assure you, however, that we will be successful in achieving market

acceptance of any new solutions that we develop or of enhanced versions of Websense Enterprise. Any failure or delay in diversifying our existing offerings could harm our business, results of operations and financial condition.

THE MARKET FOR EMPLOYEE INTERNET MANAGEMENT SOLUTIONS IS EMERGING, AND IF WE ARE NOT SUCCESSFUL IN PROMOTING AWARENESS OF THE NEED FOR OUR SOLUTION AND OF OUR WEBSENSE BRAND, OUR GROWTH MAY BE LIMITED.

We believe that many corporations are unaware of the existence or scope of problems caused by employee misuse of the Internet. In addition, there may be a time-limited opportunity to achieve and maintain a significant share of the market for employee Internet management solutions due in part to the emerging nature of this market and the substantial resources available to our existing and potential competitors. We are committing significant resources to promote awareness of the problems caused by employee misuse of Internet access in the workplace, but we cannot assure you that we will be successful in this effort. If employers do not recognize or acknowledge these problems, then the market for our solution may develop more slowly than we expect, which could adversely affect our operating results. Developing and maintaining awareness of our Websense brand is critical to achieving widespread acceptance of our existing and future employee Internet management solutions. Furthermore, we believe that the importance of brand recognition will increase as competition in our market develops. Successful promotion of our Websense brand will depend largely on the effectiveness of our marketing efforts and on our ability to develop reliable and useful products at competitive prices. As a result, we plan to increase our financial commitment to creating and maintaining brand awareness among potential customers. If we fail to successfully promote our Websense brand, or if our expenses to promote and maintain our Websense brand are greater than anticipated, our results of operations and financial condition could suffer.

WE MUST DEVELOP AND EXPAND OUR INDIRECT SALES CHANNELS TO INCREASE REVENUE AND IMPROVE OUR OPERATING RESULTS.

We currently sell our products both indirectly and directly, however, we intend to rely increasingly on our indirect sales channels. We depend on our indirect sales channels, including value-added resellers, or VARs, distributors, original equipment manufacturers, or OEMs, and Internet service providers, to offer Websense Enterprise to a larger customer base than we can reach through our direct sales efforts. We will need to expand our existing relationships and enter into new relationships to increase our current and future market share and revenue. We cannot assure you that we will be able to maintain and expand our existing relationships or enter into new relationships, or that any new relationships will be available on commercially reasonable terms. If we are unable to maintain and expand our existing relationships or enter into new relationships, we would lose customer introductions and co-marketing benefits and our operating results could suffer.

OUR RELIANCE ON INDIRECT SALES CHANNELS COULD RESULT IN REDUCED REVENUE GROWTH BECAUSE WE HAVE LITTLE CONTROL OVER OUR INDIRECT CHANNEL PARTNERS.

Our indirect sales channels accounted for approximately 70% of our total revenues in 1999. We anticipate that sales from our various indirect channel partners, including VARs, distributors, OEMs, Internet service providers and other partners, will account for an increasing percentage of our total revenues in future periods. None of our indirect channel partners is obligated to continue selling our solutions or to make any purchases from us. Our ability to generate increased revenue depends significantly upon the ability and willingness of our channel partners to market and sell our solutions to organizations worldwide. If they are unsuccessful in their efforts, our operating results will suffer. We cannot control the level of effort these channel partners expend or the extent to which any of them will be successful in marketing and selling our solutions. Many of our channel partners also market and sell products that compete with Websense Enterprise. We may not be able to prevent these channel partners from devoting greater resources to support our competitors' products.

WE FACE INCREASING COMPETITION FROM BETTER ESTABLISHED COMPANIES THAT MAY HAVE SIGNIFICANTLY GREATER RESOURCES, WHICH COULD PREVENT US FROM INCREASING REVENUE OR ACHIEVING OR SUSTAINING PROFITABILITY.

The market for our solutions is intensely competitive and is likely to become even more so in the future. Increased competition could result in pricing pressures, reduced sales, reduced margins or the failure of Websense Enterprise to achieve or maintain more wide-spread market acceptance, any of which would have a material adverse effect on our business, results of operations and financial condition. Our current principal competitors include:

- companies offering network filtering products, such as JSB Software Technologies plc., N2H2 Incorporated, Secure Computing Corporation and Symantec Corporation;

- companies offering network reporting products, such as Telemate Net Software, Inc. and WebTrends Corporation; and - companies offering client-based software filtering products, such as The Learning Company and Log-On Data Corporation.

We also face current and potential competition from vendors of Internet servers, operating systems and networking hardware, many of which now, or may in the future, develop and/or bundle employee Internet management solutions with their products. We also compete against, and expect increased competition from, traditional network management software developers and Web management service providers. Many of our current and potential competitors enjoy substantial competitive advantages, such as:

- greater name recognition and larger marketing budgets and resources;

- established marketing relationships and access to larger customer bases; and - substantially greater financial, technical and other resources.

As a result, they may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. For all of the foregoing reasons, we may not be able to compete successfully against our current and future competitors. See "Business -- Competition" for additional information regarding our competition.

OUR FUTURE GROWTH DEPENDS ON OUR EXISTING CUSTOMERS RENEWING AND PURCHASING ADDITIONAL SUBSCRIPTIONS TO WEBSENSE ENTERPRISE.

Our future success depends on achieving high customer renewal rates for subscriptions to Websense Enterprise. Subscription agreements for our solutions typically have a duration of 12, 24 or 36 months. Our customers have no obligation to renew their subscriptions upon expiration. We cannot assure you that we will continue to experience high renewal rates. In order to maintain our revenues we must continue to sell renewal subscriptions to our existing customers.

Our future success also depends on our ability to sell subscriptions to existing customers for additional employees within their respective organizations. Initial orders from customers often cover only a small percentage of the total number of their employees who have Internet access. As a result, to maintain and increase our revenues we must sell our existing customers additional subscriptions for Websense Enterprise. This may require increasingly sophisticated sales efforts targeting senior management and other management personnel associated with our customers' Internet infrastructure.

OUR DATABASE CATEGORIES AND OUR PROCESS FOR CLASSIFYING WEB SITES WITHIN THOSE CATEGORIES ARE SUBJECTIVE, AND WE MAY NOT BE ABLE TO CATEGORIZE WEB SITES IN ACCORDANCE WITH OUR CUSTOMERS' EXPECTATIONS.

We may not succeed in accurately categorizing Internet content to meet our customers' expectations. We rely upon a combination of automated filtering technology and human review to categorize Web sites in our proprietary database. Our customers may not agree with our determinations that particular Web sites should be included or not included in specific categories of our database. In addition, it is possible that our filtering processes may place objectionable material in categories that are generally unrestricted by our users' Internet access policies, which could result in employees having access to such material in the workplace. Any miscategorization could result in customer dissatisfaction and harm our reputation. Furthermore, we select our categories based on Web site content we believe employers want to manage. We may not now, or in the future, succeed in properly identifying the categories of Web site content that employers want to manage. Any failure to effectively categorize and filter Web sites according to our customers' expectations will impair the growth of our business and our efforts to increase brand acceptance.

OUR DATABASE MAY FAIL TO KEEP PACE WITH THE RAPID GROWTH AND TECHNOLOGICAL CHANGE OF THE INTERNET.

The success of Websense Enterprise depends on the breadth and accuracy of our database. Although our database currently catalogs more than 800,000 Web sites, it contains only a fraction of the material available on the Internet. In addition, the total number of Web sites is growing rapidly, and we expect this rapid growth rate to continue in the future. We cannot assure you that our database and database technologies will be able to keep pace with the growth in the number of Web sites, especially the growing number of Web sites containing foreign languages. Further, the ongoing evolution of the Internet will require us to continually improve the functionality, features and reliability of our database. Because Websense Enterprise can only manage access to Web sites included in our database, if our database does not contain a meaningful portion of relevant Web sites, the effectiveness of our

solution will be significantly diminished. Any failure of our database to keep pace with the rapid growth and technological change of the Internet will impair the market acceptance of our Websense Enterprise products, which in turn will harm our business, results of operations and financial condition.

OUR RECENT GROWTH HAS STRAINED OUR EXISTING PERSONNEL AND INFRASTRUCTURE RESOURCES, AND IF WE ARE UNABLE TO IMPLEMENT APPROPRIATE CONTROLS AND PROCEDURES TO MANAGE OUR GROWTH, WE MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT OUR BUSINESS PLAN.

We are currently experiencing a period of rapid growth in our operations, which has placed, and will continue to place, a significant strain on our resources. Our future success will depend, in part, upon the ability of our senior management to manage growth effectively. This will require us to:

- hire and train additional personnel in the United States and internationally;

- implement additional management information systems; and - further develop our administrative, financial and accounting systems and controls.

Any failure to successfully manage our growth could distract management attention, and result in our failure to execute on our business plan.

IF WE ACQUIRE ANY COMPANIES OR TECHNOLOGIES IN THE FUTURE, THEY COULD PROVE DIFFICULT TO INTEGRATE, DISRUPT OUR BUSINESS, DILUTE STOCKHOLDER VALUE AND ADVERSELY AFFECT OUR OPERATING RESULTS.

We may acquire or make investments in complementary companies, services and technologies in the future. We have not made any acquisitions or investments to date, and therefore our ability as an organization to make acquisitions or investments is unproven. If we fail to properly evaluate and execute acquisitions and investments, our business and prospects may be seriously harmed. To successfully complete an acquisition, we must:

- properly evaluate the technology;

- accurately forecast the financial impact of the transaction, including accounting charges and transaction expenses;

- integrate and retain personnel;

- combine potentially different corporate cultures; and - effectively integrate products and research and development, selling and marketing and support operations.

If we fail to do any of these, we may suffer losses or our management may be distracted from our day-to-day operations. In addition, if we finance acquisitions by issuing convertible debt or equity securities, existing stockholders may be diluted which could affect the market price of our stock.

WE ARE DEPENDENT ON OUR MANAGEMENT TEAM, AND THE LOSS OF ANY KEY MEMBER OF THIS TEAM MAY PREVENT US FROM IMPLEMENTING OUR BUSINESS PLAN IN A TIMELY MANNER.

Our success depends largely upon the continued services of our executive officers and other key management and development personnel. In particular, we rely on John B. Carrington, our President, Chief Executive Officer and Chairman. We are also substantially dependent on the continued service of our existing engineering personnel because of the complexity of our products and technologies. We do not have employment agreements with a majority of our executive officers, key management or development personnel and, therefore, they could terminate their employment with us at any time without penalty. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees could seriously harm our business, results of operations and financial condition. We cannot assure you that in such an event we would be able to recruit personnel to replace these individuals in a timely manner, or at all, on acceptable terms.

OUR MANAGEMENT TEAM WAS ONLY RECENTLY FORMED, AND OUR SUCCESS DEPENDS ON ITS ABILITY TO WORK TOGETHER EFFECTIVELY.

We hired Mr. Carrington in May 1999 and Douglas C. Wride, our Chief Financial Officer, in June 1999. In addition, a majority of our management team has joined us in the last 18 months. Our future success depends on the integration of this management team and its ability to work together effectively. If our management team fails to work together effectively, our business could be harmed.

BECAUSE COMPETITION FOR OUR TARGET EMPLOYEES IS INTENSE, WE MAY NOT BE ABLE TO ATTRACT AND RETAIN THE HIGHLY SKILLED EMPLOYEES WE NEED TO SUPPORT OUR PLANNED GROWTH.

To execute our growth plan, we must attract and retain highly qualified personnel. We need to hire additional personnel in virtually all operational areas, including selling and marketing, research and development, operations and technical support, customer service and administration. Competition for these personnel is intense, especially for engineers with high levels of experience in designing and developing software and Internet-related products. We cannot assure you that we will be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we fail to attract new personnel or retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

SALES TO CUSTOMERS OUTSIDE THE UNITED STATES HAVE ACCOUNTED FOR A SIGNIFICANT PORTION OF OUR REVENUE, AND WE EXPECT THIS TREND TO CONTINUE, WHICH EXPOSES US TO RISKS INHERENT IN INTERNATIONAL SALES.

We market and sell our products outside the United States through VARs, distributors and other resellers. International sales represented approximately 21% of our revenue in the year ended 1999. As a key component of our business strategy, we intend to expand our international sales. In addition to the risks associated with our domestic sales, our international sales are subject to the following risks:

- dependence on foreign distributors and their sales channels;

- the ability of our Websense Enterprise products to properly categorize and filter Web sites containing foreign languages;

- laws and business practices favoring foreign competitors;

- compliance with multiple, conflicting and changing governmental laws and regulations, including tax laws and regulations;

- longer accounts receivable payment cycles and other collection difficulties; and - regional economic and political conditions.

Such factors could have a material adverse effect on our future international sales. Any reduction in international sales, or our failure to further develop our international distribution channels, could have a material adverse effect on our business, results of operations and financial condition. Our international revenue is currently denominated in U.S. dollars. As a result, fluctuations in the value of the U.S. dollar and foreign currencies may make our solutions more expensive for international customers, which could harm our business. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuation.

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY, AND THESE FLUCTUATIONS MAY CAUSE OUR STOCK PRICE TO FALL.

Our quarterly operating results have varied significantly in the past and will likely vary significantly in the future. We plan to significantly increase our operating expenses as we, among other things, expand our selling and marketing activities, increase our research and development efforts and hire additional personnel. Our operating results could fluctuate during certain periods, including those in which we experience:

- high commission expenses;

- a concentration of marketing expenses for marketing activities, such as trade shows and advertising campaigns; and - a concentration of general and administrative expenses, such as recruiting expenses and professional services fees.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful and should not be relied upon as indicators of our future performance. It is possible that in some future periods, our results of operations may be below the expectations of public-market analysts and investors. If this occurs, the price of our common stock may decline.

ANY FAILURE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS COULD IMPAIR OUR ABILITY TO PROTECT OUR PROPRIETARY TECHNOLOGY AND ESTABLISH OUR WEBSENSE BRAND.

Intellectual property is critical to our success, and we rely upon trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our Websense brand. Websense is a registered United States trademark. We also have applied to register AfterWork and AfterWork.com as

trademarks. These trademark applications may not be granted. In addition, any of our trademarks may be challenged by others or invalidated through administrative process or litigation. We currently have no issued patents. We have two patent applications pending in the United States and two international patent applications pending which relate to our proprietary database-building and filtering technologies. These patent applications or any new patent applications we file may not result in issued patents. In addition, any issued patents may not provide us with any competitive advantages, or may be challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights is uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our solutions are available. The laws of some foreign countries may not be as protective of intellectual property rights as United States laws, and mechanisms for enforcement of intellectual property rights may be inadequate. As a result, we cannot assure you that our means of protecting our proprietary technology and brands will be adequate. Furthermore, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition. See "Business -- Intellectual Property Rights."

We May Be Sued by Third Parties for Alleged Infringement of Their Proprietary Rights.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of patent infringement or other violations of intellectual property rights. As the number of entrants into our market increases, the possibility of an intellectual property claim against us grows. Our technologies and solutions may not be able to sustain any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to litigate or settle, and could divert management attention from executing our business plan.

WE MAY NOT BE ABLE TO DEVELOP ACCEPTABLE NEW SOLUTIONS OR ENHANCEMENTS TO OUR EXISTING SOLUTIONS AT A RATE REQUIRED BY OUR RAPIDLY CHANGING MARKET.

Our future success depends on our ability to develop new solutions or enhancements to our existing solutions that keep pace with rapid technological developments and that address the changing needs of our customers. Although Websense Enterprise is designed to operate with a variety of network hardware and software platforms, we will need to continuously modify and enhance Websense Enterprise to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing such solutions or timely introducing them to the market. In addition, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses. The failure of our products to operate effectively with the existing

and future network platforms and technologies will limit or reduce the market for our products, result in customer dissatisfaction and seriously harm our business, results of operations and financial condition.

OTHER VENDORS MAY DEVELOP PRODUCTS SIMILAR TO OURS FOR INCORPORATION INTO THEIR HARDWARE OR SOFTWARE, AND THEREBY REDUCE DEMAND FOR OUR SOLUTIONS.

In the future, vendors of Internet-related hardware and software may enhance their products or develop separate products that include functions that are currently provided by Websense Enterprise. If employee Internet management functions become standard features of Internet-related hardware or software, the demand for Websense Enterprise will decrease. Furthermore, even if Websense Enterprise is more robust and accurate than the products offered by vendors of Internet-related hardware or software, potential customers might accept this limited functionality in lieu of purchasing our solutions.

OUR SYSTEMS MAY BE VULNERABLE TO SECURITY RISKS OR SERVICE DISRUPTIONS THAT COULD HARM OUR BUSINESS.

Our servers are vulnerable to physical or electronic break-ins and service disruptions, which could lead to interruptions, delays, loss of data or the inability to process customer requests. Such events could be very expensive to remedy, could damage our reputation and could discourage existing and potential customers from using our products. Although we have not experienced attempts at electronic break-ins, we may experience break-ins in the future. Any such events could substantially harm our business, results of operations and financial condition.

BECAUSE OUR SOLUTIONS ARE COMPLEX AND ARE DEPLOYED IN A WIDE VARIETY OF COMPLEX NETWORK ENVIRONMENTS, THEY MAY HAVE ERRORS OR DEFECTS THAT USERS IDENTIFY AFTER DEPLOYMENT, WHICH COULD HARM OUR REPUTATION AND OUR BUSINESS.

Solutions as complex as ours frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found errors in versions of Websense Enterprise, and we may find such errors in the future. The occurrence of errors could adversely affect sales of our solutions, divert the attention of engineering personnel from our product development efforts and cause significant customer relations problems.

Risks Related to Our Industry

Evolving Regulation of the Internet May Affect Us Adversely.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. Such regulation is likely in the areas of user privacy, pricing, content and quality of products and services. Taxation of Internet use or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Laws and regulations applying

to the solicitation, collection or processing of personal or consumer information could affect our activities. Furthermore, any regulation imposing fees for Internet use could result in a decline in the use of the Internet and the viability of Internet commerce, which could have a material adverse effect on our business, results of operations and financial condition.

THE SUCCESS OF OUR BUSINESS DEPENDS ON THE CONTINUED GROWTH AND ACCEPTANCE OF THE INTERNET AS A BUSINESS TOOL.

Expansion in the sales of Websense Enterprise depends on the continued acceptance of the Internet as a communications and commerce platform for enterprises. This business model is not yet proven and may not be successful. The Internet may not prove to be a viable commercial medium due to inadequate development of the necessary infrastructure, such as a reliable network backbone, or timely development of complementary products, such as high-speed modems. Additionally, the Internet could lose its viability as a business tool due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility, and quality-of-service. If the Internet does not continue to become a widespread communications medium and commercial platform, the demand for Websense Enterprise could be significantly reduced, which could have a material adverse effect on our business, results of operations and financial condition.

Our Solutions Create Risks of Potential Negative Publicity and Legal Liability.

Because customers rely on our solutions to provide employee Internet management, any significant defects or errors in our products may result in negative publicity or legal claims. Negative publicity or legal claims could seriously harm our business, results of operations and financial condition. In addition, our solutions' capability to report Internet data retrieval requests and the workstations from which they originated may result in negative publicity or legal claims based on potential privacy violations. Although our agreements with customers typically indemnify us and contain provisions designed to limit our exposure to potential legal liability, these limitation of liability provisions may not be completely effective. We have not experienced any liability claims to date, but we cannot assure you that we will not face this type of claim in the future. We maintain errors and omissions insurance, but we cannot assure you that this insurance coverage will be adequate to cover us for any claims.

WE OR OUR CUSTOMERS AND VENDORS MAY HAVE BEEN ADVERSELY AFFECTED BY THE TRANSITION TO THE YEAR 2000 IN A MANNER THAT IS NOT YET APPARENT.

Although the date is now past January 1, 2000, and we have not experienced immediate adverse impact from the transition to the Year 2000, we cannot provide assurances that we, our customers or our vendors have not been affected in a manner that is not yet apparent. In addition, some computer programs that were date-sensitive to the Year 2000 may not have been programmed to process the Year 2000 as a leap year, and any negative consequential effects may remain unknown. As a result, we will continue to monitor our Year 2000 compliance and the Year 2000 compliance of our customers and

vendors. Due to the general uncertainty inherent in the Year 2000 problem, especially the uncertainty regarding the Year 2000 compliance of our customers and vendors, we are unable to determine at this time whether the Year 2000 problem will have a material adverse effect on our business, results of operations and financial condition.

Risks Related to This Offering

OUR SENIOR MANAGEMENT TEAM HAS BROAD DISCRETION OVER THE USE OF THE PROCEEDS FROM THIS OFFERING.

Our senior management team will have broad discretion with respect to the use of the proceeds of this offering, and may use the proceeds for corporate purposes that do not increase our profitability or our market value, or in ways with which our stockholders may not agree. Presently, anticipated uses of the proceeds of this offering and our existing cash balances include:

- domestic and international selling and marketing;

- research and development;

- development and expansion of our database technologies and systems;

- infrastructure and support improvements;

- strategic alliances and potential acquisitions; and - operating losses and general working capital purposes.

We have not yet determined how we will use the proceeds of this offering or our existing cash balance. Pending determination of how the proceeds and our existing cash balance will be used, the proceeds of the offering will be invested in short term, investment grade, interest-bearing securities that may lose value. See "Use of Proceeds" for more information regarding our use of the proceeds of this offering.

OUR EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS OWN A LARGE PERCENTAGE OF OUR VOTING STOCK AND COULD DELAY OR PREVENT A CHANGE IN OUR CORPORATE CONTROL OR OTHER MATTERS REQUIRING STOCKHOLDER APPROVAL, EVEN IF FAVORED BY OUR OTHER STOCKHOLDERS.

Immediately after this offering, our executive officers, directors and principal stockholders, and their respective affiliates, will own approximately % of our outstanding common stock. These stockholders, if acting together, would be able to control substantially all matters requiring approval by our stockholders, including the election of all directors and approval of significant corporate transactions.

OUR FUTURE CAPITAL NEEDS ARE UNCERTAIN AND WE MAY NEED TO RAISE ADDITIONAL FUNDS IN THE FUTURE, AND SUCH FUNDS MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS OR AT ALL.

We expect that the proceeds of this offering, together with our existing cash balances, will fund our operations for at least 12 months. We expect that our operating expenses will increase substantially over this period. In addition, we may experience a material decrease in liquidity due to unforeseen capital requirements or other events and uncertainties. We also may enter into business relationships that require us to make cash payments. As a result, we may need to raise additional funds, and such funds may not be available on favorable terms, if at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences or privileges senior to those of our existing stockholders. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our solutions, execute on our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This may seriously harm our business, results of operations and financial condition.

NEW INVESTORS WILL SUFFER IMMEDIATE AND SUBSTANTIAL DILUTION IN THE TANGIBLE NET BOOK VALUE OF THEIR SHARES.

We expect that the initial public offering price of our common stock will significantly exceed the net tangible book value of our common stock. The net tangible book value of one share of our common stock purchased at the assumed initial public offering price of $ per share will be only $. As a result, investors purchasing common stock in this offering will incur dilution of $ per share. In addition, we have issued options and warrants to acquire common stock at prices significantly below the assumed initial public offering price, the exercise of which will likely result in additional dilution when and if they are exercised.

THERE HAS BEEN NO PRIOR PUBLIC MARKET FOR OUR COMMON STOCK, AND WE EXPECT THAT ITS PRICE WILL BE VOLATILE.

Prior to this offering, there has been no public market for our common stock, and we cannot assure you that an active public market for our common stock will develop or be sustained after this offering. The initial public offering price of our common stock will be determined by negotiation among us and the representatives of the several underwriters based upon a number of factors. As a result, the initial public offering price of our common stock may not be indicative of the market price of our common stock following the offering. The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to:

- announcements of technological innovations or new products or services by us or our competitors;

- demand for Websense Enterprise, including changes in our customer renewal percentages;

- fluctuations in expected revenues from our indirect sales channels;

- changes in our pricing policies or the pricing policies of our competitors;

- quarterly variations in operating results;

- our technological capabilities to accommodate any future growth in our operations or customers;

- changes in government regulations;

- changes in financial estimates by securities analysts or our failure to meet or exceed analyst estimates; and - other events or factors, many of which are beyond our control.

In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the market price of the stock of many Internet-related companies, and that often have been unrelated or disproportionate to the operating performance of these companies. A number of publicly traded Internet-related companies have current market prices below their initial public offering prices. Market fluctuations such as these may seriously harm the market price of our common stock. In the past, securities class action suits have been filed following periods of market volatility in the price of a company's securities. If such an action was instituted, we would incur substantial costs and a diversion of management attention and resources, which would seriously harm our business, results of operations and financial condition.

IT MAY BE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US, EVEN IF DOING SO WOULD BE BENEFICIAL TO OUR STOCKHOLDERS.

Some provisions of our certificate of incorporation and bylaws, as well as some provisions of Delaware law, may discourage, delay or prevent third parties from acquiring us, even if doing so would be beneficial to our stockholders. See "Description of Capital Stock -- Anti-Takeover Effects of Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws" for information regarding when and how these provisions apply.

Future Sales of Shares by Existing Stockholders Could Affect Our Stock Price.

If our existing stockholders sell substantial amounts of our common stock in the public market following this offering, the market price of our common stock could fall, potentially resulting in substantial losses for our stockholders. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. See "Shares Eligible for Future Sale."

We Do Not Intend to Pay Dividends.

Since we terminated our election to be treated as an "S" corporation in January 1998, we have not declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings to fund growth and, therefore, do not expect to pay any dividends in the foreseeable future. See "Dividend Policy" for additional information regarding our dividend policy.

Special Note Regarding Forward-looking Statements

Some of the statements we make in this prospectus are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or similar terminology. These statements involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to differ materially from any expected results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, among other things, those listed under "Risk Factors" and in other sections of this prospectus. We cannot guarantee any future results, levels of activity, performance or achievements. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of any forward-looking statements. We undertake no obligation to update any of the forward-looking statements after the date of this prospectus.

Use of Proceeds

We estimate that the net proceeds of this offering will be approximately $ million, based on an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise the over-allotment option in full, we estimate that our net proceeds will be $, after deducting the estimated discounts, commissions and expenses.

We plan to use the net proceeds of this offering, along with our existing cash balance, for working capital and general corporate purposes. These will include, but may not be limited to, expenditures for domestic and international selling and marketing, product research and development, development and expansion of our database technologies and systems, infrastructure and support improvements and operating losses. We may also use a portion of the net proceeds for acquisitions of businesses, products and technologies or the establishment of strategic alliances that are complementary to our current and future business. Although we have not identified any specific businesses, products or technologies that we may acquire, and there are no current agreements or understandings with respect to any such transactions, we may from time to time evaluate such opportunities. The amounts actually used for such working capital purposes may vary significantly and will depend on a number of factors, including the amount of our future revenue and the other factors described under "Risk Factors." Accordingly, we will retain broad discretion in the allocation of the net proceeds of this offering. Pending the above described uses, we will invest the net proceeds of this offering in interest-bearing, investment-grade securities.

Dividend Policy

Since we terminated our election to be treated as an "S" corporation for federal income tax purposes in January 1998, we have not declared or paid cash dividends on shares of our capital stock. We currently intend to retain any earnings to develop and expand our business, and do not anticipate paying cash

dividends in the foreseeable future. Any future determination with respect to the payment of dividends will be at the discretion of our board of directors and will depend upon, among other things, our operating results, financial condition and capital requirements, the terms of then-existing indebtedness, general business conditions and other factors our board of directors deems relevant.

Capitalization

The following table summarizes our capitalization as of December 31, 1999:

- on an actual basis, and - on a pro forma as adjusted basis to reflect:

- the conversion of all of our outstanding preferred stock into common stock upon completion of this offering;

- an amendment to our certificate of incorporation to be effective upon completion of this offering, that will, among other things, authorize a class of undesignated preferred stock; and

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      - our sale of            shares of common stock at an assumed initial
        public offering price of $     per share, after deducting estimated
        underwriting discounts and commissions and estimated offering expenses
        that we will pay.
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You should read this table together with our financial statements and related notes appearing elsewhere in this prospectus.

DECEMBER 31, 1999 PRO FORMA ACTUAL AS ADJUSTED (IN THOUSANDS)

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Long-term debt.............................................  $  1,497     $  1,497
Stockholders' equity:
  Convertible preferred stock, par value $0.01: 7,038,340
     shares authorized and 7,037,036 shares issued and
     outstanding, actual; 5,000,000 shares authorized and no
     shares issued and outstanding, pro forma as adjusted...        70           --
  Common stock, $0.01 par value: 100,000,000 shares
     authorized and 8,357,662 issued and outstanding,
     actual; 100,000,000 shares authorized and 15,394,698
     shares issued and outstanding, pro forma as adjusted...        84
  Additional paid-in capital.................................    20,484
  Deferred compensation......................................    (2,585)      (2,585)
  Accumulated deficit........................................   (16,411)     (16,411)
       Total stockholders' equity............................     1,642
          Total capitalization...............................  $  3,139     $
```

This table excludes the following shares as of December 31, 1999:

- 3,161,551 shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price $0.83 per share;

- 112,500 shares of common stock issuable upon exercise of outstanding warrants at a weighted average exercise price of $1.69 per share; and - a total of 336,328 shares of common stock available for future issuance under our various stock plans.

Dilution

Our pro forma net tangible book value as of December 31, 1999 was approximately $1.6 million, or $0.11 per share of common stock. Pro forma net tangible book value per share is determined by dividing the amount of our total tangible assets less our total liabilities by the pro forma number of shares of common stock outstanding, after giving effect to the conversion of our outstanding preferred stock. After giving effect to our sale of shares of common stock at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we will pay, our adjusted pro forma net tangible book value as of December 31, 1999 would have been $ million, or $ per share. This amount represents an immediate increase in pro forma net tangible book value to our existing stockholders of $ per share and an immediate dilution to new investors of $ per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share	$
Pro forma net tangible book value per share as of December 31, 1999	$ 0.11
Increase per share attributable to new investors	
Adjusted pro forma net tangible book value per share after this offering	
Dilution per share to new investors	$

If the underwriters exercise their option to purchase additional shares in this offering in full, our adjusted pro forma net tangible book value at December 31, 1999 would have been $ million, or $ per share, representing an immediate increase in pro forma net tangible book value to our existing stockholders of $ per share and an immediate dilution to new investors of $ per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders	15,394,698	%	$21,092,684	%	$1.37
New investors					
Total		100.0%	$	100.0%	

The preceding discussion and tables assume no exercise of any stock options or warrants outstanding as of December 31, 1999. As of December 31, 1999, there were outstanding options to purchase a total of 3,161,551 shares of common stock at a weighted average exercise price of $0.83 per share and outstanding warrants to purchase a total of 112,500 shares of common stock at a weighted average exercise price of $1.69 per share. To the extent any of these options or warrants are exercised, there will be further dilution to our stockholders.

Selected Financial Data

You should read the following selected financial data in conjunction with our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. We derived the statement of operations data for the years ended December 31, 1997, 1998 and 1999 and the balance sheet data as of December 31,

1998 and 1999 from our financial statements audited by Ernst & Young LLP, which appear elsewhere in this prospectus. We derived the balance sheet data as of December 31, 1997 from our financial statements audited by Ernst & Young LLP, which are not included in this prospectus. We derived the statement of operations data for the years ended December 31, 1995 and 1996 and the balance sheet data as of December 31, 1995 and 1996 from our unaudited financial statements that are not included in this prospectus. We have prepared our unaudited financial statements on the same basis as our audited financial statements. In the opinion of our management, our unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information in those statements. Our historical results are not necessarily indicative of operating results to be expected in the future.

YEARS ENDED DECEMBER 31, 1995 1996 1997 1998 1999 (IN THOUSANDS, EXCEPT PER SHARE DATA)

STATEMENT OF OPERATIONS DATA:					
Revenues:					
Subscriptions	$ --	$ 14	$ 637	$ 2,503	$ 7,141
Other products and services	882	2,576	4,383	4,416	1,506
Total revenues	882	2,590	5,020	6,919	8,647
Cost of revenues:					
Subscriptions	--	73	218	736	1,084
Other products and services	479	1,496	3,214	3,724	1,191
Total cost of revenues	479	1,569	3,432	4,460	2,275
Gross margin	403	1,021	1,588	2,459	6,372
Operating expenses:					
Selling and marketing	64	438	1,720	4,597	6,311
Research and development	14	146	528	1,789	3,913
General and administrative	49	406	767	1,715	3,805
Amortization of stock-based compensation	--	--	--	--	1,822
Total operating expenses	127	990	3,015	8,101	15,851
Income (loss) from operations	276	31	(1,427)	(5,642)	(9,479)
Interest income (expense)	--	(4)	(35)	33	225
Net income (loss)	$276	$ 27	$(1,462)	$(5,609)	$(9,254)
Historical net income (loss) per share:					
Basic and diluted(1)	$ --	$ 0.00	$ (0.21)	$ (0.80)	$ (1.25)
Weighted average shares -- basic and diluted(1)	--	7,000	7,000	7,000	7,403

DECEMBER 31, 1995 1996 1997 1998 1999 (IN THOUSANDS)

BALANCE SHEET DATA:					
Cash and cash equivalents	$ --	$ 41	$ 123	$ 1,753	$10,735
Working capital (deficit)	189	87	(1,350)	(377)	5,222
Total assets	242	837	1,625	4,355	16,756
Deferred revenue	--	77	1,132	4,236	11,593
Long-term debt	--	--	--	496	1,497
Total stockholders' equity (deficit)	207	242	(1,340)	(1,217)	1,642

(1) See Note 1 of "Notes to Financial Statements" for a description of the computation of per share information. We have not presented share and per share data for 1995 because we operated as a sole proprietorship during that period.

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

The following discussion and analysis should be read in conjunction with "Selected Financial Data" and our financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors including the risks discussed in "Risk Factors" and elsewhere in this prospectus.

Overview

We are the leading provider of employee Internet management solutions that enable businesses to monitor, report and manage how their employees use the Internet. Our Websense Enterprise solution supports an organization's efforts to improve employee productivity, conserve network bandwidth and mitigate potential legal liability. Our business was founded in 1994 as NetPartners Internet Solutions, a reseller of computer network security solutions and related services. In 1996, we released our first software product, Websense Internet Screening System. Since that time, we have refocused our business on developing and selling employee Internet management solutions, and no longer focus on our software reselling and services business. In 1999 we changed our name to Websense, Inc. and completed our change in business strategy. In the same year, we expanded our senior management team, raised approximately $9.8 million in a private round of financing and further strengthened our indirect sales channels and business relationships. In December 1999, we released an enhanced and redesigned version of our Websense Enterprise solution. We currently derive a substantial majority of our revenues from subscriptions to this solution and expect this trend to continue in the future.

Our business has grown since inception, with total revenues reaching $5.0 million in 1997, $6.9 million in 1998 and $8.6 million in 1999. During that period, subscription revenue grew from 13% of revenue in 1997, to 36% in 1998 and 83% in 1999 due to our change in strategy and investment in developing and marketing our software solutions. We have experienced net losses for the last three fiscal years, and as of December 31, 1999, we had an accumulated deficit of $16.4 million.

We offer Websense Enterprise on a subscription basis. When a purchase decision is made, customers enter into a subscription agreement, which is generally 12, 24 or 36 months in duration and for a fixed number of users. Upon entering into the subscription agreement, we promptly invoice customers for their subscriptions. Generally, payment is due for the full term of the subscription within 30 days of invoice. We recognize revenue on a straight-line basis over the term of the subscription agreement. We record amounts billed to customers in excess of recognizable revenue as deferred revenue on our balance sheet. As of December 31, 1999, we had $11.6 million of deferred revenue. Upon expiration of the subscription, customers must resubscribe at our then current rates to continue using our solution.

We also derive revenues from professional services for the implementation of our solution and from resale of hardware and software. We recognize revenues for these services and products upon their completion or delivery. These revenues declined significantly in 1999 due to our shift in business strategy. We expect these revenues to remain relatively constant in dollar volume and to continue to decline as a percent of total revenues for the foreseeable future.

In 1999 we derived 21% of our revenues from international sales. We plan to expand our international operations significantly, particularly in selected countries in the European and Asia Pacific markets, because we believe international markets represent a significant growth opportunity. Our international revenues are denominated in U.S. dollars. Fluctuation in the value of the U.S. dollar and foreign currencies may make our products more expensive, and this could harm our business. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuation.

We currently sell our solutions through indirect and direct channels; however, our strategy is to increasingly rely on our indirect sales channels. Our indirect sales channels accounted for approximately 24 70% of our subscription revenue in 1999 and we expect that this percentage will increase in the future. Domestically, we sell our solutions through more than 350 Value Added Resellers, or VARs, and through our direct sales force. Internationally, we distribute Websense Enterprise through more than 100 distributors and resellers in over 50 countries who resell our solution through VARs and other resellers. In addition, we leverage the sales and marketing capabilities of our original equipment manufacturers, or OEMs, and other key providers of complementary hardware and software products.

Because we derive our revenues from subscription fees, we do not recognize the entire amount of subscription fees received in the quarter the subscription agreements are executed. However, we recognize our operating expenses as they are incurred. Our operating expenses have increased more rapidly than our revenues in recent periods due to expanded selling and marketing efforts and investments in administrative infrastructure to support subscription sales that we will recognize as revenue in subsequent periods. We anticipate that this trend will continue and that our operating expenses, particularly selling and marketing and general and administrative expenses, will grow at a faster rate than our revenues in the near term.

In connection with the grant of stock options in 1999, we recorded an aggregate of $4.4 million in deferred stock-based compensation within stockholders' equity. These options were considered compensatory because the deemed fair value, as determined solely for financial reporting purposes, was greater than the exercise prices determined by the board of directors on the date of grant. We are amortizing the deferred compensation on an accelerated basis in accordance with Financial Accounting Standards Board, or FASB, Interpretation No. 28 over the vesting period of the related options, which is generally four years. As of December 31, 1999, we had an aggregate of $2.6 million of deferred stock-based compensation remaining to be amortized. This deferred compensation balance will be amortized as follows: $1.5 million during 2000; $741,000 during 2001; $302,000 during 2002; and $33,000

during 2003. The amount of stock-based compensation amortization actually recognized in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

Results of Operations

The following table summarizes our operating results as a percentage of total revenues for each of the periods shown.

Years Ended December 31, 1997 1998 1999

Revenues:			
Subscriptions	13%	36%	83%
Other products and services	87	64	17
Total revenues	100	100	100
Cost of revenues:			
Subscriptions	4	11	13
Other products and services	64	53	14
Total cost of revenues	68	64	27
Gross margin	32	36	73
Operating expenses			
Sales and marketing	34	66	73
Research and development	11	26	45
General and administrative	15	25	44
Amortization of stock-based compensation	--	--	21
Total operating expenses	60	117	183
Income (loss) from operations	(28)	(81)	(110)
Interest income (expense), net	(1)	--	3
Net income (loss)	(29)%	(81)%	(107)%

Comparison of Years Ended December 31, 1999, 1998 and 1997

Revenues

Subscriptions. Subscription revenue increased $4.6 million, or 185%, to $7.1 million in 1999 from $2.5 million in 1998. Subscription revenue increased $1.9 million, or 293%, in 1998 from $637,000 in 1997. Subscription revenue accounted for 83% of total revenues in 1999 compared to 36% in 1998 and 13% in 1997. The increases in our subscription revenue in 1999 and 1998 were due primarily to subscriptions from new customers and renewals by existing customers. In addition, we experienced increased market acceptance of our Websense Enterprise products which contributed to the increases in subscription revenues from new customers.

Other products and services. Other products and services revenue decreased $2.9 million, or 66%, to $1.5 million in 1999 from $4.4 million in 1998 representing a decrease as a percentage of total revenues from 64% to 17%. Other products and services revenue increased by $33,000, or 1%, in 1998 as compared to 1997, but decreased as a percentage of total revenues from 87% to 64%. For both years

the decrease as a percentage of total revenues was primarily due to our decision to transition from a services organization and reseller of software to a provider of subscription-based employee Internet management solutions.

Cost of Revenues

Cost of subscriptions. Cost of subscriptions consists of the costs of Web site review, technical support and infrastructure costs associated with maintaining our database. Cost of subscriptions increased $348,000, or 47%, to $1.1 million in 1999 from $736,000 in 1998. Cost of subscriptions increased $519,000, or 238%, in 1998 from $218,000 in 1997 to support the growth in subscriptions. Cost of subscriptions as a percentage of subscription revenue decreased to 15% in 1999 from 29% in 1998 and 34% in 1997. These decreases in costs of subscription revenue as a percentage of subscription revenue for both years were due to increased revenue.

Cost of other products and services. Cost of other products and services consists primarily of the software and hardware that we resell and the salaries and benefits of our professional services personnel. Cost of other products and services decreased $2.5 million, or 68%, to $1.2 million in 1999 from $3.7 million in 1998 due to our shift in focus away from reselling hardware and software. Cost of other products and services increased $509,000, or 16%, in 1998 from $3.2 million in 1997 due to increased costs of the hardware and software that we resold. Cost of other products and services as a percentage of products and services revenue decreased to 79% in 1999 from 84% in 1998 due to decreased sales of low-margin hardware products. Cost of other products and services as a percentage of other products and services revenue increased to 84% in 1998 from 73% in 1997 primarily due to higher acquisition costs and increased pricing pressure on the hardware and software that we resold.

Operating Expenses

Selling and marketing. Selling and marketing expenses consist primarily of salaries, commissions and benefits related to personnel engaged in selling, marketing and customer support functions, along with costs related to public relations, advertising, promotions and travel. Selling and marketing expenses increased $1.7 million, or 37%, to $6.3 million in 1999 from $4.6 million in 1998. Selling and marketing expenses increased $2.9 million, or 167%, in 1998 from $1.7 million in 1997. The increase in selling and marketing expenses in 1999 was primarily due to increases in headcount and promotional expenses, and were partially offset by a decrease in advertising expenses. The increase in selling and marketing expenses in 1998 was primarily due to increased spending in advertising, headcount and other promotional costs. We expect our selling and marketing expenses to increase as we add personnel to support our expanding selling and marketing efforts.

Research and development. Research and development expenses consist primarily of salaries and benefits for software developers, contract programmers, facilities costs and equipment depreciation. 26 Research and development expenses increased $2.1 million, or 116%, to $3.9 million in 1999 from $1.8 million in 1998. Research and development expenses increased $1.3 million, or 239%, in 1998 from $528,000 in 1997. The increase in research and development expenses in 1999 was primarily a

result of increased development efforts and enhancements to Websense Enterprise. The increase in research and development expenses in 1998 was due to the expansion of our development efforts beginning in May 1998 relating to the Websense Enterprise solution.

General and administrative. General and administrative expenses consist primarily of salaries, benefits and related expenses for our executive, finance, human resources, information technology and administrative personnel, third party professional service fees and allocated facilities and depreciation expenses. General and administrative expenses increased $2.1 million, or 122%, to $3.8 million in 1999 from $1.7 million in 1998. General and administrative expenses increased $948,000, or 124%, in 1998 from $767,000 in 1997. These increases in our general and administrative expenses in 1999 and 1998 were primarily due to significant investments in increased headcount, facilities and information technology made in the second half of 1998 and in 1999 to support an expansion in the scope of our business. We expect general and administrative expenses to increase in the future, reflecting growth in our operations and increased expenses associated with being a public company.

Amortization of stock-based compensation. We recognized $1.8 million in stock-based compensation expense for 1999 relating to the amortization of deferred compensation. There was no amortization of stock-based compensation in periods prior to 1999.

Interest Income (Expense), Net Net interest income (expense) increased $192,000 to $225,000 in 1999 from $33,000 in 1998. Net interest income (expense) increased $68,000 in 1998 from $(35,000) in 1997. These increases are primarily due to interest income from the investment of proceeds from our financings in 1999 and 1998.

Income Taxes

In January 1998, we terminated our election to be treated as an "S" corporation for federal income tax purposes, and as a result we became subject to income tax at the corporate level to the extent we generate taxable income. We have not recorded an income tax benefit arising from our historical losses because we have recorded a full valuation allowance against any deferred tax assets available to us for use in future periods. Realization of these assets is primarily dependent on generating taxable net income in the future.

Quarterly Financial Data

The following tables set forth unaudited quarterly operating information and financial data for each of the eight quarters in the period ending December 31, 1999. This data has been prepared on the same basis as the audited financial statements contained elsewhere in this prospectus and, in the opinion of management, includes all adjustments necessary for the fair presentation of the information for the periods presented. This information should be read in conjunction with the financial statements and notes thereto. The operating results and financial data in any quarter are not necessarily indicative of the results that may be expected for any future period.

During the first quarter of 1999, we sharply curtailed marketing activities as part of a management transition in that quarter. This resulted in a significant decrease in our selling and marketing expenses. We resumed our selling and marketing activities in the second quarter of 1999, which led to a significant increase in these expenses. Additionally, in the first quarter of 1999, we increased our reserves for doubtful accounts, which, together with increased state franchise taxes and expenses recognized in connection with the issuance of a warrant, resulted in a significant increase in our general and administrative expenses for the period. We believe that future operating results will be subject to quarterly fluctuations, and, as a result, we believe that results of operations for interim periods should not be relied upon as any indication 27 of the results to be expected in any future period. We have incurred operating losses during 1999, 1998 and 1997, and we cannot be certain that we will achieve profitability on a quarterly or annual basis in the future.

	THREE MONTHS ENDED											
	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999				
	(IN THOUSANDS)											
STATEMENT OF OPERATIONS DATA:												
Revenues:												
Subscriptions	$ 471	$ 553	$ 689	$ 790	$ 1,198	$ 1,542	$ 1,987	$ 2,414				
Other products and services	1,293	1,633	893	597	469	392	343	302				
Total revenues	1,764	2,186	1,582	1,387	1,667	1,934	2,330	2,716				
Cost of revenues:												
Subscriptions	126	181	182	247	172	221	309	382				
Other products and services	1,044	1,325	775	580	351	306	258	275				
Total cost of revenues	1,170	1,506	957	827	523	527	567	657				
Gross margin	594	680	625	560	1,144	1,407	1,763	2,059				
Operating expenses:												
Selling and marketing	712	1,458	1,164	1,263	933	1,614	1,574	2,190				
Research and development	190	394	570	636	678	748	1,109	1,378				
General and administrative	329	281	527	577	1,016	835	937	1,017				
Amortization of stock-based compensation	--	--	--	--	43	523	647	609				
Total operating expenses	1,231	2,133	2,261	2,476	2,670	3,720	4,267	5,194				
Income (loss) from operations	(637)	(1,453)	(1,636)	(1,916)	(1,526)	(2,313)	(2,504)	(3,135)				
Interest income (expense), net	(12)	(6)	37	14	16	(82)	174	117				
Net income (loss)	$ (649)	$(1,459)	$(1,599)	$(1,902)	$(1,510)	$(2,395)	$(2,330)	$(3,018)				

Financial Data: Deferred revenue at end of period..... $1,968 $ 2,348 $ 3,092 $ 4,236 $ 6,169 $ 7,452 $ 9,157 $11,593

	THREE MONTHS ENDED					
	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999
	(AS A PERCENTAGE OF TOTAL REVENUES)							
STATEMENT OF OPERATIONS DATA:								
Revenues:								
Subscriptions	27%	25%	44%	57%	72%	80%	85%	89%
Other products and services	73	75	56	43	28	20	15	11
Total revenues	100	100	100	100	100	100	100	100
Cost of revenues:								
Subscriptions	7	8	11	18	10	11	13	14
Other products and services	59	61	49	42	21	16	11	10
Total cost of revenues	66	69	60	60	31	27	24	24
Gross margin	34	31	40	40	69	73	76	76
Operating expenses:								
Selling and marketing	40	67	74	91	56	83	68	81
Research and development	11	18	36	46	41	39	47	50
General and administrative	19	13	33	41	61	43	40	37
Amortization of stock-based compensation	0	0	0	0	3	27	28	22
Total operating expenses	70	98	143	178	161	192	183	190
Income (loss) from operations	(36)	(67)	(103)	(138)	(92)	(119)	(107)	(114)
Interest income (expense), net	(1)	0	2	1	1	(4)	7	4
Net income (loss)	(37)%	(67)%	(101)%	(137)%	(91)%	(123)%	(100)%	(110)%

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through private sales of equity securities and the use of short- and long-term debt. As of December 31, 1999, we had cash and cash equivalents of $10.7 million, an accumulated deficit of $16.4 million and $1.5 million of long-term debt, of which $504,000 is current.

Net cash used in operating activities was $403,000 in 1999 as compared to $3.1 million in 1998 and $129,000 in 1997. In 1999, the cash used in operations reflects a net loss before depreciation and amortization of $6.8 million and an increase in accounts receivable of $2.2 million, partially offset by an increase in deferred revenue of $7.4 million, as well as increases in accounts payable and accrued liabilities. In 1998 and 1997, cash used in operations was primarily the result of our net losses, partially offset by increases in deferred revenue.

Net cash used in investing activities was $1.7 million in 1999, $937,000 in 1998 and $179,000 in 1997. Net cash used in investing activities consisted primarily of capital expenditures, related to our investments in computer equipment and facilities, which were required to support our business expansion.

Net cash provided by financing activities was $11.1 million in 1999 as compared to $5.6 million in 1998 and $352,000 in 1997. In 1999, cash provided by financing activities consisted primarily of $9.8 million received from the sale of Series B Convertible Preferred Stock, $360,000 received from the exercise of stock options and $1.3 million in proceeds from borrowings, reduced by $297,000 of repayments of notes payable. In 1998, cash provided by financing activities consisted primarily of $5.7 million received from the sale of Series A Convertible Preferred Stock and $467,000 in proceeds from borrowings, reduced by $558,000 of repayments of notes payable. For 1997, cash provided by financing activities consisted primarily of $590,000 in proceeds from borrowings, reduced by $114,000 of repayments of notes payable.

We have term notes to Silicon Valley Bank which accrue interest at the bank's floating prime rate plus 0.25% (8.75% at December 31, 1999) and which had $553,000 outstanding at December 31, 1999. We are required to make monthly payments of principal and interest through February 2002.

In May 1999, we established a line of credit with Silicon Valley Bank for working capital advances, or borrowings, and stand-by letters of credit for up to $1.0 million. Borrowings accrue interest at the bank's floating prime rate plus 0.25% (8.75% at December 31, 1999). As of December 31, 1999, we had open letters of credit under the line of $496,000. Any outstanding borrowings on the line mature in May 2000. As of December 31, 1999, we had no borrowings outstanding against the line.

In October 1999, we modified our May 1999 agreement to provide an additional $1.0 million line of credit from Silicon Valley Bank to be used for equipment and furniture purchases through April 2000. In October 1999, we drew down $925,000 of the available line, which will be converted to a term note in April 2000. There are no compensating cash requirements on the line, and advances accrue interest at the bank's floating prime rate plus 1.0% (9.5% at December 31, 1999). Beginning in April 2000, we are required to make monthly payments of principal and interest through April 2003.

All borrowings under our agreements with Silicon Valley Bank are collateralized by substantially all our assets, and are subject to certain financial and restrictive covenants.

We believe that the net proceeds from this offering, together with our existing cash and cash equivalents, will be sufficient to meet our anticipated cash needs at least through the next 12 months. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or to obtain a larger credit facility. The sale of additional equity or convertible debt securities would result in additional dilution to our shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

Recent Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). This standard requires companies to capitalize qualifying computer software costs that are incurred during the application development stage and amortize them over the software's estimated useful life. SOP 98-1 is effective for fiscal years beginning after December 15, 1998. In the future, accounting for transactions under SOP 98-1 could result in significant amounts of computer software costs and Web site development costs being capitalized.

In June 1998, the Financial Accounting Standards Board, or FASB, issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and hedging activities. The Statement will require the recognition of all derivatives on our balance sheet at fair value. The FASB has subsequently delayed implementation of the standard for the financial years beginning after June 15, 2000. We expect to adopt the new Statement effective January 1, 2001. The impact on our financial statements is not expected to be material.

Interest Rate Risk

We are exposed to changes in interest rates primarily from our long-term debt arrangements and, secondarily, our investments in cash equivalents. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments at December 31, 1999.

Year 2000 Impact

The Year 2000 Issue

The year 2000 issue refers to the potential for disruption for business activities caused by system failures or miscalculations which are triggered by advancement of data records past the year 1999. Our business has not been affected by year 2000 issues. However, we cannot assure you that we will not experience any disruption related to year 2000 issues in the future. We are not currently aware of any unresolved year 2000 problems relating to any of our internal systems, nor do we believe that we have any significant systems that are not year 2000 compliant. Based on our assessment to date, we do not expect the total cost of year 2000 remediation to be material to our business. To date, our preparation and remediation costs have been less than $100,000 and future expenditures will not be significant.

Business

Company Overview

Websense is the leading provider of employee Internet management solutions that enable businesses to monitor, report and manage how their employees use the Internet. Our Websense Enterprise solution gives businesses the ability to rapidly implement and configure Internet access policies in support of their efforts to improve employee productivity, conserve network bandwidth and mitigate potential legal liability. Our flexible and easy-to-use software applications operate in conjunction with our proprietary database, which is available for daily incremental downloads. This database is organized into 54 categories and encompasses more than 800,000 Web sites representing approximately 85 million Web page addresses. Our database is updated with approximately 2,000 newly categorized Web sites each business day using a proprietary process of automated site collection, algorithmic classification and manual verification. Websense Enterprise is easy to deploy and use, and has minimal impact on an organization's information technology, or IT, department. Our highly scalable solution requires no additional hardware and supports a broad range of network platforms, including leading proxy servers, firewalls and cache engines.

We sell our solution primarily through indirect sales channels, including 450 value-added resellers, or VARs, distributors and original equipment manufacturers, or OEMs. Our customers include American Express, Bell South, Coca-Cola, Compaq, Deloitte & Touche, General Motors, IBM, JP Morgan, Mobil, Pfizer, Proctor & Gamble, Siemens, Texas Instruments and Toshiba, many of which are Fortune 500 or Nikkei 225 companies.

Industry Background

The Internet has emerged as a critical business tool and an important communications and commerce platform for enterprises worldwide. As part of their overall business strategies, many organizations are using the Internet to enable business applications that are accessed over their corporate networks. Companies utilize the Internet to optimize their extended supply chains, automate their sales forces, track shipments and communicate with employees, customers, partners and suppliers. Due to the efficiencies, cost-savings and competitive advantages that can be gained by leveraging the Internet, many businesses are spending aggressively to build out their computer networks and IT infrastructure. According to International Data Corporation, or IDC, a market research firm, business spending on basic Internet access alone is expected to reach $12.2 billion by 2002. In order to accommodate a significant number of simultaneous users and the increasing volume of data transfer associated with enterprise Internet use, many organizations are making substantial investments in high bandwidth connections such as dedicated T-1 lines, enabling high speed Internet access.

The Internet has also become a highly popular consumer medium for entertainment, information and commerce. IDC has projected that the number of Internet users worldwide will grow from 103 million in 1998 to 316 million in 2002. This rapid adoption of the Internet has been accompanied by remarkable growth in the number of consumer-oriented content and commerce Web sites and by an ever-expanding assortment of Web-based consumer services. The typical Internet user communicates regularly through e-mail, retrieves news and information from numerous Internet sources, makes online purchases of goods and services ranging from books to airline tickets to groceries, and otherwise accesses a broad range of non-business-related content and commerce Web sites. As the rapid evolution of Web content and technology continues, the amount of data, types of data and size of files traveling across the Internet have also grown. Consumers now access and download large, complex files such as streaming audio and video, MP3 music files, multi-player games and a variety of other rich media, all of which consume large amounts of network bandwidth. Similarly, online banner advertising and marketing campaigns targeting consumer Internet users continue to evolve, consuming more bandwidth, particularly as Web-based advertising increasingly incorporates multimedia and streaming technologies.

Internet access at work is fast, convenient and essentially free to employees. In general, employees enjoy unsupervised and unrestricted Internet access from their desktop PCs. As a result, employees tend to use their employers' Internet connections for recreational "surfing" or personal matters during business hours. Non-business use of company Internet access by employees can result in lost employee productivity, increased network bandwidth consumption and potential legal liability. These factors in turn contribute to higher costs for companies that use the Internet.

Recent research and news reports regularly document the hidden costs of open Internet access in the workplace. According to IDC, between 30% and 40% of employee Internet activity in the workplace is non-business-related, and roughly 70% of non-business-related e-commerce is conducted through an Internet connection at work. This non-business use of the Internet can consume large portions of expensive network bandwidth. According to a Saratoga Institute study that we commissioned, more than 60% of mid- to large-sized companies surveyed had disciplined employees for Internet misuse, and more than 30% of those companies had terminated employees for inappropriate Internet activity. For example, in October 1999, Xerox Corporation fired 40 employees for inappropriate use of the Internet in the workplace. In addition, a company may be exposed to legal liability if online content accessed at the workplace is deemed to have created a hostile work environment for other employees.

Businesses are increasingly recognizing the problem of personal Internet use in the workplace, and traditionally have attempted to manage or modify employee behavior through written policies. These policies are easily ignored and difficult to enforce. In order to monitor compliance with policy, managers may require their IT professionals to renew the log files generated by company servers of Web pages visited. This method of employee Internet management is generally cumbersome and time consuming, and often does not provide the company with useful information regarding the actual content or category of Web sites visited. Because this method does not proactively curtail undesirable

Internet activity, employers are forced to discipline employee violations after the fact. As a result, some managers have lost a significant level of control over both their employees' productivity and the use of their IT infrastructures.

To address the problems associated with improper Internet use in the workplace, many businesses have sought solutions that enable them to proactively manage their employees' Internet access. Early Internet filtering software for the enterprise was largely derived from products that were originally developed to help parents prevent their children from accessing adult content at home, and used keyword matching to block content. These, and other more recent solutions, lack the scalability required by growing organizations, cannot operate on multiple network platforms, do not provide the flexibility required by management and can be labor-intensive to deploy, consuming valuable IT resources. In addition, these applications generally do not operate in conjunction with a comprehensive database that is consistently refreshed. Moreover, many of these products' databases have typically focused on only a few categories such as sex, violence and inappropriate language, and do not have sufficiently broad coverage to address the wider range of non-business-related content accessible through the Internet.

Workplace management of non-business-related Internet access is an increasingly important priority because of its impact on employee productivity, network bandwidth consumption and potential legal liability. Given the necessity of corporate Internet access and consumers' continuing adoption of the Web as a mass entertainment, information and commerce medium, we believe there is a significant opportunity for an employee Internet management solution that effectively addresses the needs of businesses.

Solution

We are the leading provider of employee Internet management solutions that enable businesses to monitor, report and manage how their employees use the Internet. Our Websense Enterprise solution gives business managers the ability to implement customized Internet access policies for different users and groups within the business, and supports an organization's efforts to improve employee productivity, conserve network bandwidth and mitigate potential legal liability. Our solution, which is sold on a subscription basis, consists of a scalable, multi-platform software application that references our proprietary database of continuously updated Web site addresses. The principal benefits of our solution include:

Increased Employee Productivity. Our solution gives businesses the ability to more effectively monitor, report and manage employee Internet access, thereby reducing non-productive Internet use. Our software enables organizations to identify the pattern and scope of Internet use and to manage access to non-business related content or particular categories of Internet content chosen by an organization. In addition, our software allows managers to permit or deny Internet access based on the employee, type of user, time of day and type of content being accessed. Our solution may also be configured to defer access until after work hours, limiting workplace distractions but allowing appropriate use of the organization's high-speed Internet connection.

Reduced Bandwidth Consumption. We believe our solution allows organizations to reduce bandwidth consumption by managing personal Internet use and access to Web sites, in particular those which may contain bandwidth-intensive content, such as streaming audio and video, MP3 music files, multi-player games and other rich media. Reducing the bandwidth consumed by non-business-related Internet traffic allows an organization to use its network more efficiently and effectively in performing important business tasks, and to avoid costs arising from the need to buy additional telecommunications services and networking equipment.

Reduced Exposure to Potential Legal Liabilities. Our solution supports organizations' efforts to reduce exposure to legal liability resulting from the improper use of the Internet in the workplace. By implementing our solution in conjunction with an overall corporate Internet usage policy, organizations can proactively curtail access to objectionable Internet content such as adult entertainment, illegal activities and racism.

In addition to the benefits above, our solution provides these key features:

Access to the Most Comprehensive Database. We provide access to a proprietary database of over 800,000 Web sites, representing approximately 85 million unique Web pages. Our database is cataloged into 54 different categories to enable organizations to determine the types of Internet content that are appropriate for their workplace culture. We add approximately 2,000 newly categorized Web sites each business day to our database and make these updates available to our customers for daily incremental downloads.

Ability to Customize Employee Internet Access. Our solution allows organizations to configure specific Internet access policies for various groups, user types or individuals. Through our easy-to-use browser interface, we enable managers to implement Internet access policy with limited impact on IT resources and personnel. Organizations may choose Internet access options which include blocking Web sites completely or partially, setting time periods for access, allowing access but generating an exception report, or deferring access until after work hours.

Ability to Scale and Operate on a Variety of Network Platforms. Our software is designed to have minimal impact on network performance and can be implemented without the purchase of additional hardware. Our solution is available on a broad range of network platforms, and existing implementations currently support up to 50,000 users on a single server. Our software works with popular proxy servers, firewalls and cache engines offered by leading Internet infrastructure providers such as CacheFlow, Check Point, Cisco, Inktomi, Microsoft Corp., Nokia, and others.

Strategy

Our objective is to maintain and strengthen our position as the leading provider of employee Internet management solutions. Key components of our strategy include:

Increase Sales to Existing Customers. Many of our customers are large businesses that have thousands of Internet-enabled employees. In most cases, these customers initially deploy the Websense Enterprise application in one or two internal departments and pay subscription fees based only on the number of Internet users in those departments. We believe that there is a large opportunity to sell our existing customers subscriptions for additional Internet users within their organizations. We intend to aggressively pursue renewals of existing subscription agreements and enterprise-wide deployment of our solution within our existing customer base.

Aggressively Leverage Indirect Sales Channels. We currently have 350 VARs that focus on the U.S. market and over 100 international distributors and resellers primarily in Europe and Asia Pacific. Our indirect sales channels accounted for approximately 70% of our subscription revenue in 1999 and we expect that this percentage will increase in the future. In addition, we plan to improve the productivity of our existing VARs through lead development, marketing support, sales assistance and training. We intend to aggressively leverage and expand our indirect sales channels in both the domestic and international markets through recruiting programs and an ongoing sharing of subscription renewal fees.

Expand our Customer Base. Our products have been deployed in more than 7,500 organizations worldwide, including 4,600 businesses, of which more than 200 are Fortune 500 companies. We intend to leverage our large installed base of customers to further our market penetration. We currently have over 100 international distributors and resellers covering more than 50 countries. To address this growing opportunity, we will continue to increase the number of international resellers and expand our database coverage beyond the English, French, German, Japanese and Spanish Web sites currently categorized. We believe that given the higher costs of Internet access in many foreign markets, the need to manage employee Internet use will be cost-driven. We also currently have 2,900 educational institutions with 590,000 workstations using Websense Enterprise to manage student Internet access.

Expand the Websense Product Offering. We intend to continuously develop and update our software and database in order to keep current with the evolution of Internet content and technology. We plan to offer our customers enhanced reporting and management applications for Websense Enterprise as an incremental revenue opportunity. We also believe that our granular filtering and categorization of Internet content will enable us to sell subscriptions to subsets of our database on an incremental per-user basis. We also intend to provide additional solutions which address worker productivity and enterprise bandwidth consumption. For example, we plan to offer our customers the ability to block all banner ads from entering the network by dynamically stripping them from visited Web sites. In addition, we recognize the need of many small businesses to manage employee Internet access, and we are currently developing Websense for Small Businesses to target this market.

Leverage and Expand Key Relationships. We intend to continue to capitalize on our relationships with leading Internet infrastructure providers such as CacheFlow, Check Point, Cisco, Inktomi and Nokia. We have modified our software for each of these companies' products and regularly sponsor co-marketing programs that leverage their brand recognition and resources. We work closely with these

vendors as an integral and embedded element of their network infrastructure solutions. We intend to continue leveraging these key relationships to migrate deeper into the network infrastructure, from proxy servers, firewalls and cache engines, to network routers.

Develop and Maintain Leading Processes and Technologies. We intend to continue developing proprietary processes and technologies that, we believe, give us a distinct competitive advantage. In the development and maintenance of our databases, we utilize automated site collection, algorithmic classification and manual verification processes that we believe maximize coverage and accuracy. In addition, we intend to continue to develop software and technology that will facilitate the integration of our solutions with the systems of our customers and business partners.

Develop and Market AfterWork.com. We intend to leverage the large and growing user base of Websense Enterprise to develop additional revenue opportunities through AfterWork.com. Working in conjunction with our Websense Enterprise Solution, this portal site provides employers with the option to defer employee's non-business related Internet activities to specified non-working hours. AfterWork.com features a repository for bookmarked Web sites which employees can access after work through a personalized AfterWork.com Web page. This allows employees to pursue personal activities such as e-commerce, research and chat, and to access news and information using their employers' high-speed Internet connections. Personalized AfterWork.com Web pages can also be accessed from remote locations, such as the employee's home, to provide a gateway to useful and often-visited Web sites. We believe that AfterWork.com may provide us with additional revenue opportunities through Internet advertising, sponsorships and e-commerce.

Products and Services

We develop and market a comprehensive and flexible enterprise solution for managing employee access to the Internet. Our solution consists of customizable software that references our proprietary database. Our database of Web page addresses is organized into 54 categories which are regularly updated and available for incremental daily downloads. In addition to our current offerings, we plan to introduce and market new products and services, such as our new AfterWork.com offering, that will provide enterprises with additional flexibility in managing employee Internet access.

[Graphic Showing the Architecture of the Websense Enterprise Solution.]

Websense Enterprise. Websense Enterprise is the foundation of our software offerings. Websense Enterprise integrates with an organization's network server, proxy server or firewall and is designed to provide a high level of performance and flexibility in networks of virtually any size and configuration without compromising security. The table below describes the platforms for which we currently offer our Websense Enterprise solution.

Proxy Servers Firewalls Cache Engines Appliance/other

- Microsoft Proxy
- Netscape Proxy
- Websense Proxy
- MimeSweeper
- Check Point
- Cisco
- Novell
- SecurIT
- Netscreen-Conclave
- Netopia-Conclave
- GnatBox
- Inktomi
- CacheFlow
- Team Internet
- Nokia
- OpenServer Partners

We sell Websense Enterprise as a subscription based on the number of Internet users to be managed. Additional users, additional features and enhanced technical support are priced separately.

Content Management. Websense Enterprise enables employers to proactively manage employee Internet access based on the content of the requested Web site. Our solution gives corporate managers the ability to customize, implement and modify Internet access policies for various groups, user types and individuals. An easy-to-use graphical interface enables business managers to define the categories of Web sites to which access will be managed during particular time periods of the day. The filtering software examines each Internet access request, determines the category of the requested Web site and applies the policies that have been defined by the company. There are several possible results for each request:

- Allow. The request is allowed to proceed, because the organization has chosen not to restrict access to the category applicable to the Web site or because the requested Web site does not fall into any of our categories.

- Block. The requested Web site is in a category that is not allowed to be accessed according to the policy in effect.

- Defer and Save. The user can bookmark the requested Web site to a personalized AfterWork.com Web page for access at a later time when the organization's access policy is less restrictive. This Web page can also be accessed from alternative locations, such as from the employee's home.

- Continue with Exception Report. The user is reminded about the organization's Internet usage policy, but can choose to access the requested Web site. Alternatively, the user can save the Web site as described above.

The Websense Database. We offer an extensive and regularly updated database of Web sites. Our database currently catalogs more than 800,000 Web sites, which we estimate represent approximately 85 million Web page addresses cataloged into 54 categories. We add approximately 2,000 newly categorized Web sites per business day to our database and make these updates available for incremental daily downloads.

The breadth and specificity of Web site categories we have defined provide the enterprise flexibility in selecting which types of material should be allowed, blocked, deferred or reported. We define the categories, based on input we have received from our customers, to identify the types of materials that we believe employers would deem to be unacceptable, inappropriate or undesirable in a work environment. Categories in our database include the following:

- Abortion Advocacy
- Abused Medications
- Activist Groups
- Adult Content
- Adult Entertainment
- Alcohol & Tobacco
- Alternative Journals
- Arts & Humanities
- Business & Economy
- Cult & New Age
- Drugs
- Education
- Entertainment
- Financial Data & Services
- Gambling
- Games
- Gay and Lesbian Issues
- Government
- Hacking
- Health
- Illegal & Questionable
- Information Technology
- Job Search
- Militancy & Extremist
- Military
- MP3
- News & Media
- Nudity
- Online Games
- Personals & Dating
- Political Groups
- Prescribed Medications
- Proxy Avoidance
- Racism & Hate
- Religion
- Restaurants and Dining
- Search Engines & Portals
- Sex
- Shopping
- Society & Lifestyles
- Special Events
- Sports
- Streaming Media & Broadcasting Channels
- Supplements
- Tasteless
- Traditional Religions
- Travel
- URL Translation Sites
- Vehicles
- Violence
- Weapons
- Web Chat
- Web Hosting
- Web-Based Email

Reporter. Websense Reporter is a software application that is offered with Websense Enterprise. This application assists managers in analyzing Internet use within their organizations. Websense Reporter generates a wide variety of tabular and graphical reports on an organization's Internet usage. It analyzes information from Internet monitoring logs and builds visual charts in a variety of formats for easy distribution to and interpretation by managers. Websense Reporter enables managers to identify useful information, including summaries of categories of Web sites visited, requests to all destinations and details regarding individual destination requests.

Professional Services. Our professional services group provides technical support, training and consulting services. This group provides pre-sales and technical support for Websense Enterprise and sells services and third-party products. This group also allows us to offer more complete solutions to our customers.

Websense for Schools. Websense for Schools is tailored for use in the K-12 educational setting and is offered at no charge to qualifying schools. This solution uses a customized database and offers school administrators the ability to manage, monitor and report on Internet usage in their school. Websense for Schools is compatible with the Microsoft Proxy Platform with features specific to school implementation requirements.

AfterWork.com. AfterWork.com is our hosted Web site that allows employees to bookmark and later access Web sites where management policies do not allow access during work hours. After work hours, when the organization's Internet access policies may be less restrictive, employees can return to AfterWork.com to access Web sites which they previously bookmarked. Because AfterWork.com resides on the Internet, outside the employer's network, employees can access the site from locations outside of work, including home.

Customers

We currently have over 4,600 subscription agreements covering approximately 3.8 million Internet-enabled employees and 2,900 subscription agreements with schools covering 590,000 workstations. Our customers range from Fortune 500 companies to government and educational organizations. No customer accounted for more than 5% of our total revenues in 1998 or 1999. The following is a partial list of users who have paid subscription fees for Websense Enterprise in excess of $10,000 since January 1, 1999:

Business -- North America

Alcan Aluminum Limited Alliance Data Systems Corporation American Express Company Bank of America, N.A. Bell Atlantic Corporation Bowater Incorporated Bristol-Myers Squibb Company Center for Disease Control (CDC) Chubb Corporation Cigna Corporation Compaq Computer Corporation Conoco Inc. Gateway, Inc. Goodyear Tire & Rubber Company International Business Machines Corporation J.C. Penney Company, Inc. JP Morgan & Co. Maritime Telegraph & Telephone (Canada) Marriot International, Inc. McDonalds Corporation Merrill Lynch & Co., Inc. Metropolitan Life Insurance Company Morgan Stanley Dean Witter & Co. Paramount Pictures Pepsi-Cola Company Procter & Gamble Co. Ralston Purina Company REXEL Group Robert Half International Royal Bank of Canada Staples, Inc. Tellabs Operations, Inc. Travellers Indemnity Company Underwriter's Labs (UL) Unilever Unocal Corporation Western Digital Corporation

Business -- International

Amdahl Ireland BP Amoco p.l.c. Daiwa Securities Lloyds of London Marconi p.l.c. Mitsubishi Electric Corporation Royal Bank of Scotland Saudi Aramco Toshiba Corporation

Isps

AT&T Corporation Internet Initiative Japan (IIJ) UUNET Technologies Ltd. Sprint Communications Company, L.P. EDUCATIONAL Atlanta Public Schools Ball State University Dallas Public Schools Ministry of Education (Austria) Ministry of Education (Japan) Portland Public Schools

Government

Norsk Hydro (Norway) Norwegian State Railway Ohio Department of Transportation Ontario Power Generation (Canada) Quebec Ministry of Revenue U.S. Army Reserve U.S. Department of Veterans Affairs Washington State Department of Transportation

Sales, Marketing and Distribution

Sales. We sell our products and services through both indirect and direct channels. For 1999, indirect channel sales comprised approximately 70% of total revenues, while direct sales to end-users accounted for the remainder of our revenues. We expect that indirect sales will account for an increased percentage of our revenues over the next several years.

Our indirect channels include:

Value-Added Resellers. We currently have more than 350 domestic VARs, or VARs, selling our products in the United States. Our VARs include AT&T, UUNET, GTE Network Services, Unipalm and GE Capital Information Technology Services, among others.

Distributors. Internationally, we sell our products through a network of more than 100 distributors and resellers in over 50 countries.

Original Equipment Manufacturers. Our solution integrates into products manufactured by original equipment manufactures, or OEMs. A number of our OEM partners, including CacheFlow, eSoft, Inc. and Nokia, have provided us worldwide access to customers through their existing sales channels.

Our direct sales efforts are coordinated through a worldwide sales organization of approximately 20 individuals. The typical end-users buying directly from us are larger, Fortune 500 companies looking to obtain a closer relationship with the provider of their enterprise-wide solution.

In 1999 we generated approximately 21% of our total revenue from customers outside of North America. We expect international markets to provide increased opportunities for our products in the future. Our current international efforts are focused on expanding our indirect sales channels in France and Germany, entering China, strengthening the Asia/Pacific channels and establishing a presence in Latin America.

Marketing. To generate qualified sales leads, build our brand and raise corporate awareness of Websense as a leading provider of employee Internet management solutions, we have devoted significant resources to developing and implementing our marketing strategy. Our marketing efforts are targeted toward operational executives and decision makers within businesses, including IT professionals, chief executives, upper level management and human resource personnel. We actively manage our public relations, communicating directly with technology analysts and the media, in an effort to promote greater awareness of the growing problem caused by employee misuse of the Internet at work. Our additional marketing initiatives include:

- advertising in high-technology trade magazines, management journals and other business oriented periodicals;

- participation in and sponsorship of trade shows and industry events;

- direct mail campaigns;

- cooperative marketing efforts with Internet infrastructure vendors, including Web link exchanges, joint press announcements, joint trade show activities, channel marketing campaigns, road shows and seminars; and - use of our Web site to communicate with our channel partners, allow free trials and purchases of our products and provide product and company information to interested parties.

Customer Service, Training and Support

We believe that superior customer support is critical to retaining and expanding our customer base. Our technical support group provides dependable and timely resolution of customer technical inquiries and is available to customers by telephone, e-mail and over the Web. Our training services group delivers education, training and pre-sales support to our customers. We also offer online training to our customers and resellers to provide them with the knowledge and skills to successfully deploy, use and maintain our products. Our customer service team is responsible for handling general customer inquiries, answering questions about the ordering process, investigating the status of orders and payments, as well as processing customer orders. In addition, our customer service team uses our e-mail system to proactively update customers on a variety of topics, including release dates of new products and updates to existing products.

Research and Development

We have invested significant time and resources in creating a structured process for undertaking product and database development projects. The research and development department is divided into several groups which include database production, software development, quality assurance and documentation. Individuals are grouped along product lines and work as part of cross-disciplined teams designed to provide a framework for defining and addressing the activities required to bring product concepts and development projects to market successfully. Our research and development expenses totaled approximately $3.9 million for the year ended December 31, 1999, $1.8 million for the year ended December 31, 1998 and $528,000 for the year ended December 31, 1997. We expect that we will continue to commit significant resources to research and development in the future.

Technology

Software Architecture. Websense Enterprise is a server-based system designed to provide a high level of performance and flexibility without compromising security in networks of virtually any size and configuration. Websense Enterprise is composed of an integrated system of monitoring, reporting and management applications. It is designed to accommodate network growth without impairing performance or requiring major overhauls and can scale to support networks of up to 50,000 users on a single server. Websense integrates with major firewalls, proxy servers and caching engines. We provide cross-platform support, which is a critical feature for organizations running networks at multiple locations and/or in heterogeneous environments.

Database Content Analysis and Updating. We use automated site collection, algorithmic classification and manual verification processes to gather and classify new Web sites into our database. Our automated search technology uses Java-based tools and proprietary pattern recognition systems to automatically search the Internet to identify and catalog Web sites into one of our 54 database categories.

Competition

The market for Internet-filtering software and related services is immature, fragmented, highly competitive, quickly evolving and subject to rapid technological change. We expect that competition will intensify. Increased competition may result in reduced market acceptance of our products, price reductions and reduced gross margins, any of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services they offer. Our current principal competitors include:

- companies offering network filtering products, such as JSB, N2H2, Secure Computing and Symantec;

- companies offering network reporting products, such as WebTrends and Telemate.

- companies offering client-based software filtering products, such as The Learning Company and Log-On Data.

We also face current and potential competition from vendors of Internet servers, operating systems and networking hardware, many of which now, or may in the future, develop and/or bundle employee Internet management solutions with their products. We also compete against and expect increased competition from traditional network management software developers and Web management service providers. Many of our current and potential competitors have longer operating histories and significantly greater financial, technical, marketing or other resources than we do. They may have significantly greater name recognition, established marketing relationship and access to a larger installed base of customers. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the functionality of their products to address customer needs. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

We believe that the principal competitive factors in the market for our products include:

- a product's ability to scale and support the requirements of complex networks;

- use of a large and professionally maintained category database;

- breadth of product line, giving customers a number of implementation choices;

- depth of monitoring, reporting and analysis capabilities;

- capacity to integrate with key network providers;

- quality of customer support; and - price and payment methods.

Intellectual Property Rights

Our intellectual property rights are important to our business. We rely on a combination of trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and Websense brand. We have registered our Websense trademark in the United States. We also have applied for United States trademark registrations for AfterWork and AfterWork.com. Effective trademark protection may not be available in every country where our products are available.

We currently have two patent applications pending in the United States and two pending international patent applications that seek to protect our proprietary database and filtering technologies. We do not have any issued patents and our pending patent applications may not result in issued patents.

Our policy is to enter into confidentiality and invention assignment agreements with all employees and consultants, and nondisclosure agreements with all potential business partners. These protections, however, may not be adequate to protect our intellectual property rights. See "Risk Factors -- Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and establish the Websense brand" and "Risk Factors -- We may be sued by third parties for infringement of their proprietary rights."

Employees

As of December 31, 1999, we had 119 employees, including 51 in research and development, 31 in selling and marketing and 37 in general and administrative. None of our employees is represented by a labor union, and we have never experienced a work stoppage. We believe that our relations with our employees are good.

Facilities

Our corporate headquarters and principal offices are located in San Diego, California, where we lease approximately 47,000 square feet. This lease expires in 2002, with an option to extend the lease for an additional three years. We also have a right of first refusal to lease an additional 13,000 square feet at our current location. We believe that our current space along with the additional space we have a right to lease are adequate for our current and identified future needs.

Legal Proceedings

We have no pending legal proceedings. We may, however, become subject to lawsuits from time to time in the course of our business.

Management

Executive Officers and Directors

Our executive officers and directors and their ages as of December 31, 1999 are as follows:

Name Age Position(s)

John B. Carrington	55	Chairman of the Board, President and Chief Executive Officer
Douglas C. Wride	46	Chief Financial Officer
Harold M. Kester	52	Chief Technology Officer
Ronald B. Hegli	39	Vice President of Engineering
Carrie E. Carlander	29	Vice President of Finance and Administration
J. Cleve Adams	44	Vice President of Sales
Andrew Meyer	41	Vice President of Marketing
Robert J. Loarie	57	Director
Bruce T. Coleman	59	Director
John C. Stiska	57	Director
Donald B. Milder	47	Director
Gary E. Sutton	57	Director

John B. Carrington has served as our President and Chief Executive Officer since May 1999 and has served as our Chairman since June 1999. Prior to joining Websense, Mr. Carrington was Chairman, President and Chief Executive Officer of Artios, Inc., a provider of hardware and software design solutions to companies in the packaging industry, from August 1996 until it was acquired by BARCO n.a. in December 1998. From September 1991 to October 1995, Mr. Carrington was President and Chief Executive Officer of Digitalk, Inc., a software development tools company, which has since merged to form ParcPlace-Digitalk, Inc. Mr. Carrington currently serves on the boards of directors for SalesLogix Corp, a sales automation and e-commerce provider, and Digital Lava, Inc., a provider of video publishing and management tools. He received his B.S. in Business Administration from the University of Texas.

Douglas C. Wride has served as our Chief Financial Officer since June 1999. From March 1997 to December 1998, Mr. Wride served as Chief Financial Officer of Artios, Inc. Mr. Wride also served as Chief Operating Officer of Artios from July 1997 to December 1998. From April 1996 to March 1997, Mr. Wride served as Chief Operating Officer and Chief Financial Officer of NetCount, LLC, a provider of Internet measurement and research services. From February 1992 to January 1996, Mr. Wride was Chief Financial Officer at Digitalk, Inc. Mr. Wride has also held senior-level positions with SSD Management, Inc. and Accountants Overload Group, and spent 11 years in the entrepreneurial technology group at Price Waterhouse & Co. Mr. Wride received his B.S. in Business/Accounting from the University of Southern California.

Harold M. Kester has served as our Chief Technology Officer since June 1999. Prior to joining us, from August 1993 to June 1999, Mr. Kester served as Vice President of Encyclopedia Britannica and General Manager and Chief Scientist of its La Jolla Research Laboratory. Prior to his employment with

Encyclopedia Britannica, Mr. Kester founded The Del Mar Group, a provider of information retrieval software products. Mr. Kester received his B.A. in Mathematics from California State University, Long Beach.

Ronald B. Hegli has served as our Vice President of Engineering since March 1999. Prior to joining us, from August 1998 to March 1999, Mr. Hegli served as Director of Product Development for Nuera Communications, an Internet protocol telephony vendor. From March 1994 to April 1998, Mr. Hegli served as Vice President of Engineering with TriTeal Corp., a graphical user interface software developer. Mr. Hegli received his B.S. in Nuclear Engineering from Oregon State University and an M.S. in Mechanical Engineering from the University of California, Berkeley.

Carrie E. Carlander has served as our Vice President of Finance and Administration since January 1999. Ms. Carlander previously served as our Director of Finance and Human Resources from December 1996 to January 1999. Previously, from November 1995 to November 1996, Ms. Carlander served as a financial analyst at QUALCOMM Incorporated. From October 1993 to October 1995, she served as an analyst at the San Diego Unified Port District. Ms. Carlander received her B.A. in Political Science from the University of California, San Diego, and an M.B.A. from San Diego State University.

J. Cleve Adams has served as our Vice President of Sales since September 1998. From January 1996 to August 1997, Mr. Adams served as Executive Vice President of Sequel Technology, Inc., an Internet applications company. From June 1994 to October 1996, Mr. Adams served as Vice President of Sales for Acusoft, a client-server start-up. Mr. Adams has also held sales positions with Novell and Texas Instruments. He received his B.S. in Education from the University of LaVerne.

Andrew Meyer has served as our Vice President of Marketing since August 1999. From November 1997 to August 1999, Mr. Meyer served as Vice President of Marketing for Epicor Software (formerly Platinum Software), a provider of enterprise resource planning software. From September 1993 to November 1997, Mr. Meyer was Director of Marketing for Scientific-Atlanta, a cable television and telecommunications manufacturer. Mr. Meyer received his bachelor's degree in Mechanical Engineering from Georgia Tech and an M.B.A. from the University of New Orleans.

Robert J. Loarie has served as a Director since May 1998. Since August 1992, Mr. Loarie has been a Principal of, and since December 1997, a Managing Director of Morgan Stanley Dean Witter & Co., an investment banking company. Since August 1992, Mr. Loarie has also served as a managing member of several venture capital investment partnerships affiliated with Morgan Stanley Dean Witter. Mr. Loarie also serves as a director of Realnames Corporation, an Internet addressing system developer; Adaptec, a computer peripherals company; and Evolving Systems, a telecommunications software and services company. Mr. Loarie received a B.S. in Electrical Engineering from the Illinois Institute of Technology and an M.B.A. from Harvard Business School.

Bruce T. Coleman served as our interim Chief Executive Officer from November 1998 to May 1999, and continues to be a Director. Mr. Coleman has served as the Chief Executive Officer of El Salto Advisors, an executive consulting firm, since November 1991. He is currently the interim Chief Executive Officer of Rogue Wave Software, an enterprise systems software provider. From July 1997 to June 1998, Mr. Coleman served as Chief Executive Officer of Open Horizon, Inc., a provider of Java-

based software, and from December 1995 to July 1996, he served as Chief Executive Officer of Computer Network Technology, Inc., a provider of networking hardware and software. From September 1994 to May 1995, Mr. Coleman also served as Chief Executive officer of Fischer International, a provider of e-mail and security software. He received a B.A. in Economics from Trinity College and an M.B.A. from Harvard Business School.

John C. Stiska has served as a Director since March 1999. Mr. Stiska currently is Chairman of Commercial Bridge Capital, LLC., a venture capital firm. From February 1996 to February 1998, he served as Corporate Senior Vice President and General Manager of the Technology Applications Division of QUALCOMM Incorporated. From 1990 to 1996, Mr. Stiska was President and then Chairman and Chief Executive Officer of Triton Group Ltd., now known as Alarmguard Holdings, Inc., a seller and installer of burglar and fire alarms. During that time, he also served on the board of directors of Triton's subsidiaries, two of which were publicly traded: Mission West Properties and Ridgewood Properties, Inc. In July 1998, Mr. Stiska joined the law firm of Latham & Watkins, LLC as of-counsel. Mr. Stiska serves on the boards of directors of several private companies. In addition, he is a Director of Laser Power Corporation, a producer of microlasers, and FirstWorld Communications, Inc., a provider of Internet data and communications services. Mr. Stiska received a B.B.A. and J.D. from the University of Wisconsin.

Donald B. Milder has served as a Director since June 1999. Since 1989, Mr. Milder has been a general partner with Crosspoint Venture Partners, a venture capital investor in early-stage technology companies. 43 Mr. Milder serves on the boards of 10 privately held companies. Mr. Milder received a B.A. from Union College and an M.B.A. from Harvard Business School.

Gary E. Sutton has served as a Director since June 1999. Since January 1996, Mr. Sutton has served as the President, Chief Executive Officer and Chairman of @Backup, Inc., an online data protection service. From 1990 to 1995, Mr. Sutton was chairman of Knight Protective Industries, a security systems provider. Mr. Sutton is also a co-founder of Teledesic, Inc., a low-earth orbit telecommunications service. Mr. Sutton has authored the book "Profit Secrets of a No-Nonsense CEO" and several other titles. He received his B.S. from Iowa State University.

Our executive officers are appointed by the board of directors and serve until their successors are elected or appointed.

There are no family relationships among any of our directors or executive officers.

Classified Board

Our board currently has six members. Under our bylaws, beginning at our next annual meeting of stockholders, our board will be divided into three classes of directors serving staggered three-year terms, with one class of directors to be elected at each annual meeting of stockholders. The term of the first class of directors will expire in 2002. The term of the second class of directors will expire in 2003. The term of the third class of directors will expire in 2004.

Board Committees

Audit Committee. The audit committee of the board of directors reviews, acts on and reports to the board of directors with respect to various auditing and accounting matters, including the recommendation of our auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of our independent auditors and our accounting practices. The members of the audit committee are Mr. Loarie, Mr. Sutton and Mr. Milder.

Compensation Committee. The compensation committee of the board of directors recommends, reviews and oversees the salaries, benefits and stock option plans for our employees, consultants, directors and other individuals compensated by us. The compensation committee also administers our compensation plans. The members of the compensation committee are Mr. Loarie, Mr. Coleman, Mr. Sutton and Mr. Stiska.

Director Compensation

Directors do not receive cash compensation for their service on our board of directors. Non-employee directors are reimbursed for reasonable expenses incurred in connection with serving as a director. Since November 1998, we have granted non-qualified stock options to purchase an aggregate of 130,000 shares of common stock to Bruce Coleman, a non-employee director, in part for his services as interim Chief Executive Officer. In June 1999, we granted a non-qualified stock option to purchase 50,000 shares of common stock to Mr. Sutton, a non-employee director. Each individual who first becomes a non-employee member of the board of directors at any time after the offering will receive an option to purchase 50,000 shares of common stock on the date such individual joins the board of directors, provided such individual has not previously been employed by us or any parent or subsidiary corporation. In addition, on the date of each annual stockholders meeting beginning in 2001, each non-employee member of the board of directors will automatically be granted an option to purchase 2,500 shares of common stock, provided such individual has served as a non-employee member.

Compensation Committee Interlocks and Insider Participation

Our compensation committee currently consists of Mr. Loarie, Mr. Coleman, Mr. Stiska and Mr. Sutton. Except for Mr. Coleman, who served as our interim Chief Executive Officer from November 1998 to May 1999, no member of the compensation committee has been an officer or employee of us at any time. None of our executive officers serves as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our board of directors or compensation committee.

Executive Compensation

The following table sets forth all compensation received during fiscal 1999 by our Chief Executive Officer, our former Chief Executive Officer, and three of our other most highly compensated executive officers whose salary and bonus exceeded $100,000 in such fiscal year. Perquisites and other personal benefits paid to officers are less than the minimum reporting thresholds.

Summary Compensation Table

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS
John G. Carrington, Chief Executive Officer, President and Director	$130,771	$ 94,212	1,300,000
Bruce Coleman(1) Former Chief Executive Officer and Director	67,500	--	130,000
J. Cleve Adams Vice President of Sales	120,000	166,671	80,000
Ronald B. Hegli Vice President of Engineering	109,038	22,327	150,000
Carrie Carlander Vice President of Finance	92,308	20,000	40,000

(1) Mr. Coleman served as our interim Chief Executive Officer from November 1998 to May 1999.

Stock Option Information

The following table sets forth information regarding options granted to the executive officers listed in the Summary Compensation Table during fiscal 1999. We have not granted any stock appreciation rights.

Each option represents the right to purchase one share of common stock. Except as set forth in the footnotes below, the options vest on the following schedule: 25% of the options vest after the completion of one year of service from the grant date and the remainder of the options vest in equal monthly installments over the next 36 months of service. To the extent not already exercisable, these options may also accelerate and become exercisable, in the event of a merger in which we are not the surviving corporation or upon the sale of substantially all of our assets. Please see "-- Employment Agreements" and "-- Benefit Plans" for more details regarding these options. In the year ended December 31, 1999, we granted options to purchase an aggregate of 3,060,500 shares of common stock.

The potential realizable value at assumed annual rates of stock price appreciation for the option term represents hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the SEC and do not represent our estimate or projection of our future common

stock prices. These amounts represent assumed rates of appreciation in the value of our common stock from the fair market value on the date of grant. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock and overall stock market conditions. The amounts in the table may not necessarily be achieved.

Option Grants in Last Fiscal Year

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1999	EXERCISE PRICE	EXPIRATION DATE	5%	10%
John B. Carrington.....	975,000	31.8%	$0.50	5/11/09	$306,586	$776,949
John B. Carrington(1).....	325,000	10.6	0.50	5/11/09	102,195	258,983
Bruce T. Coleman(2)....	15,000	0.5	0.20	11/30/08	1,887	4,781
Bruce T. Coleman(2)....	15,000	0.5	0.20	12/31/08	1,887	4,781
Bruce T. Coleman(2)....	15,000	0.5	0.20	1/29/09	1,887	4,781
Bruce T. Coleman(2)....	15,000	0.5	0.20	2/26/09	1,887	4,781
Bruce T. Coleman.....	40,000	1.3	0.50	3/30/09	12,578	31,875
Bruce T. Coleman(2)....	15,000	0.5	0.20	3/31/09	1,887	4,781
Bruce T. Coleman(2)....	15,000	0.5	0.20	4/30/09	1,887	4,781
J. Cleve Adams.....	80,000	2.6	0.75	3/30/09	37,734	95,625
Ronald B. Hegli.....	150,000	4.9	0.50	3/08/09	47,167	119,531
Carrie E. Carlander....	40,000	1.3	0.20	1/22/09	5,031	12,750

(1) Such option vests in equal monthly installments over Mr. Carrington's first 12 months of service.

(2) Such options vested immediately upon grant.

AGGREGATED OPTION EXERCISES IN THE YEAR ENDED DECEMBER 31, 1999 AND YEAR-END OPTION VALUES The following table sets forth information concerning the number and value of unexercised options held by each of the executive officers listed in the Summary Compensation Table at December 31, 1999.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED	VALUE OF UNEXERCISED IN-THE-

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	OPTIONS AT FISCAL 1999 EXERCISABLE	OPTIONS AT FISCAL 1999 UNEXERCISABLE	MONEY OPTIONS AT FISCAL 1999(2) EXERCISABLE	MONEY OPTIONS AT FISCAL 1999(2) UNEXERCISABLE
John B. Carrington.....	325,000	--	--	975,000	--	$6,337,500
Bruce T. Coleman.....	90,000	$27,000	--	40,000	--	260,000
J. Cleve Adams.....	--	--	95,625	154,375	$650,250	1,049,750
Ronald B. Hegli.....	--	--	--	150,000	--	975,000
Carrie E. Carlander.....	41,250	55,505	--	58,750	--	399,500

(1) Amount based on the difference between the fair market value of our common stock on the date of exercise, as determined by our board of directors, and the exercise price of the option.

(2) Amount based on the fair market value of our common stock on December 31, 1999, as determined by our board of directors, less the exercise price of the option.

Employment Agreements

Employment Agreement of John B. Carrington. In May 1999, we entered into an employment agreement with Mr. Carrington to serve as our President and Chief Executive Officer. This agreement provides for an initial term of two years which term shall be automatically extended for successive one-year periods unless terminated by us prior to April 30 of any year. Under this agreement, Mr. Carrington will be paid an annual base salary of $200,004 and a bonus of up to $100,000 in 1999. After 1999, the amount of his salary and bonus will be determined by our Board of Directors; however, his annual base salary will not be decreased. Under his employment agreement, Mr. Carrington was granted an option to purchase 975,000 shares of our common stock, which will vest over a four-year period, with 25% vesting upon the completion of one year of service and the remainder vesting in equal monthly installments over the next 36 months of service. Mr. Carrington was also granted an option to purchase 325,000 shares of our common stock which will vest in equal monthly installments over a one-year period. If Mr. Carrington's employment is terminated before all of his options vest, we will have the right to repurchase any unvested shares for which he may have exercised such options at cost. Upon a change in control, all of Mr. Carrington's option shares that remain unvested will vest in full.

If Mr. Carrington's employment is terminated by us other than for cause, or is terminated by Mr. Carrington upon our breach of his employment agreement, he is entitled to receive, as severance, a lump sum payment equal to 50% of his base salary and 50% of his average annual bonus earned under this agreement. Notwithstanding the foregoing, if within two years following a change of control, Mr. Carrington's employment is terminated by us other than for cause, is terminated by Mr. Carrington

upon our breach of his employment agreement, or is constructively terminated, he is entitled to receive, as severance, a lump sum payment equal to 150% of his base salary and 150% of his average annual bonus earned under this agreement.

Employment Agreement of Douglas C. Wride. In June 1999, we entered into an employment agreement with Mr. Wride to serve as our Chief Financial Officer. This agreement provides that Mr. Wride will be employed "at will" and paid an annual base salary of at least $150,000. In addition, Mr. Wride will be eligible to receive a bonus of up to 20% of his annual base salary. Under his employment agreement, Mr. Wride was granted an option to purchase 300,000 shares of our common stock, which will vest in equal monthly installments over a four-year period. If Mr. Wride's employment is terminated before all of his options vest, we will have the right to repurchase any unvested shares for which he may have exercised such options at cost.

If Mr. Wride's employment is terminated by us other than for cause he is entitled to receive, as severance, six months of continuation of his base salary and he will also be entitled to vest in the number of shares of our common stock that would have become vested under his options if his employment had continued for an additional six months. Notwithstanding the foregoing, if within one year following a change of control, Mr. Wride is terminated other than for cause, he is entitled to receive, as severance, one year of continuation of his base salary and he will also be immediately vested in all of his option shares.

Benefit Plans

2000 Stock Incentive Plan

Introduction. Our 2000 Stock Incentive Plan is intended to serve as the successor equity incentive program to our 1998 Equity Incentive Plan. Our 2000 plan was adopted by our board on , 2000 and approved by the stockholders in 2000. Our 2000 plan will become effective on the date the underwriting agreement for this offering stock is signed. At that time, all outstanding options under the predecessor 1998 plan will be transferred to our 2000 plan, and no further option grants will be made under that predecessor plan. The transferred options will continue to be governed by their existing terms, unless our compensation committee elects to extend one or more features of our 2000 plan to those options. Except as otherwise noted below, the transferred options will have substantially the same terms as in effect for grants made under the discretionary option grant program of our 2000 plan.

Share Reserve. 4,500,000 shares of common stock has been authorized for issuance under our 2000 plan. Such share reserve consists of the number of shares we estimate will be carried over from our 1998 plan, including the shares subject to outstanding options thereunder, plus an additional increase of approximately 1,000,000 shares. The number of shares of common stock reserved for issuance under our 2000 plan will automatically increase on the first trading day in January each calendar year, beginning in calendar year 2001, by an amount equal to 4% of the total number of shares of common

stock outstanding on the last trading day in December of the preceding calendar year, but in no event will any such annual increase exceed 1,500,000 shares. In addition, no participant in our 2000 plan may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances for more than 750,000 shares of common stock per calendar year.

Equity Incentive Programs. Our 2000 plan is divided into five separate components:

- the discretionary option grant program, under which eligible individuals in our employ or service may be granted options to purchase shares of common stock at an exercise price not less than 100% of the fair market value of those shares on the grant date;

- the stock issuance program, under which such individuals may be issued shares of common stock directly, through the purchase of such shares at a price not less than 100% of their fair market value at the time of issuance or as a bonus tied to the attainment of performance milestones or the completion of a specified period of service;

- the salary investment option grant program, under which our executive officers and other highly compensated employees may be given the opportunity to apply a portion of their base salary to the acquisition of special below-market stock option grants;

- the automatic option grant program, under which option grants will automatically be made at periodic intervals to our non-employee board members to purchase shares of common stock at an exercise price equal to 100% of the fair market value of those shares on the grant date; and - the director fee option grant program, under which our non-employee board members may be given the opportunity to apply a portion of the annual retainer fee otherwise payable to them in cash each year to the acquisition of special below-market option grants.

Eligibility. The individuals eligible to participate in our 2000 plan include our officers and other employees, our non-employee board members and any consultants we hire.

Administration. The discretionary option grant program and the stock issuance program will be administered by the compensation committee. This committee will determine which eligible individuals are to receive option grants or stock issuances under those programs, the time or times when such option grants or stock issuances are to be made, the number of shares subject to each such grant or issuance, the status of any granted option as either an incentive stock option or a non-statutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding. The compensation committee will also have the exclusive authority to select the executive officers and other highly compensated employees who may participate in the salary investment option grant program in the event that program is activated for one or more calendar years.

Plan Features. Our 2000 plan will include the following features:

- The exercise price for the shares of common stock subject to option grants made under our 2000 plan may be paid in cash or in shares of common stock valued at fair market value on the exercise date. The option may also be exercised through a same-day sale program without any cash outlay by the optionee.

In addition, the plan administrator may provide financial assistance to one or more optionees in the exercise of their outstanding options or the purchase of their unvested shares by allowing such individuals to deliver a full-recourse, interest-bearing promissory note in payment of the exercise price and any associated withholding taxes incurred in connection with such exercise or purchase.

- The compensation committee will have the authority to cancel outstanding options under the discretionary option grant program, including options transferred from the 1998 plan, in return for the grant of new options for the same or a different number of option shares with an exercise price per share based upon the fair market value of our common stock on the new grant date.

- Stock appreciation rights are authorized for issuance under the discretionary option grant program. Such rights will provide the holders with the election to surrender their outstanding options for an appreciation distribution from us equal to the fair market value of the vested shares of common stock subject to the surrendered option, less the aggregate exercise price payable for those shares. Such appreciation distribution may be made in cash or in shares of common stock. None of the outstanding options under our 1998 plan contain any stock appreciation rights.

- In the event that we are acquired by merger or asset sale, each outstanding option under the discretionary option grant program which is not to be assumed by the successor corporation will automatically accelerate in full, and all unvested shares under the discretionary option grant and stock issuance programs will immediately vest, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation. The compensation committee will have complete discretion to structure one or more options under the discretionary option grant program so those options will vest as to all the option shares in the event those options are assumed in the acquisition but the optionee's service with us or the acquiring entity is subsequently terminated. The vesting of outstanding shares under the stock issuance program may be accelerated upon similar terms and conditions. The compensation committee will also have the authority to grant options which will immediately vest in the event we are acquired, whether or not those options are assumed by the successor corporation.

- The compensation committee may grant options and structure repurchase rights so that the shares subject to those options or repurchase rights will immediately vest in connection with a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections for board membership. Such accelerated vesting may occur either at the time of such transaction or upon the subsequent termination of the individual's service.

- The options currently outstanding under our 1998 plan will immediately vest in the event we are acquired by merger or sale of substantially all our assets or more than 50% of our outstanding voting stock, unless those options are assumed or continued in effect by the acquiring entity or our repurchase rights with respect to any unvested shares subject to those options are assigned to such entity. However, those options also contain a special acceleration provision pursuant to which those options

will immediately vest upon an involuntary termination of the optionee's employment within 24 months following an acquisition in which those options are assumed, provided the optionee has been employed by us for at least one year prior to the acquisition.

Salary Investment Option Grant Program. In the event the compensation committee elects to activate the salary investment option grant program for one or more calendar years, each of our executive officers and other highly compensated employees selected for participation may elect, prior to the start of the calendar year, to reduce his or her base salary for that calendar year by a specified dollar amount not less than $10,000 nor more than $50,000. Each selected individual who files such a timely election will automatically be granted, on the first trading day in January of the calendar year for which his or her salary reduction is to be in effect, an option to purchase that number of shares of common stock determined by dividing the salary reduction amount by two-thirds of the fair market value per share of our common stock on the grant date. The option will be exercisable at a price per share equal to one-third of the fair market value of the option shares on the grant date. As a result, the option will be structured so that the fair market value of the option shares on the grant date less the exercise price payable for those shares will be equal to the amount by which the optionee's salary is reduced under the program. The option will become exercisable in a series of 12 equal monthly installments over the calendar year for which the salary reduction is to be in effect.

Automatic Option Grant Program. Under the automatic option grant program, each individual who first becomes a non-employee board member at any time after the completion of this offering will automatically receive an option grant for 50,000 shares on the date such individual joins the board, provided such individual has not been in our prior employment. In addition, on the date of each annual stockholders meeting held after the completion of this offering, each non-employee board member who is to continue to serve as a non-employee board member, including each of our current non-employee board members, will automatically be granted an option to purchase 2,500 shares of common stock, provided such individual has served on our board for at least six months.

Each automatic grant will have an exercise price per share equal to the fair market value per share of our common stock on the grant date and will have a term of 10 years, subject to earlier termination following the optionee's cessation of board service. The option will be immediately exercisable for all of the option shares; however, we may repurchase, at the exercise price paid per share, any shares purchased under the option which are not vested at the time of the optionee's cessation of board service. The shares subject to each initial 50,000-share automatic option grant will vest in a series of 4 successive annual installments upon the optionee's completion of each year of board service over the 4-year period measured from the grant date. The shares subject to each annual 2,500-share automatic option grant will vest upon the optionee's completion of one year of board service measured from the grant date. However, the shares will immediately vest in full upon certain changes in control or ownership or upon the optionee's death or disability of a board member.

Director Fee Option Grant Program. Should the director fee option grant program be activated in the future, each non-employee board member will have the opportunity to apply all or a portion of any cash retainer fee for the year to the acquisition of a below-market option grant. The option grant will

automatically be made on the first trading day in January in the year for which the retainer fee would otherwise be payable in cash. The option will have an exercise price per share equal to one-third of the fair market value of the option shares on the grant date, and the number of shares subject to the option will be determined by dividing the amount of the retainer fee applied to the program by two-thirds of the fair market value per share of our common stock on the grant date. As a result, the option will be structured so that the fair market value of the option shares on the grant date less the exercise price payable for those shares will be equal to the portion of the retainer fee applied to that option. The option will become exercisable in a series of 12 equal monthly installments over the calendar year for which the election is to be in effect. However, the option will become immediately exercisable for all the option shares upon the optionee's death or disability while serving as a board member.

Our 2000 plan will also have the following features:

- Outstanding options under the salary investment and director fee option grant programs will immediately vest if we are acquired by a merger or asset sale or if there is a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections.

- Limited stock appreciation rights will automatically be included as part of each grant made under the salary investment option grant program and the automatic and director fee option grant programs, and these rights may also be granted to one or more officers as part of their option grants under the discretionary option grant program. Options with this feature may be surrendered to us upon the successful completion of a hostile tender offer for more than 50% of our outstanding voting stock. In return for the surrendered option, the optionee will be entitled to a cash distribution from us in an amount per surrendered option share based upon the highest price per share of our common stock paid in that tender offer.

- The board may amend or modify the 2000 plan at any time, subject to any required stockholder approval. The 2000 plan will terminate no later than January 31, 2010.

2000 Employee Stock Purchase Plan.

Introduction. Our 2000 Employee Stock Purchase Plan was adopted by the board on , 2000 and approved by the stockholders in 2000. The plan will become effective immediately upon the signing of the underwriting agreement for this offering. The plan is designed to allow our eligible employees and the eligible employees our participating subsidiaries to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions.

Share Reserve. 250,000 shares of our common stock will initially be reserved for issuance. The reserve will automatically increase on the first trading day in January each calendar year, beginning in calendar year 2001, by an amount equal to 1% of the total number of outstanding shares of our common stock on the last trading day in December in the prior calendar year. In no event will any such annual increase exceed 375,000 shares.

Offering Periods. The plan will have a series of successive offering periods, each with a maximum duration of 24 months. However, the initial offering period may have a duration in excess of 24 months and will start on the date the underwriting agreement for the offering is signed, and will end on the last business day in April 2002. The next offering period will start on the first business day in May 2002, and subsequent offering periods will be set by our compensation committee.

Eligible Employees. Individuals scheduled to work more than 20 hours per week for more than 5 calendar months per year may join an offering period on the start date or any semi-annual entry date within that period. Semi-annual entry dates will occur on the first business day of May and November each year. Individuals who become eligible employees after the start date of an offering period may join the plan on any subsequent semi-annual entry date within that offering period.

Payroll Deductions. A participant may contribute up to 15% of his or her cash earnings through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on each semi-annual purchase date. The purchase price per share will be equal to 85% of the fair market value per share on the participant's entry date into the offering period or, if lower, 85% of the fair market value per share on the semi-annual purchase date. Semi-annual purchase dates will occur on the last business day of April and October each year. However, a participant may not purchase more than 1,250 shares on any purchase date, and not more than 150,000 shares may be purchased in total by all participants on any purchase date. Our compensation committee will have the authority to change these limitations for any subsequent offering period.

Reset Feature. If the fair market value per share of our common stock on any purchase date is less than the fair market value per share on the start date of the two-year offering period, then that offering period will automatically terminate, and a new two-year offering period will begin on the next business day. All participants in the terminated offering will be transferred to the new offering period.

Change in Control. Should we be acquired by merger or sale of substantially all of our assets or more than fifty percent of our voting securities, then all outstanding purchase rights will automatically be exercised immediately prior to the effective date of the acquisition. The purchase price will be equal to 85% of the market value per share on the participant's entry date into the offering period in which an acquisition occurs or, if lower, 85% of the fair market value per share immediately prior to the acquisition.

Plan Provisions. The following provisions will also be in effect under the plan:

- The plan will terminate no later than the last business day of April 2010.

- The board may at any time amend, suspend or discontinue the plan. However, certain amendments may require stockholder approval.

Limitation of Liability and Indemnification Matters

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 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; or - 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 shall indemnify our directors and executive officers and may indemnify our other officers and employees and other 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 the 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 indemnification provided for in our bylaws. These agreements, among other things, provide for indemnification of our directors and executive officers for expenses specified in the agreements, including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in any action or proceeding arising out of such person's services as a director or executive officer of Websense, any subsidiary of Websense or any other entity to which the person provides services at our request. In addition, we maintain directors' and officers' insurance. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

At present, we are not aware of any pending or threatened litigation or proceeding involving a director, officer, employee or agent in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

Principal Stockholders

The following table sets forth information known to us regarding the beneficial ownership of our common stock as of December 31, 1999, as adjusted to reflect the sale of common stock offered in this offering, by:

- each person, or group of affiliated persons, known by us to own beneficially more than 5% of our outstanding common stock;

- each director;

- each of our directors and our executive officers named in the Summary Compensation Table; and - all of our directors and executive officers as a group.

Except as otherwise noted, the address of each person listed in the table is c/o Websense, Inc., 10240 Sorrento Valley Road, San Diego, California 92121. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. To our knowledge, except under applicable community property laws or as otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares shown as beneficially owned. The applicable percentage of ownership for each stockholder is based on 15,394,698 shares of common stock outstanding as of December 31, 1999 and shares outstanding after the completion of this offering, in each case together with applicable options for that stockholder. Shares of common stock issuable upon exercise of options and other rights beneficially owned that are exercisable on or before February 29, 2000 are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights but are not deemed outstanding for computing the percentage ownership of any other person. A portion of the shares issued to officers or issuable upon exercise of options by officers is subject to repurchase by us at the original exercise price in the event of termination of that officers' employment, which repurchase right lapses over time.

NAME AND ADDRESS	TOTAL NUMBER OF SHARES	PERCENT BENEFICIALLY OWNED BEFORE OFFERING	PERCENT BENEFICIALLY OWNED AFTER OFFERING
NAMED EXECUTIVE OFFICERS AND DIRECTORS: John B. Carrington(1).....	315,000	2.0%	%
Bruce T. Coleman.....	90,000	.6	
J. Cleve Adams(2).....	102,708	.7	
Ronald B. Hegli.....	--	*	*
Carrie E. Carlander(3).....	54,583	.3	
Robert J. Loarie(4).....	3,753,088	24.4	
c/o Morgan Stanley Dean Witter Venture Partners 3000 Sand Hill Road Building Four, Suite 250 Menlo Park, California 94025			
John C. Stiska.....	240,000	1.6	
Donald B. Milder(5).....	2,287,398	14.9	
18552 MacArthur Blvd., Suite 400 Irvine, California 92612			
Gary E. Sutton.....	--	*	*
OTHER 5% STOCKHOLDERS: Entities affiliated with Morgan Stanley Dean Witter Venture Partners(6).....	3,753,088	24.4	
3000 Sand Hill Road Building Four, Suite 250 Menlo Park, California 94025			
Crosspoint Venture Partners 1999, L.P.....	2,287,398	14.9	
18552 MacArthur Blvd., Suite 400 Irvine, California 92612			

NAME AND ADDRESS	TOTAL NUMBER OF SHARES	PERCENT BENEFICIALLY OWNED BEFORE OFFERING	PERCENT BENEFICIALLY OWNED AFTER OFFERING
Persons and entities affiliated with Edelson Technology Partners(7).....	1,053,950	6.8	
Persons and entities affiliated with Nippon Investment & Finance Co., Ltd. (8).....	806,377	5.2	
Philip G. Trubey.....	5,760,000	37.4	
3272 Lahitte Court San Diego, California 92122(9)			
Janet A. McVeigh.....	5,760,000	37.4	

3272 Lahitte Court San Diego, California 92122(10) All of our officers and directors as a group (12 persons)(11)..... 887,291 5.8 * Represents beneficial ownership of less than one percent of the outstanding shares of our common stock.

(1) Upon exercise of stock options, Mr. Carrington acquired 325,000 shares of common stock, 10,000 shares of which he subsequently transferred. Mr. Carrington disclaims beneficial ownership of these 10,000 shares.

(2) Consists of 102,708 shares of common stock issuable upon exercise of stock options exercisable within 60 days of December 31, 1999.

(3) Includes 13,333 shares issuable upon exercise of stock options exercisable within 60 days of December 31, 1999.

(4) Includes 3,293,356 shares held by Morgan Stanley Venture Partners III, L.P.; 316,209 shares held by Morgan Stanley Venture Investors III, L.P. and 143,523 shares held by The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. Mr. Loarie, as a general partner of each of these limited partnerships, may be deemed to have voting and investment power over these shares. Mr. Loarie disclaims beneficial ownership in such shares, except to the extent of his pecuniary interest in each of the limited partnerships.

(5) Consists of 2,287,398 shares held by Crosspoint Venture Partners 1999, L.P. Mr. Milder, as a general partner of this limited partnership, may be deemed to have voting and investment power over these shares. Mr. Milder disclaims beneficial ownership in such shares, except to the extent of his pecuniary interest in the limited partnership.

(6) Includes 3,293,356 shares held by Morgan Stanley Venture Partners III, L.P.; 316,209 shares held by Morgan Stanley Venture Investors III, L.P. and 143,523 shares held by The Morgan Stanley Venture Partners Entrepreneur Fund, L.P.

(7) Includes 803,950 shares held by Edelson IV, L.P. and 250,000 shares held by Harry Edelson, a general partner of Edelson IV, L.P.

(8) Includes 392,500 shares held by Investment Enterprise Partnership "New Technology Fund 98;" 140,500 shares held by Investment Enterprises Partnership "NIF II;" 174,239 shares held by Nippon Investment & Finance Co., Ltd.; 45,577 shares held by Nippon Investment & Finance New Technology Fund 99-A; 45,577 shares held by Nippon Investment & Finance New Technology Fund 99-B; and 7,984 shares held by Jim Timmins, a partner of NIF Ventures USA, Inc.

(9) Includes 2,880,000 shares held by Mr. Trubey and 2,880,000 shares held by Janet A. McVeigh, Mr. Trubey's spouse.

(10) Includes 2,880,000 shares held by Ms. McVeigh and 2,880,000 shares held by Philip G. Trubey, Ms. McVeigh's spouse.

(11) Includes 116,041 shares issuable upon exercise of stock options exercisable within 60 days of December 31, 1999.

Transactions with Related Parties

Since inception we have issued shares of our convertible preferred stock to investors in private placement transactions as follows: a total of 3,703,704 shares of Series A preferred stock at a price of $1.62 per share in May 1998, and a total of 3,333,332 shares of Series B preferred stock at a price of $3.00 per share between June and September 1999. The following table summarizes the shares of preferred stock purchased by our executive officers, directors, and 5% stockholders and persons and entities associated with them in these private placement transactions. All shares of our preferred stock will convert into common stock on a 1-for-1 basis upon completion of this offering. Shares held by affiliated persons and entities have been aggregated. See "Principal Stockholders." In connection with the above transactions, we entered into an agreement with the investors providing for registration rights with respect to these shares. See "Description of Capital Stock -- Registration Rights."

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	TOTAL CONSIDERATION
Entities affiliated with Morgan Stanley Ventures	3,086,420	333,334	$6,000,000
Entities affiliated with Crosspoint Venture Partners	--	1,910,000	5,730,000
A person and entity affiliated with Edelson Technology	617,284	66,667	1,201,001
A person and entities affiliated with Nippon Finance & Investment Co., Ltd	--	673,333	2,019,999

In May 1999, John B. Carrington acquired 325,000 shares upon exercise of an option at an exercise price of $0.50 per share and Bruce T. Coleman acquired 90,000 shares upon exercise of options at an exercise price of $0.20 per share. In September 1999, Douglas C. Wride acquired 75,000 shares upon exercise of an option at an exercise price of $0.75 per share. In July and December 1999, Carrie E. Carlander acquired a total of 41,250 shares upon exercise of options at $0.20 per share.

Stock option grants to our directors are described under the caption "Management -- Board Compensation."

On March 29, 1999, Philip G. Trubey and Janet A. McVeigh, our founders, and each a greater than 5% stockholder, entered into an agreement with John Stiska pursuant to which Mr. Stiska agreed to serve as a member of our Board of Directors on behalf of Mr. Trubey and Ms. McVeigh. Under this agreement, Mr. Stiska agreed to represent the interests of Mr. Trubey and Ms. McVeigh as they relate to us. In exchange, Mr. Trubey and Ms. McVeigh each transferred to Mr. Stiska 140,000 shares of our common stock held by them. On August 25, 1999, we entered into a Transfer Agreement with Mr. Trubey, Ms. McVeigh and Mr. Stiska in order to effect the transfer of our shares described above.

We believe that all of our transactions with affiliates were entered into on terms and conditions no less favorable to us than those that could have been obtained from unaffiliated third parties. In addition, transactions with our affiliates are approved by a majority of our board of directors, including a majority of our independent and disinterested directors.

We have entered into indemnification agreements with all of our officers and directors. See "Management -- Limitation of Liability and Indemnification Matters." Some of our stockholders are entitled to have their shares registered by us for resale. See "Description of Capital Stock -- Registration Rights."

Description of Capital Stock

The following information describes our common stock and preferred stock and certain provisions of our certificate of incorporation and our bylaws as in effect upon the closing of this offering. This description is only a summary. You should also refer to the certificate of incorporation and bylaws which have been filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part. The descriptions of the common stock and preferred stock reflect changes to our capital structure that will occur upon the receipt of the requisite board and stockholder approvals and upon the closing of this offering in accordance with the terms of the certificate of incorporation.

Upon the completion of the offering our authorized capital stock will consist of 100 million shares of common stock, par value $0.01 per share, and 5 million shares of preferred stock, par value $0.01 per share.

Common Stock

Assuming conversion of the convertible preferred stock as described below, as of December 31, 1999, there were 15,394,698 shares of common stock outstanding and held of record by 54 stockholders. Based upon the number of shares outstanding and giving effect to (1) the automatic conversion of each share of our preferred stock into one share of our common stock upon the closing of this offering and (2) the issuance of the shares of common stock offered hereby, there will be shares of common stock outstanding upon the closing of this offering.

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of funds legally available for that purpose, subject to any preferential dividend rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, and the shares offered by us in this offering will be, when issued in consideration for payment thereof, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future. Upon the closing of this offering, there will be no shares of preferred stock outstanding.

Preferred Stock

As of December 31, 1999, there were 7,037,036 shares of convertible preferred stock outstanding. All outstanding shares of convertible preferred stock will be converted into an aggregate of 7,037,036 shares of common stock upon the closing of this offering and such shares of convertible preferred stock will no longer be authorized, issued or outstanding.

Upon the closing of this offering, the board of directors will be authorized, without further stockholder approval, to issue from time to time up to an aggregate of 5 million shares of preferred stock in one or more series and to fix or alter the designations, powers, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of such series. We have no present plans to issue any shares of preferred stock. Please see "-- Anti-Takeover Effects of Certain Provisions of Delaware Law and our Certificate of Incorporation and Bylaws."

Options

As of December 31, 1999, options to purchase a total of 3,161,551 shares of common stock were outstanding, all of which are subject to lock-up agreements under the terms of the option agreements governing such options. Options to purchase a total of 1,588,449 shares of common stock remain available for grant under the 2000 Stock Incentive Plan. Please see "Management -- Benefit Plans" and "Shares Eligible for Future Sale."

Common Stock Warrants

We have an outstanding warrant to purchase 50,000 shares of common stock, at an exercise price of $0.05 per share, which will expire upon the closing of this offering. We also have outstanding warrants to purchase an aggregate of 62,500 shares of common stock, at an exercise price of $3.00 per share. These warrants expire on July 30, 2004.

Registration Rights

We have provided purchasers of our Series A and Series B preferred securities with rights to require us to register their securities under the Securities Act of 1933, as amended. The holders of 50% of the aggregate number of shares issued on conversion of the Series A and Series B preferred stock have the right to demand that we register their shares under the Securities Act of 1933 subject to certain limitations. We are not required to effect more than 2 registrations pursuant to such demand registration rights. In addition, after the closing of this offering these holders will be entitled to certain piggyback registration rights with respect to the registration of such shares of common stock under the

Securities Act of 1933. In the event that we propose to register any shares of common stock under the Securities Act of 1933 either for our account or for the account of other security holders, the holders of shares having piggyback registration rights are entitled to receive notice of such registration and to include their shares in any such registration, subject to certain limitations. Further, at any time after we become eligible to file a registration statement on Form S-3, the holders of registration rights may require us to file registration statements under the Securities Act on Form S-3 with respect to their shares of common stock having an aggregate offering price of at least $500,000. These registration rights are subject to certain conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares of common stock held by such security holders to be included in such registration. We are generally required to bear all of the expenses of all such registrations, including the reasonable fees of a single counsel acting on behalf of all selling holders, except underwriting discounts and selling commissions. Registration of any of the shares of common stock held by security holders with registration rights would result in such shares becoming freely tradable without restriction under the Securities Act immediately upon effectiveness of such registration.

ANTI-TAKEOVER EFFECTS OF CERTAIN PROVISIONS OF DELAWARE LAW AND OUR CERTIFICATE OF INCORPORATION AND BYLAWS General. Certain provisions of Delaware law and our certificate of incorporation and bylaws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, control of us. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions of Delaware law and the certificate of incorporation and bylaws may also have the effect of discouraging or preventing certain types of transactions involving an actual or threatened change of control of us, including unsolicited takeover attempts, even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Delaware Takeover Statute. We are subject to the "business combination" provisions of Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- the transaction is approved by the board of directors prior to the date the interested stockholder obtained interested stockholder status;

- upon consummation of the transaction that resulted in the stockholders becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (a) persons who are directors and also officers and(b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or - on or subsequent to the date the

business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock. This statute could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us.

Charter and Bylaw Provisions. In addition, certain provisions of our certificate of incorporation and bylaws summarized in the following paragraphs may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Classified Board of Directors; Removal; Filling Vacancies and Amendment. The certificate of incorporation and bylaws provide that the board shall be divided into three classes of directors serving staggered, three-year terms. The classification of the board has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of members of the board. Subject to the rights of the holders of any outstanding series of preferred stock, the certificate of incorporation authorizes only the board to fill vacancies, including newly created directorships. Accordingly, this provision could prevent a stockholder from obtaining majority representation on the board by enlarging the board of directors and filling the new directorships with its own nominees. The certificate of incorporation also provides that directors may be removed by stockholders only for cause and only by the affirmative vote of holders of two-thirds of the outstanding shares of voting stock.

Stockholder Action; Special Meeting of Stockholders. The certificate of incorporation provides that stockholders may not take action by written consent, but may only take action at duly called annual or special meetings of stockholders. The certificate of incorporation further provides that special meetings of our stockholders may be called only by the chairman of the board of directors or a majority of the board of directors. This limitation on the right of stockholders to call a special meeting could make it more difficult for stockholders to initiate actions that are opposed by the board of directors. These actions could include the removal of an incumbent director or the election of a stockholder nominee as a director. They could also include the implementation of a rule requiring stockholder ratification of specific defensive strategies that have been adopted by the board of directors with respect to unsolicited takeover bids. In addition, the limited ability of the stockholders to call a special meeting of stockholders may make it more difficult to change the existing board and management.

Advance Notice Requirements for Stockholder Proposals and Director Nomination. The bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice must be delivered to or mailed and

received at our principal executive offices not less than 120 days prior to the date of our annual meeting. The bylaws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

Authorized but Unissued Shares. The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Supermajority Vote to Amend Charter and Bylaws. The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Following the completion of this offering, our present directors, and executive officers and principal stockholders will beneficially own approximately of our common stock. This gives them veto power with respect to any stockholder action or approval requiring either a two-thirds vote or a simple majority.

Nasdaq National Market

We have applied to list our common stock on the Nasdaq National Market under the trading symbol "WBSN."

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is U.S. Stock Transfer Corporation, Glendale, California.

Shares Eligible for Future Sale

Sales of substantial amounts of our common stock in the public market after the offering could adversely affect the market price of our common stock and our ability to raise equity capital in the future on terms favorable to us.

After the offering, shares of our common stock will be outstanding, assuming that the underwriters do not exercise the over-allotment option. Of these shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless these shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock held by existing stockholders are "restricted securities" as that term is defined

in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which rules are summarized below.

The following table shows approximately when the shares of our common stock that are not being sold in this offering but which will be outstanding when this offering is complete will be eligible for sale in the public market:

Eligibility of Restricted Shares for Sale in the Public Market

NUMBER OF SHARES ELIGIBLE FOR FUTURE	RELEVANT DATES	SALE COMMENT
On effective date.....	--	Shares eligible for sale under Rule 144(k)
90 days after effective date.....	--	Additional shares eligible for sale under Rules 144 and 701
180 days after effective date.....	14,154,698	All shares subject to lock-up agreements released; additional shares eligible for sale under Rules 144 and 701.
More than 181 days after effective date.....	1,240,000	Additional shares becoming eligible for sale under Rule 144 more than 180 days after the effective date

Resale of most of the restricted shares that will become available for sale in the public market starting 180 days after the effective date will be limited by volume and other resale restrictions under Rule 144 because the holders are our affiliates.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year is entitled to sell, within any three-month period, a number of shares that is not more than the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or - the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks before a notice of the sale on Form 144 is filed.

Sales under Rule 144 must also comply with manner of sale provisions and notice requirements and are subject to the availability of current public information about us.

Rule 144(K)

Under Rule 144(k), a person who has not been one of our affiliates at any time during the 90 days before a sale, and who has beneficially owned the restricted shares for at least two years, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or

notice provisions of Rule 144.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, any of our employees, consultants or advisors who purchase shares from us under a stock option plan or other written agreement can resell those shares 90 days after the effective date of this offering in reliance on Rule 144, but without complying with some of the restrictions, including the holding period, contained in Rule 144.

Lock-up Agreements

Executive officers, directors and certain security holders will sign lock-up agreements under which they will agree not to transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock, for a period of 180 days after the date of this prospectus. Hambrecht & Quist LLC may, however, in its sole discretion, at any time, without notice, release all or any portion of the shares subject to lock-up agreements. In addition, employees who acquired common stock upon exercise of stock options issued under our 1998 Equity Incentive Plan have accepted substantially identical lock-up terms with us.

Stock Plans

As soon as practicable after the completion of this offering, we intend to file a registration statement under the Securities Act covering shares of our common stock reserved for issuance under our 2000 Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Underwriting

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representatives, Hambrecht & Quist LLC, SG Cowen Securities Corporation and Wit Capital Corporation, have severally agreed to purchase from us the following numbers of shares of common stock:

Number of Underwriter Shares

Hambrecht & Quist LLC..... SG Cowen Securities Corporation..... Wit Capital Corporation..... Total.....

The underwriting agreement provides that the obligations of the underwriters are conditioned on the absence of any material adverse change in our business and the receipt of certificates, opinions and letters from us, our counsel and our independent auditors. The underwriters are committed to purchase

all shares of common stock offered in this prospectus if any shares are purchased.

The underwriters propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus and to dealers at the public offering price less a concession not in excess of $ per share. The underwriters may allow and the dealers may reallow a concession not in excess of $ per share to other dealers. After the public offering of the shares, the underwriters may change the offering price and other selling terms. The representatives of the underwriters have informed us that the underwriters do not intend to confirm discretionary sales in excess of 5% of the shares of common stock offered by this prospectus.

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

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. The underwriting discount was determined based on an arms' length negotiation between the representatives of the underwriters and Websense. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares.

Paid by Websense	*No Exercise*	*Full Exercise*
Per share	$	$
Total	$	$

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $. The offering of the shares is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

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

All of our stockholders, including all of our executive officers and directors, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock or securities exchangeable for or convertible into shares of common stock owned by them during the 180-day period following the date of this prospectus. We have agreed that we will not, without the prior written

consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock or securities exchangeable for or convertible into shares of common stock during the 180-day period following the date of this prospectus, except that we may issue shares upon the exercise of options granted prior to the date of this prospectus and may grant additional options under our stock plans, provided that, without the prior written consent of Hambrecht & Quist LLC, any additional options shall not be exercisable during the 180-day period.

At our request, the underwriters have reserved up to shares of common stock to be sold in the offering and offered for sale, at the public offering price, to our customers and persons with whom we have key business relationships. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered to the general public on the same basis as other shares offered by this prospectus.

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

Before this offering, there was no public market for the common stock. The initial public offering price for the common stock will be determined by negotiations between ourselves and the representatives. Among the factors to be considered in determining the initial public offering price will be prevailing market and economic conditions, our revenues and earnings, market valuations of other companies engaged in activities similar to ours, estimates of our business potential and prospects, the present state of our business operations, our management and other factors deemed relevant.

Wit Capital, a member of the National Association of Securities Dealers, Inc. will participate in the offering as one of the underwriters. The National Association of Securities Dealers, Inc. approved the membership of Wit Capital on September 4, 1997. Since that time, Wit Capital has acted as an underwriter, co-manager or selected dealer in over 170 public offerings. Except for its participation as a manager in this offering, Wit Capital has no relationship with us or any of our founders or significant shareholders.

A prospectus in electronic format is being made available on an Internet Web site maintained by Wit Capital. In addition, pursuant to an e-Dealer Agreement, all dealers purchasing shares from Wit Capital in the offering similarly have agreed to make a prospectus in electronic format available on Web sites

maintained by each of the e-Dealers. Other information on any of these Web sites does not constitute part of this prospectus.

Legal Matters

The validity of the common stock offered in this offering will be passed upon for us by Brobeck, Phleger & Harrison LLP, San Diego, California. As of the date of this prospectus, members of that firm own 19,959 shares of our common stock. Legal matters will be passed upon for the underwriters by Gray Cary Ware & Freidenrich LLP, San Diego, California.

Experts

Ernst & Young LLP, independent auditors, have audited our financial statements at December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, as set forth in their report. We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

Where You Can Find More Information

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

You can read our SEC filings, including the registration statement, over the Internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549; Suite 1400, 500 West Madison Street, Chicago, Illinois 60661 and 7 World Trade Center, Thirteenth Floor, New York, New York 10048. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

Websense, Inc.

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Report of Ernst & Young Llp, Independent Auditors

The Board of Directors and Stockholders Websense, Inc.

We have audited the accompanying balance sheets of Websense, Inc. (the "Company") as of December 31, 1998 and 1999 and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Websense, Inc. at December 31, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young Llp

San Diego, California January 14, 2000

Websense, Inc.

Balance Sheets

	DECEMBER 31,		PRO FORMA STOCKHOLDERS' EQUITY AT DECEMBER 31,
	1998	1999	1999
(UNAUDITED)			
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,753,405	$ 10,734,601	
Accounts receivable, net of allowance for doubtful accounts of $27,154 at December 31, 1998 and $252,880 at December 31, 1999	1,551,235	3,448,878	
Accounts receivable from a related party	39,158	126,772	
Other current assets	57,461	328,990	
Total current assets	3,401,259	14,639,241	
Property and equipment, net	781,269	1,947,032	
Deposits and other assets	172,400	87,256	
Accrued offering costs	--	82,574	
Total Assets	$ 4,354,928	$ 16,756,103	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 328,406	$ 566,972	
Accounts payable to a related party	8,575	6,327	
Accrued payroll and related benefits	308,728	894,457	
Other accrued expenses	194,015	556,767	
Current portion of deferred revenue	2,755,964	6,888,562	
Long-term debt, current portion	182,359	503,795	
Total current liabilities	3,778,047	9,416,880	
Long-term debt, less current portion	313,963	993,103	
Deferred revenue, less current portion	1,480,378	4,703,960	
Commitments			
Stockholders' equity (deficit):			
Convertible preferred Series A -- par value $0.01; 3,705,000 shares authorized at December 31, 1998 and 1999, 3,703,704 shares issued and outstanding at December 31, 1998 and 1999, liquidation preference of $6,000,000 at December 31, 1998 and 1999. None outstanding pro forma	37,037	37,037	$ --
Convertible preferred Series B -- par value $0.01; none and 3,333,340 shares authorized at December 31, 1998 and 1999, respectively, none and 3,333,332 issued and outstanding at December 31, 1998 and 1999, respectively, liquidation preference of $0 and $9,999,996 at December 31, 1998 and 1999, respectively. None outstanding pro forma	--	33,333	--
Common stock -- par value of $0.01; 92,961,660 shares authorized, 7,000,000 and 8,357,662 shares issued and outstanding at December 31, 1998 and 1999, respectively, 15,394,698 shares outstanding pro forma	70,000	83,577	153,947

Additional paid in capital	5,832,816	20,484,600	20,484,600
Deferred compensation	--	(2,585,372)	(2,585,372)
Accumulated deficit	(7,157,313)	(16,411,015)	(16,411,015)
Total stockholders' equity (deficit)	(1,217,460)	1,642,160	$ 1,642,160
Total liabilities and stockholders' equity (deficit)	$ 4,354,928	$ 16,756,103	

See accompanying notes.

Websense, Inc.

Statements of Operations

Years Ended December 31, 1997 1998 1999

Revenues:			
Subscriptions	$ 637,292	$ 2,503,057	$ 7,140,645
Other products and services	4,382,571	4,415,979	1,506,056
Total revenues	5,019,863	6,919,036	8,646,701
Cost of revenues:			
Subscriptions	217,697	736,471	1,083,932
Other products and services	3,213,667	3,723,098	1,190,346
Total cost of revenues	3,431,364	4,459,569	2,274,278
Gross margin	1,588,499	2,459,467	6,372,423
Operating expenses:			
Selling and marketing	1,720,564	4,597,274	6,311,131
Research and development	527,666	1,789,499	3,912,712
General and administrative	767,385	1,714,572	3,805,344
Amortization of stock-based compensation	--	--	1,821,638
Total operating expenses	3,015,615	8,101,345	15,850,825
Loss from operations	(1,427,116)	(5,641,878)	(9,478,402)
Interest income (expense), net	(35,165)	33,000	224,700
Net loss	$(1,462,281)	$(5,608,878)	$(9,253,702)
Historical net loss per share:			
Basic and diluted	$ (0.21)	$ (0.80)	$ (1.25)
Weighted average shares -- basic and diluted	7,000,000	7,000,000	7,403,000
Pro forma net loss per share:			
Basic and diluted			$ (0.71)
Weighted average shares -- basic and diluted			12,979,000

See accompanying notes.

Websense, Inc.

Statements of Stockholders' Equity (Deficit)

	CONVERTIBLE PREFERRED SERIES A	CONVERTIBLE PREFERRED SERIES B	COMMON STOCK

---- DEFERRED

	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	COMPENSATION
Balance at December 31, 1996.....	--	$ --	--	$ --	7,000,000	$70,000	$ --
Distribution paid to shareholders.....	--	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--
Balance at December 31, 1997.....	--	--	--	--	7,000,000	70,000	--
Preferred stock issued for cash, net of offering costs of $269,072.....	3,703,704	37,037	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--
Balance at December 31, 1998.....	3,703,704	37,037	--	--	7,000,000	70,000	--
Preferred stock issued for cash, net of offering costs of $185,065.....	--	--	3,333,332	33,333	--	--	--
Issuance of common stock upon exercise of options.....	--	--	--	--	1,090,455	10,905	--
Issuance of common stock upon exercise of warrant.....	--	--	--	--	250,000	2,500	--
Issuance of warrant in connection with the termination of an exclusive distributor agreement.....	--	--	--	--	--	--	--
Issuance of common stock for services.....	--	--	--	--	17,207	172	--
Issuance of common stock options for services.....	--	--	--	--	--	--	--
Deferred compensation.....	--	--	--	--	--	(4,407,010)	
Amortization of deferred compensation.....	--	--	--	--	--	1,821,638	
Net loss.....	--	--	--	--	--	--	--
Balance at December 31, 1999.....	3,703,704	$37,037	3,333,332	$33,333	8,357,662	$83,577	$(2,585,372)

	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Balance at December 31, 1996.....	$ 138,925	$ 38,160	$ 247,085
Distribution paid to shareholders.....	--	(124,314)	(124,314)
Net loss.....	--	(1,462,281)	(1,462,281)
Balance at December 31, 1997.....	138,925	(1,548,435)	(1,339,510)
Preferred stock issued for cash, net of offering costs of $269,072.....	5,693,891	--	5,730,928
Net loss.....	--	(5,608,878)	(5,608,878)
Balance at December 31, 1998.....	5,832,816	(7,157,313)	(1,217,460)
Preferred stock issued for cash, net of offering costs of $185,065.....	9,781,598	--	9,814,931
Issuance of common stock upon exercise of options.....	349,223	--	360,128
Issuance of common stock upon exercise of warrant.....	--	--	2,500
Issuance of warrant in connection with the termination of an exclusive distributor agreement.....	37,500	--	37,500

Issuance of common stock for services.....	27,703	--	27,875
Issuance of common stock options for services.....	48,750	--	48,750
Deferred compensation.....	4,407,010	--	--
Amortization of deferred compensation.....	--	--	1,821,638
Net loss.....	--	(9,253,702)	(9,253,702)
Balance at December 31, 1999.....	$20,484,600	$(16,411,015)	$ 1,642,160

See accompanying notes.

Websense, Inc.

Statements of Cash Flows

Years Ended December 31, 1997 1998 1999

OPERATING ACTIVITIES:			
Net loss.....	$(1,462,281)	$(5,608,878)	$(9,253,702)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation.....	77,154	350,835	601,030
Issuance of common stock options and warrant for services.....	--	--	114,125
Loss on disposal of fixed assets.....	29,979	--	21,330
Deferred revenue.....	1,053,985	3,105,109	7,356,180
Provision for doubtful accounts.....	25,000	72,274	235,924
Amortization of deferred compensation.....	--	--	1,821,638
Changes in operating assets and liabilities:			
Accounts receivable.....	(697,329)	(570,481)	(2,213,137)
Other current assets.....	4,365	32,652	(271,529)
Accounts payable.....	371,749	(446,648)	236,318
Accrued payroll and related benefits.....	225,305	41,767	585,729
Other accrued expenses.....	242,580	(49,899)	362,752
Cash used in operating activities.....	(129,493)	(3,073,269)	(403,342)
INVESTING ACTIVITIES:			
Purchase of equipment.....	(178,611)	(801,860)	(1,779,349)
Proceeds from sale of equipment.....	--	--	16,050
Deposits.....	--	(134,833)	85,144
Cash used in investing activities.....	(178,611)	(936,693)	(1,678,155)
FINANCING ACTIVITIES:			
Repayments on notes payable.....	(113,694)	(557,546)	(296,526)
Proceeds from issuance of note payable.....	589,592	467,111	1,264,234
Proceeds from issuance of Series B preferred stock.....	--	--	9,814,931
Proceeds from issuance of Series A preferred stock.....	--	5,730,928	--
Proceeds from exercise of stock options.....	--	--	360,128
Proceeds from exercise of warrant.....	--	--	2,500
Accrued offering costs.....	--	--	(82,574)
Distributions paid to shareholders.....	(124,314)	--	--
Net cash provided by financing activities.....	351,584	5,640,493	11,062,693
Increase in cash and cash equivalents.....	43,480	1,630,531	8,981,196
Cash and cash equivalents at beginning of year.....	79,394	122,874	1,753,405
Cash and cash equivalents at end of year.....	$ 122,874	$ 1,753,405	$10,734,601

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 31,109	$ 30,126	$ 66,839
Income taxes paid	$ 800	$ 800	$ 29,446

See accompanying notes.

Websense, Inc.

Notes to Financial Statements December 31, 1999

1. Summary of Significant Accounting Policies

Description of Business

Websense, Inc. ("Websense" or the "Company") was founded in 1994 as NetPartners Internet Solutions, a reseller of computer network security solutions and related services. Today the Company provides employee Internet management solutions that enable businesses to monitor, report and manage how their employees use the Internet. The Company's Websense Enterprise solution supports an organization's efforts to improve employee productivity, conserve network bandwidth and mitigate potential legal liability.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

Pro Forma Stockholders' Equity

If an initial public offering contemplated by this Prospectus is consummated under the terms presently anticipated, all outstanding shares of convertible preferred stock at December 31, 1999 will automatically convert into 7,037,036 common shares. Unaudited pro forma stockholders' equity at December 31, 1999, adjusted for the conversion of the convertible preferred stock is disclosed in the accompanying balance sheet.

Revenue Recognition

In January 1998, the Company adopted American Institute of Certified Public Accountants Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2). This statement provides guidance for recognizing revenue related to sales by software vendors. The adoption of SOP 97-2 did not have a significant impact on the Company's revenue recognition policies or practices.

The Company sells Websense Enterprise on a subscription basis. A subscription agreement is generally 12, 24 or 36 months in duration and for a fixed number of users. Upon entering into the subscription agreement, the Company invoices customers. Generally, payment is due for the full term of the subscription within 30 days of invoicing. The Company recognizes revenue on a straight-line basis over the term of the subscription agreement. The Company records amounts billed to customers in excess of recognizable revenue as deferred revenue in the accompanying balance sheets.

The Company also derives revenue from professional services for the implementation of its solution and from resale of software and hardware. The Company recognizes revenue for these services and products upon their completion or delivery.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Websense, Inc.

Notes to Financial Statements (Continued) December 31, 1999

1. Summary of Significant Accounting Policies (Continued) Concentration of Credit Risk

The Company sells its products to customers primarily in the United States, Canada, Europe and Asia. The Company maintains a reserve for potential credit losses and historically such losses have been within management's estimates.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, which range from three to five years.

Computer Software Costs

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, when significant the Company capitalizes costs incurred in the development of specific computer software products after establishment of technological feasibility and marketability. There have been no such costs capitalized to date as the costs incurred during the period between technological feasibility to general release have not been significant.

In 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1 "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). This standard requires companies to capitalize qualifying computer software costs, which are incurred during the application development stage and amortize them over the software's estimated useful life.

Advertising Expenses

Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 1997, 1998 and 1999 were $359,610, $1,796,245 and $998,320, respectively.

Stock-based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS No. 123, Accounting for Stock-Based Compensation requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options, is not less than the fair value for the underlying stock on the date of grant, no compensation expense is recognized. With respect to certain options granted during 1999, the Company has recorded deferred compensation of $4,407,010 for the difference at the grant date between the exercise price per share determined by the board of directors on the date of grant and the deemed fair value per share determined solely for financial reporting purposes. Deferred stock compensation is recognized and amortized on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28 over the vesting period of the related options, generally four years.

Websense, Inc.

Notes to Financial Statements (Continued) December 31, 1999

1. Summary of Significant Accounting Policies (Continued) Comprehensive Income

The Company has adopted SFAS No. 130, Reporting Comprehensive Income, which requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income (loss) and other comprehensive income, including foreign currency translation adjustments, and unrealized gains and losses on investments, shall be reported, net of their related tax effect, to arrive at comprehensive income (loss). Comprehensive income (loss) for the years ended December 31, 1997, 1998 and 1999 did not differ from reported net income (loss).

Net Loss Per Share

Websense computes net loss per share in accordance with SFAS No. 128, Earnings Per Share, and SEC Staff Accounting Bulletin (or SAB) No. 98. Under the provisions of SFAS No. 128, basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and common equivalent shares outstanding during the period.

Under the provisions of SAB No. 98, common shares issued for nominal consideration, if any, would be included in the per share calculations as if they were outstanding for all periods presented. No common shares have been issued for nominal consideration.

Pro Forma Net Loss Per Share

Pro forma net loss per share has been computed as described above and also gives effect to common equivalent shares arising from preferred stock that will automatically convert upon the closing of the initial public offering contemplated by this prospectus (using the as-if converted method from the original date of issuance).

A reconciliation of shares used in the calculation of historical and pro forma basic and diluted net loss per share attributable to common stockholders is as follows:

December 31, 1997 1998 1999

Weighted average shares outstanding	7,000,000	7,000,000	7,403,000
Adjustment to reflect the assumed conversion of outstanding preferred stock	--	2,344,000	5,576,000
Shares used in computing pro forma basic and diluted net loss per common share	7,000,000	9,344,000	12,979,000

Dilutive securities include options, warrants, preferred stock as if converted and restricted stock subject to vesting. Potentially dilutive securities totaling 864,000, 3,392,000 and 4,908,000 for the years ended December 31, 1997, 1998 and 1999, respectively, were excluded from historical basic and diluted earnings per share because of their anti-dilutive effect.

Websense, Inc.

Notes to Financial Statements (Continued) December 31, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) RECENTLY ISSUED ACCOUNTING STANDARDS In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and hedging activities. The Statement will require the recognition of all derivatives on the Company's balance sheet at fair value. The Financing Accounting Standards Board has subsequently delayed implementation of the standard for the financial years beginning after June 15, 2000. The Company expects to adopt the new Statement effective January 1, 2001. The impact on the Company's financial statements is not expected to be material.

2. Property and Equipment

Property and equipment consist of the following:

December 31, 1998 1999

Computer hardware and software	$ 964,110	$ 2,147,308
Office furniture and equipment	255,934	781,257
Vehicles and other equipment	45,506	60,036
	1,265,550	2,988,601
Accumulated depreciation	(484,281)	(1,041,569)
	$ 781,269	$ 1,947,032

3. Debt

In June 1998, the Company entered into a loan and security agreement with Silicon Valley Bank for a $1,000,000 line of credit. Borrowings under the line accrue interest at the bank's floating prime rate plus 0.25% (8.75% at December 31, 1999). At December 31, 1999, $552,758 is outstanding, and the Company is required to make monthly payments of principal and interest through February 2002.

In May 1999, the Company established a line of credit with the same bank for working capital advances ("borrowings") and stand-by letters of credit up to $1,000,000. As of December 31, 1999, the Company had open letters of credit under the line of $496,465 leaving available $503,535 for additional letters of credit or borrowings. Borrowings accrue interest at the bank's floating prime rate plus .25% (8.75% at December 31, 1999). Any outstanding balances on the line mature in May 2000 and, at December 31, 1999, the Company had no borrowings outstanding against the line.

In October 1999, the Company modified its May 1999 agreement to provide an additional $1,000,000 line of credit from the same bank to be used for equipment and furniture purchases through April 2000. In October 1999, the Company drew down $924,967 of the available line, which will be converted to a term note in April 2000. There are no compensating cash requirements and advances accrue interest at the bank's floating prime rate plus 1.0% (9.5% at December 31, 1999). Through December 31, 1999, the Company has made interest-only payments related to this note. Beginning in April 2000, the Company will

3. DEBT (CONTINUED) be required to make monthly payments of principal and interest through April 2000. Principal maturities on the above notes are as follows for the years ended December 31.

2000	$ 503,795
2001	561,445
2002	328,884
2003	102,774
	$1,496,898

All borrowings under the agreements with Silicon Valley Bank are cross-collateralized by substantially all of the Company's assets, and are subject to certain financial and restrictive covenants.

4. Geographic Information

The following illustrates revenues attributed to customers located in the Company's country of domicile (the United States) and those attributed to foreign customers:

YEARS ENDED DECEMBER 31, 1998 1999

United States	$6,398,581	$6,833,521
Europe	275,722	1,155,942
Asia/Pacific	200,278	493,502
Latin America	44,455	163,736
	$6,919,036	$8,646,701

Revenues attributed to foreign customers were not significant for the year ended December 31, 1997.

5. Deferred Revenue

The Company records deferred revenue for contracts with terms greater than one year. The Company will recognize revenues related to contracts in existence as of December 31, 1999 as follows:

2000	$ 6,888,562
2001	2,993,561
2002	1,471,546
2003	175,090
2004	63,763
	$11,592,522

6. Lease Commitments

The Company leases its facilities and certain equipment under non-cancellable operating leases, expiring at various dates through March 2002.

Websense, Inc.

Notes to Financial Statements (Continued) December 31, 1999

6. LEASE COMMITMENTS (CONTINUED) Future minimum annual lease payments under non-cancellable operating leases at December 31, 1999 are as follows:

2000	$ 662,256
2001	688,744
2002	471,248
2003	--
2004	--
	$1,822,248

Rent expense totaled $132,524, $516,265 and $689,750 for the years ended December 31, 1997, 1998 and 1999, respectively.

7. Stockholders' Equity (Deficit)

In May 1998, the Company reincorporated in Delaware which was accomplished through a merger of the existing California corporation into a new Delaware corporation. The ratio of exchange was one share of the California corporation to one share of the Delaware corporation. In October 1999, the Company increased the number of authorized shares to 100,000,000 consisting of 92,961,660 shares of common stock and 7,038,340 shares of preferred stock.

Convertible Preferred Stock

In May 1998, the Company issued 3,703,704 shares of Series A convertible preferred stock at $1.62 per share for total consideration of $5,730,928, net of offering costs. In August 1999, the Company completed a Series B convertible preferred stock offering. A total of 3,333,332 shares were issued at $3.00 per share, for net proceeds of $9,814,931.

Holders of Series A and Series B convertible preferred shares are entitled to noncumulative cash dividends at a rate to be determined by the board of directors, if and when such dividends are declared by the board of directors. No dividends have been declared to date. The liquidation preference for the Series A and Series B convertible preferred shares is $1.62 and $3.00 per share, respectively.

At the option of the holder, the Series A and Series B preferred shares are convertible into common stock on a one-for-one basis, subject to adjustment for antidilution, and will automatically convert into common stock concurrent with the closing of an underwritten public offering of common stock under the Securities Act of 1933 in which the Company receives at least $20,000,000 in gross proceeds and the price per share is at least $6.00 (subject to adjustment for antidilution).

The preferred stockholders have voting rights equal to the number of common shares they would own upon conversion.

The Company reserved 7,037,036 shares of common stock for issuance upon conversion of Series A and Series B convertible preferred stock.

7. Stockholders' Equity (Deficit) (Continued) Warrants

The Company issued a warrant to purchase 250,000 shares of common stock at $0.01 per share in conjunction with bridge note financing consummated in March 1998. The warrant was exercised in June 1999.

In connection with the termination of an exclusive distributor agreement, the Company issued a warrant to a distributor to purchase up to 50,000 shares of common stock for $.05 per share. The warrants are exercisable in whole or in part at any time prior to the earlier of the consummation of a public offering by the Company or March 2009. The Company has reserved 50,000 shares of common stock for issuance upon exercise of the warrant. The Company recorded expense of $37,500 related to this issuance based on the estimated fair value of the warrant. This distributor accounted for $170,914 and $417,870 of the Company's revenues for the years ended December 31, 1998 and 1999, respectively.

In connection with the Series B convertible preferred stock offering, the Company issued a warrant to purchase 62,500 of common stock for $3.00 per share. The warrants are exercisable in whole or in part at any time and from time to time until their expiration in June 2004. The Company has reserved 62,500 shares of common stock for issuance upon exercise of the warrant.

Stock Option Plan

In May 1998, the Board of Directors elected to replace the 1997 Stock Option/Stock Issuance plan with the 1998 Stock Option/Stock Issuance Plan (the "1998 Stock Plan") under which 4,600,000 shares of the Company's common stock are authorized for future issuance, and reserved for purchase upon exercise of options granted. The 1998 Stock Plan provides for the grant of incentive and non-statutory options and issuances of common stock to employees, directors and consultants.

The exercise price of incentive stock options must equal at least the fair value on the date of grant and the exercise price of non-statutory stock options and the issuance price of common stock under the stock issuance program may be no less than 85% of the fair value on the date of grant or issuance. The options are exercisable for a period of up to ten years after the date of grant and generally vest over four years. Unvested common shares obtained through early exercise of options are subject to repurchase by the Company at the original issue price.

Websense, Inc.

Notes to Financial Statements (Continued) December 31, 1999

7. STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED) The following table summarizes stock option activity under the 1998 Stock Plan and related information through December 31, 1999:

Weighted Average Options Exercise Price

Granted and outstanding January 1, 1996.....	--	--
Granted.....	1,381,000	$.20
Exercised.....	(11,666)	$.20
Repurchased.....	(11,666)	$.20
Cancelled.....	(518,334)	$.20
Balance at December 31, 1997.....	839,334	$.20
Granted.....	976,435	$.20
Cancelled.....	(124,334)	$.20
Balance at December 31, 1998.....	1,691,435	$.20
Granted.....	3,060,500	$.91
Exercised.....	(1,090,455)	$.33
Cancelled.....	(499,929)	$.25
Balance at December 31, 1999.....	3,161,551	$.83

As of December 31, 1997, 1998 and 1999 there were 87,205, 561,473, and 331,326 options exercisable, respectively, at weighted average prices of $.20 per share. As of December 31, 1999 there were 172,919 shares subject to repurchase.

The following table summarizes all options outstanding and exercisable by price range as of December 31, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE REMAINING	WEIGHTED		
EXERCISE PRICES	NUMBER OUTSTANDING	CONTRACTUAL LIFE	AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
$ .20 - $ .50.....	2,143,551	8.84	$ .40	331,326	$.20
$ .75.....	468,000	9.46	$ .75	--	--
$1.50 - $3.00.....	496,000	9.75	$2.22	--	--
$6.00 - $7.00.....	54,000	9.97	$6.09	--	--
	3,161,551			331,326	--

The Company has repurchased 11,666 shares exercised under the 1998 Stock Plan through December 31, 1999 and recognized $1,750 of related expense for the difference between the fair value and the exercise price on the date of exercise for the year then ended.

Pro forma information regarding net loss is required by SFAS 123 and has been determined as if the Company has accounted for its employee stock options and stock purchase plan under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using the "Minimum Value" option pricing model with the following weighted-average assumptions for 1997, 1998 and 1999: risk-free interest rate of 6.0%; dividend yield of 0%; and a weighted average expected life of the

7. STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED) options of five years. For purposes of pro forma disclosures, the estimated fair value of the options are amortized to expense over the vesting period. The Company's adjusted pro forma information is as follows:

Years Ended December 31, 1997 1998 1999

Pro forma net loss	$(1,466,399)	$(5,633,842)	$(9,467,044)
Pro forma basic and diluted net loss per share	$ (.21)	$ (.80)	$ (1.28)

The weighted average fair value of options granted during 1997, 1998 and 1999 was $.04, $.04 and $.11 per share, respectively The pro forma effect on net loss for 1997, 1998 and 1999 is not likely to be representative of the pro forma effect on reported net income or loss in future years because these amounts reflect less than four years of vesting.

Shares Reserved for Future Issuance

The following shares of common stock are reserved for future issuance:

December 31, 1998 1999

Stock options:		
Granted and outstanding	1,691,435	3,161,551
Reserved for future grants	308,565	336,328
	2,000,000	3,497,879
Warrants	250,000	112,500
	2,250,000	3,610,379

8. Income Taxes

The Company changed its previous "S" corporation status to a "C" corporation as of January 1, 1998. With the change in status, the Company became responsible for income tax liabilities, if any. Previously, income taxes were the responsibility of the shareholders.

At December 31, 1999, the Company has federal and California net operating loss carryforwards of approximately $5,183,000 and $2,368,000, respectively. The federal and California net operating loss carryforwards will begin to expire in 2018 and 2003, respectively, unless previously utilized. At December 31, 1999, the Company had federal and California research and development credit carryforwards of approximately $397,000 and $225,000, respectively, which will begin to expire in 2013 unless previously utilized.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of the Company's net operating loss and credit carryforwards may be limited in the event of a cumulative change in ownership of more than 50% occurs within a three year testing period.

The components of the Company's deferred tax assets as of December 31, 1998 and 1999 are shown below. A valuation allowance has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

Websense, Inc.

Notes to Financial Statements (Continued) December 31, 1999

8. Income Taxes (Continued)

December 31, 1998 1999

Deferred tax assets:		
Net operating loss carryforwards	$ 887,000	$ 1,976,000
Research tax credit carryforwards	156,000	543,000
Capitalized research and development	368,000	1,818,000
Deferred revenue	640,000	2,786,000
Deferred compensation	--	352,000
Other	758,000	272,000
Total deferred tax assets	2,809,000	7,747,000
Valuation allowance for deferred tax assets	(2,809,000)	(7,747,000)
Net deferred tax assets	$ --	$ --

9. Employee Retirement Plan

Effective May 1, 1997, the Company established a 401(k) defined contribution retirement plan (the "401(k) Plan") covering substantially all employees. The 401(k) Plan provides for voluntary employee contributions from 1% to 20% of annual compensation, as defined, and does not currently provide for matching contributions from the Company.

Shares

Websense Logo

Common Stock

Prospectus

CHASE H&Q SG COWEN WIT CAPITAL CORPORATION , 2000 YOU SHOULD RELY ONLY UPON INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK.

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

UNTIL , 2000, ALL DEALERS THAT BUY, SELL OR TRADE IN OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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, payable by the Registrant in connection with the offer and sale of the common stock being registered. All amounts are estimates except the registration fee, the NASD filing fee and the Nasdaq National Market entry fee.

SEC Registration fee..... $ 15,840 NASD filing fee..... 6,500 *Blue Sky fees and expenses (including legal fees)..... Nasdaq National Market entry fee..... 95,000 *Accounting fees and expenses..... *Other legal fees and expenses..... *Transfer agent and registrar fee..... *Printing and engraving..... *Miscellaneous..... *Total.....

* to be completed by amendment

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). As permitted by the Delaware General Corporation Law, the Registrant's Amended and Restated Certificate of Incorporation includes a provision that eliminates the personal liability of its directors for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under section 174 of the Delaware General Corporation Law (regarding unlawful dividends and stock purchases) or (iv) for any transaction from which the director derived an improper personal benefit. As permitted by the Delaware General Corporation Law, the Bylaws of the Registrant provide that (i) the Registrant is required to indemnify its directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to certain very limited exceptions, (ii) the Registrant may indemnify its other employees and agents as set forth in the Delaware General Corporation Law, (iii) the Registrant is required to advance expenses, as incurred, to its directors and executive officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to certain very limited exceptions and (iv) the rights conferred in the Bylaws are not exclusive. At present, there is no pending litigation or proceeding involving a director, officer or employee of the Registrant regarding which indemnification is sought, nor is the Registrant aware of any threatened litigation that

may result in claims for indemnification. Reference is also made to Section 7 of the Underwriting Agreement, which provides for the indemnification of officers, directors and controlling persons of the Registrant against certain liabilities. In addition, certain of the intercompany agreements provide for the indemnification of officers, directors and controlling persons of the Registrant against certain liabilities. The indemnification provisions in the Registrant's Restated Certificate of Incorporation and in its Bylaws may be sufficiently broad to permit indemnification of the Registrant's directors and executive officers for liabilities arising under the Securities Act. The Registrant, with approval by the Registrant's Board of Directors, expects to obtain directors' and officers' liability insurance.

Reference is made to the following documents filed as exhibits to this registration statement regarding relevant indemnification provisions described above and elsewhere herein:

Exhibit Document Number

Form of Underwriting Agreement	1.1
Form of Restated Certificate of Incorporation of Registrant	3.4
Form of Bylaws of Registrant	3.3
Form of Indemnification Agreement	10.9

The Company has entered into indemnification agreements with each of the Company's directors, a form of which is attached as an exhibit hereto and is incorporated herein by reference.

The Registrant may obtain insurance for the protection of its directors and officers against any liability asserted against them in their official capacities. The rights of indemnification described above are not exclusive of any other rights of indemnification to which the persons indemnified may be entitled under any bylaw, agreement, vote of stockholders or directors or otherwise.

Item 15. Recent Sales of Unregistered Securities

Since December 31, 1996, we have issued unregistered securities to a limited number of persons as described below:

(a) From December 23, 1997 through December 31, 1999, we sold an aggregate of 1,102,121 shares of our common stock at exercise prices ranging from $0.20 to $0.75 per share to employees, consultants, directors and other service providers pursuant to our 1998 Equity Incentive Plan.

(b) On May 20, 1998, we sold 3,703,704 shares of Series A preferred stock at a price of $1.62 per share, to a group of private investors for an aggregate purchase price of $6,000,000.

(c) On June 11, June 14, July 26 and September 20, 1999, we sold an aggregate of 3,333,332 shares of Series B preferred stock at a price of $3.00 per share to a group of private investors for an aggregate purchase price of $9,999,996.

(d) On July 30, 1999 we issued warrants to purchase 62,500 shares of common stock to entities affiliated with Global Alliance, Ltd. Also on July 30, 1999 we issued a warrant to purchase 50,000 shares of common stock to Alps System Integration Co., Ltd.

For additional information concerning these equity investment transactions, reference is made to the information contained under the caption "Transactions with Related Parties" in the form of prospectus included herein. The sales of securities described in subsection (a) above were deemed to be exempt from registration in reliance on Rule 701 promulgated under Section 3(b) under the Securities Act as transactions pursuant to a compensatory benefit plan or a written contract relating to compensation. The sales of securities described in subsections (b), (c) and (d) above were deemed to be exempt from registration in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about Websense or had access, through employment or other relationships, to such information.

Item 16. Exhibits and Financial Statement Schedules

a. EXHIBITS

*1.1	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation, as amended.
*3.2	Form of Amended and Restated Certificate of Incorporation to be filed and become effective upon the closing of this offering.
3.3	Bylaws.
*3.4	Form of Bylaws to become effective prior to effectiveness of this Registration Statement.
*4.1	Specimen Stock Certificate of Websense, Inc.
*5.1	Opinion of Brobeck Phleger & Harrison, LLP.
10.1	Amended and Restated Registration Rights Agreement dated June 9, 1999.
10.2	Form of Subscription Agreement regarding Series B Preferred Stock.
*10.3	Form of Warrant to Purchase Common Stock between Websense, Inc. and entities listed on Schedule A attached thereto, dated July 30, 1999.
10.4	Employment Agreement by and between Websense, Inc. and John B. Carrington, dated May 10, 1999.
10.5	Employment Agreement by and between Websense, Inc. and Douglas C. Wride, dated June 11, 1999.
10.6	Lease Agreement between Websense, Inc. and Legacy-RECP Sorrento OPCO, LLC, dated June 21, 1999, as amended.
10.7	1998 Equity Incentive Plan.
10.8	Standard Terms and Conditions Relating to Incentive Stock Option Under the 1998 Equity Incentive Plan.
*10.9	2000 Stock Incentive Plan.
*10.10	2000 Stock Incentive Plan, Notice of Grant of Stock Option.
*10.11	2000 Stock Incentive Plan, Form of Incentive Stock Option Agreement.

*10.12		2000 Employee Stock Purchase Plan.
*10.13		Form of Indemnification Agreement between Websense, Inc. and its directors.
*10.14		Form of Indemnification Agreement between Websense, Inc. and its officers.
23.1		Consent of Ernst & Young LLP, Independent Auditors.
23.2		Consent of Brobeck Phleger & Harrison LLP (included in Exhibit 5.1).
24.1		Power of Attorney (included on signature page).
27.1		Financial Data Schedule.

* To be filed by amendment.

b. FINANCIAL STATEMENT SCHEDULES 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

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in II-3 the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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

The undersigned Registrant hereby undertakes that:

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

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

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on January 28, 2000.

Websense, Inc.

By: /s/ JOHN B. CARRINGTON John B. Carrington President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints John B. Carrington, President and Chief Financial Officer, and Douglas Wride, Chief Financial Officer, and each of them individually, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him in his name, place and stead, in any and all capacities, in connection with this Registration Statement, including to sign and file in the name and on behalf of the undersigned as director or officer of the Registrant (i) any and all amendments or supplements (including any and all stickers and post-effective amendments) to this Registration Statement, with all exhibits thereto, and other documents in connection therewith, and (ii) any and all additional registration statements, and any and all amendments thereto, relating to the same offering of securities as those that are covered by this Registration Statement that are filed pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, 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 or 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 said attorneys-in-fact and agents, 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, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature Title Date

/s/ JOHN B. CARRINGTON - ---------- John B. Carrington	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	January 28, 2000

/s/ DOUGLAS C. WRIDE Chief Financial Officer (principal January 28, 2000 - ---------- financial and accounting officer) Douglas Wride /s/ ROBERT J. LOARIE Director January 28, 2000 Robert J. Loarie /s/ BRUCE T. COLEMAN Director January 28, 2000 Bruce Coleman /s/

JOHN C. STISKA Director January 28, 2000 John C. Stiska /s/ DONALD B. MILDER Director January 28, 2000 Donald B. Milder /s/ GARY E. SUTTON Director January 28, 2000 Gary Sutton

Schedule Ii -- Valuation and Qualifying Accounts

Websense, Inc.

A	B	C		D	E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS DESCRIBE	DEDUCTION -- DESCRIBE	BALANCE AT END OF PERIOD

YEAR ENDED DECEMBER 31, 1997 Reserves and allowances deducted from asset accounts: Allowance for doubtful accounts..... $ -- $ 25,000 $ -- $ -- $ 25,000 YEAR ENDED DECEMBER 31, 1998 Reserves and allowances deducted from asset accounts: Allowance for doubtful accounts..... $25,000 $ 72,274 $ -- $70,120(1) $ 27,154 YEAR ENDED DECEMBER 31, 1999 Reserves and allowances deducted from asset accounts: Allowance for doubtful accounts..... $27,154 $235,924 $ -- $10,198(1) $252,880 (1) Uncollectible accounts written off, net of recoveries.

Exhibit Index

Exhibit No. Description

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* To be filed by amendment. </TEXT>