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NEXT SOFTWARE, INC. BOWNE OF PALO ALTO (415) 858-1800
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As filed with the Securities and Exchange Commission on November , 1996

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

CONFIDENTIAL

FORM S-1

REGISTRATION STATEMENT

NeXT SOFTWARE, INC.

(Exact name of Registrant as specified in its charter)

California	7372	77-0085823
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

900 Chesapeake Drive
Redwood City, CA 94063
(415) 366-0900
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Nancy R. Heinen
Vice President, General Counsel and Secretary
NeXT Software, Inc.
900 Chesapeake Drive
Redwood City, CA 94063
(415) 366-0900
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

LARRY W. SONSINI, Esq.	WILLIAM H. HINMAN, JR., Esq.
Wilson Sonsini Goodrich & Rosati, P.C.	Shearman & Sterling
650 Page Mill Road	555 California Street, Suite 2000
Palo Alto, CA 94304	San Francisco, CA 94104
(415) 493-9300	(415) 616-1100

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ ________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To be Registered	Amount to be Registered(1)(2)	Proposed Maximum Offering Price Per Security(3)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee
Common Stock, no par value	5,750,000 shares	$17.00	$97,750,000	$29,622

(1) Includes 750,000 shares which the Underwriters have the option to purchase to cover over-allotments, if any.
(2) The amount of shares registered also includes any shares initially offered or sold outside the United States that are thereafter sold or resold in the United States. Offers and sales of shares outside the United States are being made pursuant to an exemption afforded by Rule 901 of Regulation S and this Registration Statement shall not be deemed effective with respect to such offers and sales.
(3) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED NOVEMBER , 1996

5,000,000 Shares

NeXT Software, Inc.

Common Stock
(no par value per share)

Of the 5,000,000 shares of Common Stock offered, 4,000,000 shares are being offered hereby in the United States and 1,000,000 shares are being offered in a concurrent international offering outside the United States. The initial public offering price and the aggregate underwriting discount per share will be identical for both offerings. See "Underwriting".

All of the shares of Common Stock offered hereby are being sold by NeXT Software, Inc. Prior to the offerings, there has been no public market for the Common Stock of NeXT. It is currently estimated that the initial public offering price per share will be between $15.00 and $17.00. For factors to be considered in determining the initial public offering price, see "Underwriting".

See "Risk Factors" beginning on page 5 of this Prospectus for certain considerations relevant to an investment in the Common Stock.

Application has been made for quotation of the Common Stock on the Nasdaq National Market under the symbol "NXXT".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price	Underwriting Discount(1)	Proceeds to Company(2)
Per Share	$	$	$
Total(3)	$	$	$

(1) NeXT has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting estimated expenses of $2,400,000 payable by NeXT.

(3) NeXT has granted the U.S. Underwriters an option for 30 days to purchase up to an additional 600,000 shares at the initial public offering price per share, less the underwriting discount, solely to cover over-allotments. Additionally, NeXT has granted to the International Underwriters a similar option with respect to an additional 150,000 shares as part of the concurrent international offering. If such options are exercised in full, the total initial public offering price, underwriting discount and proceeds to Company will be $, $ and $, respectively. See "Underwriting".

The shares offered hereby are offered severally by the U.S. Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares will be ready for delivery in New York, New York on or about , 1996, against payment therefor in immediately available funds.

Goldman, Sachs & Co. **Merrill Lynch & Co.**

The date of this Prospectus is , 1996.

[ARTWORK]

NeXT currently intends to furnish its shareholders annual reports containing audited consolidated financial statements and quarterly reports containing unaudited interim financial information for the first three quarters of each fiscal year of NeXT.

IN CONNECTION WITH THE OFFERINGS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, all information in this Prospectus (i) reflects the conversion of all outstanding shares of Preferred Stock into 13,235,809 shares of Common Stock, (ii) reflects the conversion of certain amounts owed to Canon Inc.. ("Canon") under a term loan agreement into 1,896,639 shares of Common Stock at an assumed conversion price of $14.88 per share, (iii) reflects the conversion of certain amounts owed to Merrill Lynch Business Financial Services ("MLBFS") under a line of credit into 537,634 shares of Common Stock at an assumed initial public offering price of $14.88 per share, (iv) gives effect to the 1:2 reverse stock split of the Common Stock to be effected in [January 1997], (v) assumes no exercise of outstanding stock options after September 30, 1996 and (vi) assumes that the Underwriters' over-allotment options will not be exercised. See "Certain Transactions," "Description of Capital Stock" and "Underwriting." Unless otherwise stated, "WebObjects" refers to WebObjects Enterprise and "WebObjects product line" refers to both WebObjects Enterprise and WebObjects Pro.

The Company

NeXT Software, Inc. ("NeXT") develops, markets and supports software that enables customers to easily and quickly implement business applications on the Internet/World Wide Web (the "Internet/Web"), intranets and enterprise-wide client/server networks. NeXT provides customers with standards-based solutions that offer a unique combination of functionality, scalability, reliability and performance. NeXT's WebObjects product line is designed to allow the rapid development of dynamic, server-based applications for the Internet/Web and intranets that enable organizations to extend their market presence, to enhance their customer interactions and to improve workforce productivity. NeXT's OPENSTEP product line enables the development and deployment of dynamic business applications on more traditional client/server networks, especially applications that require sophisticated user interfaces or the ability to support complex, high-volume transaction processing. Both WebObjects and OPENSTEP are designed to enable organizations to integrate their existing applications and databases, significantly reduce the time and effort spent on application development and deployment and take greater advantage of the opportunities offered by the Internet/Web, intranets and enterprise-wide client/server networks.

NeXT believes that there are significant market opportunities created by both the tremendous growth of the Internet/Web and intranets and the continuing growth of more traditional enterprise-wide client/server networks within organizations. NeXT's technology enables customers to develop dynamic business applications and NeXT believes that one of its principal competitive advantages derives from its long-term investments in object-oriented technologies. Unlike the products offered by many Internet/Web companies, NeXT's product lines share a technological foundation that has been developed, deployed, tested and proven in the enterprise business solutions market over the past decade. Furthermore, as the Internet/Web and client/server technologies converge, NeXT believes that it is well positioned to deliver to its customers software and services that enable comprehensive business applications.

NeXT's objective is to become the leading provider of dynamic network application software products and services used by organizations to provide their customers, employees and business partners with enhanced service and greater access to business applications and information through the Internet/Web, intranets and enterprise-wide client/server networks. The key elements of NeXT's strategy are to (i) maintain technology leadership by continuing to invest significant resources in technology, (ii) target the convergence of the Internet/Web, intranet and enterprise-wide client/server markets with product lines that integrate with customers' existing applications and databases, (iii) expand direct and indirect sales channels on a global basis, (iv) foster the success of customer application development efforts through its team of highly trained software engineers providing consulting and training services and technical support, and (v) develop complementary and value-added products based on industry standards.

To pursue customer opportunities worldwide, NeXT employs a direct sales force and professional services organization, augmented by the use of multiple indirect distribution channels, including value added resellers ("VARs"), system integrators, Internet service providers and software developers. NeXT's sales strategy is aimed at building relationships with large and mid-sized customers for continued sales and support of NeXT's software products and services, and with VARs, system integrators, Internet service providers and software developers to extend the market presence of NeXT and its software products and services. NeXT is also continuing to engage in and further evaluate certain relationships with large Internet/Web and client/server software companies, including Microsoft Corporation ("Microsoft") and Netscape Communications Corporation ("Netscape"), to expand its market presence and to provide flexible and integrated solutions to such companies' customers. In addition, NeXT has established a professional services organization in order to provide a high level of professional services and support to its customers, including consulting engineering, training and technical support.

Since 1993, NeXT has licensed its software to over 2,000 customers, including AT&T Wireless Services, BBN Planet, British Telecommunications PLC ("British Telecom"), Cablevision Systems Corporation, Dow Jones Telerate, Inc., Federal National Mortgage Association ("Fannie Mae"), Lufthansa Technik AG, MCI Communications Corporation ("MCI"), Nippon Telephone and Telegraph ("NTT"), Nissan Motor Co., Ltd. ("Nissan"), The Sabre Group Holdings, Inc. ("Sabre"), Swiss Bank Corporation ("SwissBank") and U.S. West Communications, Inc.

The Offerings

Common Stock offered:	
U.S. offering	4,000,000 shares
International offering	1,000,000 shares
Total	5,000,000 shares
Common Stock to be outstanding after the offerings(1)	22,668,015 shares
Proposed Nasdaq National Market symbol	NXXT
Use of proceeds	For repayment of $9,000,000 of indebtedness and for general corporate purposes, principally working capital.

(1) Based on shares outstanding as of September 30, 1996. Excludes (i) 6,437,644 shares of Common Stock issuable upon exercise of options outstanding as of September 30, 1996, of which options to purchase 3,888,660 shares were exercisable as of September 30, 1996 and (ii) shares of Common Stock reserved for future issuance under NeXT's stock plans. See "Management — Stock Plans" and Note 8 of Notes to Consolidated Financial Statements.

Summary Consolidated Financial Data
(In thousands, except per share data)

	Year Ended December 31, 1993	Year Ended December 31, 1994	Year Ended December 31, 1995	Nine Months Ended September 30, 1995 (unaudited)	Nine Months Ended September 30, 1996 (unaudited)
Consolidated Statement of Operations Data:					
Revenues:					
Software licensing	$ 10,076	$25,894	$26,762	$19,295	$22,498
Services	2,359	3,759	10,672	7,524	13,190
Technology licensing	38	17,554	7,543	7,500	12
Research and development contracts	1,800	2,390	1,829	1,829	195
Total revenues	14,273	49,597	46,806	36,148	35,895
Cost of revenues	10,286	10,988	11,479	8,212	12,691
Gross margin	3,987	38,609	35,327	27,936	23,204
Research and development	8,944	10,655	12,412	9,074	9,367
Sales and marketing	26,150	20,582	17,158	12,190	18,334
General and administrative	5,240	4,744	5,628	4,142	4,184
Total operating expenses	40,334	35,981	35,198	25,406	31,885
Operating income (loss)	(36,347)	2,628	129	2,530	(8,681)
Income (loss) from continuing operations before income taxes	(40,219)	1,104	(1,541)	975	(11,055)
Net income (loss)	(40,222)	1,030	(800)	922	(11,060)
Pro forma net income (loss) per share (1)			$ 0.10	$ 0.05	$ (0.72)
Pro forma weighted average number of shares outstanding (1)			14,948	17,753	15,220

	September 30, 1996 Actual	September 30, 1996 Pro Forma (unaudited)	September 30, 1996 Pro Forma As Adjusted(2) (unaudited)
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 2,088	$ 2,088	$65,088
Investments	724	724	724
Working capital	(58,260)	(22,038)	40,962
Total assets	15,921	15,921	78,921
Long-term capital lease obligations	179	179	179
Total shareholders' equity (deficit)	(55,238)	(19,016)	52,984

(1) Pro forma net income (loss) per share and pro forma weighted average number of shares outstanding include 15,670,082 shares of common stock resulting from the conversion of convertible preferred stock and debt. Historical net income (loss) per share has not been presented as it is not meaningful.

(2) Adjusted to give effect to the sale of the 5,000,000 shares of Common Stock offered by NeXT in the offerings at an assumed initial public offering price of $16.00 per share, after deducting the estimated underwriting discount and expenses payable by NeXT. See "Use of Proceeds" and "Capitalization."

This Prospectus contains forward-looking statements that involve risks and uncertainties. NeXT's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this Prospectus.

RISK FACTORS

This Prospectus contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. NeXT's actual results could differ materially from those set forth in the forward-looking statements as a result of certain of the risk factors set forth below and elsewhere in this Prospectus. In addition to the other information contained in this Prospectus, the following factors should be considered carefully in evaluating an investment in the Common Stock offered by this Prospectus.

Recent Introduction of Products; Planned New Releases

Certain of NeXT's products have been introduced only recently, most significantly WebObjects, which was introduced in March 1996, and OPENSTEP for Windows NT, which was introduced in June 1996. In addition, NeXT began shipping Release 3.0 of the WebObjects product line in October 1996, and intends to begin shipping enhanced versions of certain of its other products in late 1996 and early 1997. To date, only a limited number of NeXT's customers have developed and deployed Internet/Web applications using NeXT's WebObjects software. NeXT expects that its future revenues will depend to a significant degree on the market acceptance of its recently introduced products and enhanced versions of its products, and its ability to successfully develop, introduce and obtain market acceptance for new and enhanced versions of products within the WebObjects and OPENSTEP product lines. In particular, NeXT believes the success of Release 3.0 of the WebObjects product line will be highly dependent on NeXT's ability to offer on a timely basis an add-on feature designed to permit developers to write server-based WebObjects applications in Java. In addition, NeXT believes that it will be important to the future success of its OPENSTEP product line to offer on a timely basis its customers the ability to write OPENSTEP applications in Java. There can be no assurance that any of NeXT's recently introduced products and product enhancements will achieve market acceptance or that any future products or product enhancements will be successfully developed or introduced or will achieve market acceptance, and any failure to do so could have a material adverse effect on NeXT's business, results of operations or financial condition. See "— New Product Development; Rapid Technological Change; Risk of Product Delays."

Accumulated Deficit; Limited History of Software Commercialization

NeXT has generally incurred net losses since inception, including each of the last six quarters, and may continue to operate at a loss for the foreseeable future. As of September 30, 1996, NeXT had an accumulated deficit of approximately $273.4 million. In the past four years, NeXT has focused its resources on research and development and building a sales and marketing organization for the commercialization of its software products, and NeXT intends to continue to make significant investments in its sales, marketing, research and development, customer support and administrative infrastructure over the near term. As a result, NeXT may incur net losses in the near future. There can be no assurance that NeXT will achieve or sustain profitability.

NeXT was founded in 1985 to develop, manufacture and market computer workstations operating on NEXTSTEP, NeXT's proprietary operating software. In late 1992, NeXT discontinued its workstation business to focus solely on the development and marketing of its object-oriented application development environment. Although NeXT's first commercial object-oriented development software product was introduced in 1989, its product lines for the Internet/Web, intranet and enterprise-wide client/server software markets, WebObjects and OPENSTEP, were introduced in March 1996 and June 1996, respectively. Accordingly, NeXT has only a limited operating history in the Internet/Web, intranet and enterprise-wide client/server software markets upon which to base an evaluation of its business and prospects. NeXT's prospects should be considered in light of the risks, expenses and difficulties frequently encountered by companies in rapidly evolving markets, such as the Internet/Web, intranet and enterprise-wide client/server software markets. To address these risks, NeXT will be required to, among other things, respond to competitive developments, continue to attract, retain and motivate qualified management and other employees, continue to upgrade its technologies and commercialize products and services which incorporate such technologies and achieve market acceptance for its products. There can be no assurance that NeXT will be successful in addressing such risks, and any failure to do so could have a material adverse effect on NeXT's business, results of operations or financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Developing Markets; Unproven Acceptance of NeXT's Products

The markets for many of NeXT's software products, in particular the WebObjects product line and OPENSTEP for Windows NT, have only recently begun to develop, are rapidly evolving, have few proven products and are characterized by an increasing number of market entrants who have introduced, developed or announced products and services for communication, collaboration and commerce over the Internet/Web, intranets and enterprise-wide client/server networks. As is typical in the case of a new and rapidly evolving industry, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty. While NeXT believes that its products offer significant advantages for communication, collaboration and commerce over the Internet/Web, intranets and enterprise-wide client/server networks, there can be no assurance that the market for NeXT's products and services will develop, that NeXT's products and services will achieve market acceptance or that the Internet/Web, intranets and related technologies will achieve widespread acceptance by businesses. If the markets for NeXT's products and services fail to develop, develop more slowly than expected or become saturated with competitors, or if NeXT's products do not achieve market acceptance, NeXT's business, results of operations and financial condition will be materially and adversely affected.

New Product Development; Rapid Technological Change; Risk of Product Delays

The software market in which NeXT competes is characterized by rapid technological change, frequent introductions of new products, changes in customer demands and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and unmarketable. For example, NeXT's customers have adopted a wide variety of hardware, software, database and networking platforms, and as a result, to gain broad market acceptance, NeXT has had to support the use of its software on many of these platforms. NeXT's future success will depend upon its ability to address the increasingly sophisticated needs of its customers by supporting existing and emerging hardware, software, database and networking platforms and by developing and introducing enhancements to NeXT's products on a timely basis that keep pace with such technological developments and emerging industry standards and customer requirements. In particular, NeXT believes the success of Release 3.0 of the WebObjects product line, released in October 1996, will be highly dependent on NeXT's ability to offer on a timely basis an add-on feature designed to permit developers to write server-based WebObjects applications in Java. In addition, NeXT believes that it will be important to the future success of its OPENSTEP product line to offer on a timely basis its customers the ability to write OPENSTEP applications in Java. There can be no assurance that NeXT will be successful in developing and marketing enhancements to its products that respond to technological change, evolving industry standards or customer requirements, that NeXT will not experience difficulties that could delay or prevent the successful development, functionality, introduction and sale of such enhancements or that such enhancements will adequately meet the requirements of the marketplace and achieve any significant degree of market acceptance. Delays in the scheduled release of products or product enhancements may result in customer dissatisfaction and can adversely affect the market acceptance of such products or product enhancements. Although in the past NeXT has generally released new products and product enhancements as scheduled, NeXT has in certain instances been required to eliminate functionality intended for release with such products or product enhancements in order to meet scheduled release dates. If release dates of any future product enhancements or new products are delayed or if when released they fail to achieve market acceptance due to the elimination of expected functionality or otherwise, NeXT's business, results of operations and financial condition would be materially and adversely affected. In addition, the introduction or announcement of new product offerings or enhancements by NeXT or NeXT's competitors may cause customers to defer or forgo purchases of current versions of NeXT's products, which could also have a material adverse effect on NeXT's business, results of operations or financial condition. See "Business."

Intense Competition

The market for NeXT's software products and services is rapidly evolving and intensely competitive. NeXT expects competition to increase in the future from existing competitors and from companies that may enter NeXT's existing or future markets with similar or substitute solutions that may be less costly or provide better performance or functionality than NeXT's products. Many of NeXT's current and potential competitors have greater financial or management resources or name recognition or more extensive customer bases than NeXT. NeXT's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products. NeXT expects to face additional competition as other established and emerging companies enter the market for Internet/Web-based, intranet and client/server technologies and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share, any of which could materially and adversely affect NeXT's business, results of operations or financial condition. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing the ability of their products to address the needs of NeXT's prospective customers. Current or potential competitors of NeXT could develop and bundle software containing the same functionality offered by NeXT's products with their product offerings at little or no additional charge. Current and potential competitors may also be more successful than NeXT in having their products or technologies accepted as industry standards. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Such competition could materially and adversely affect NeXT's ability to obtain and retain support for its products and services. There can be no assurance that NeXT will be able to compete successfully against current and future competitors, and the failure to do so could have a material adverse effect upon NeXT's business, results of operations or financial condition.

Companies directly competing with NeXT include Internet/Web application development product companies such as NetDynamics, Inc. ("NetDynamics") and Bluestone, Inc. ("Bluestone"), high-end client/server application development product companies such as Forté Software, Inc. ("Forté") and Seer Technologies, Inc. ("Seer") and the object-oriented development product companies such as ParcPlace/Digitalk, Inc. ("Parc Place/Digitalk") and Visix Software, Inc. ("Visix"). In the future, NeXT expects competition from Netscape and Microsoft, which have announced their intention to offer application development products, International Business Machines Corporation ("IBM"), which has invested significant resources in object-oriented technology, and others to increase. NeXT also may experience competition with respect to its client/server development products from Microsoft's VisualBasic development tools, particularly as VisualBasic is upgraded. In addition, NeXT expects database vendors such as Oracle Corporation ("Oracle"), Sybase, Inc. ("Sybase") and Informix Corporation ("Informix") to provide many of the capabilities needed in the development of Internet/Web-based, intranet and client/server applications. Any of these companies could use its superior financial resources, market presence and installed base of customers to compete effectively against NeXT. See "Business — Competition."

Fluctuations in Quarterly Results; Seasonality

NeXT's quarterly operating results have varied significantly in the past and are likely to continue to vary significantly in the future. Such fluctuations may be caused by many factors, including demand for NeXT's products, introduction, enhancement or announcement of products by NeXT and its competitors, market acceptance of new products, size and timing of orders, budgeting cycles of its customers, variability of the receipt of orders from government customers, mix of distribution channels, mix of products and services sold, announcements or enactments of pricing changes by NeXT or its competitors, changes in the level of operating expenses, mix of international and domestic revenues, the effect of, and changes in, NeXT's sales incentive plans, customer order deferrals in anticipation of enhancements of new products offered or announced by, or changes in pricing policies of, NeXT or its competitors and general economic conditions. In particular, NeXT plans to increase its operating expenses to expand its sales, marketing and consulting operations, expand its distribution channels, fund greater levels of research and development, broaden its customer support and consulting services capabilities and increase its administrative infrastructure. The timing of such expansion and the rate at which NeXT's new salespeople or consultants become productive could also cause material fluctuations in NeXT's quarterly financial condition or results of operations.

It is typical for software companies to recognize a substantial portion of their revenues during the last few weeks of each quarter; therefore, any delays in orders or shipments are likely to result in revenues not being recognized until the following quarter. In addition, as a result of its software sales to the client/server and intranet markets, NeXT expects that a limited number of large orders from enterprise customers may continue to account for a significant portion of revenues in future quarters, resulting in fluctuations in quarterly revenues. A significant shortfall in demand for, or any significant reduction in the prices of, NeXT's products and services in relation to NeXT's expectations would have an immediate material adverse affect on NeXT's business, operating results or financial condition. NeXT's revenues are also difficult to predict because its sales cycle with respect to its client/server products, such as OPENSTEP and NEXTSTEP, is lengthy and varies substantially from customer to customer. It is also difficult to accurately predict the size and timing of sales of NeXT's WebObjects product line as the market for that product line develops. NeXT's current expense levels are based in part on its expectations of future revenues and, as a result, net income for a given period could be disproportionately affected by any reduction in revenues. Furthermore, the Internet/Web software market served by the WebObjects product line is characterized by smaller customers, relatively shorter sales cycles and slower paying cycles than those experienced in the client/server market. NeXT expects that if the percentage of its revenues from the sale of WebObjects increases, NeXT will likely experience an increase in days of sales outstanding, and may experience an increase in bad debt reserves and write-offs. As a result of the factors described above, NeXT believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of its future performance. There can be no assurance that NeXT will be able to achieve significant revenues, that the level of revenues in the future will not decrease from past levels or that in some future quarter NeXT's operating results will not be below the expectations of stock market securities analysts and investors. In any such event, NeXT's profitability and price of its Common Stock could be materially and adversely affected.

The operating results of many software companies reflect seasonal trends, and NeXT expects to be affected by such trends in the future. NeXT believes that the capital spending cycles of its customers as well as the efforts of NeXT's direct sales force to meet year-end sales quotas will result in NeXT experiencing relatively higher revenues in the second half of a year than in the first half of such year. In addition, to the extent international operations constitute a higher percentage of NeXT's total revenues, NeXT anticipates that it may also experience relatively weaker demand in the quarter ending September 30 as a result of reduced international sales activity during the summer months. See "— Lengthy Sales Cycle" and "— Risks Associated with International Operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on the Internet/World Wide Web; Risk Associated With the Convergence of Client/Server Market and Internet/World Wide Web Market

Sales of NeXT's WebObjects product line will depend to a significant degree upon development of, demand for, and the infrastructure necessary to support, commercial Internet/Web access and traffic. The Internet/Web may not prove to be a viable commercial marketplace because of inadequate development of the necessary infrastructure, such as a reliable network backbone or timely development of complementary products (including high speed modems). Because communication, collaboration and commerce over intranets and the Internet/Web is new and evolving, it is difficult to predict with any certainty whether the infrastructure or complementary products necessary to make such applications commercially viable will develop or, if developed, that there will be sufficient commercial demand for the use of intranets and the Internet/Web. In addition, critical issues concerning the commercial use of the Internet/Web, including security, reliability, cost, ease-of-use, access and quality of service, remain unresolved and may impact the growth of such use by businesses. Moreover, the adoption of intranets and the Internet/Web for communications, collaboration and commerce may be slowed as a result of the reluctance of enterprises that have already invested substantial resources in other information technology systems to adopt a new strategy or technology. If the infrastructure or complementary products necessary for widespread business use of intranets and the Internet/Web are not developed or develop more slowly than anticipated, or if the use of intranets or the Internet/Web does not otherwise become commercially viable, NeXT's business, results of operations and financial condition will be materially and adversely affected.

NeXT believes that the market for client/server software products and the market for Internet/Web-based solutions will eventually converge as enterprises adopt HTTP-based software intranet information systems for most internal and external communications. If the markets for these products converge, sales of NeXT's OPENSTEP product could be materially and adversely effected. If the markets for these products do not converge, and NeXT focuses its resources on one market, NeXT's business, operating results or financial condition could be materially and adversely affected if a market on which it does not focus its resources becomes the predominant market.

Risks Associated with Expanding Distribution

To date, NeXT has sold its products primarily through its direct sales force. NeXT is currently investing, and plans to continue to invest, significant resources to expand its direct sales force as well as to expand its ability to sell through indirect channels by establishing and maintaining relationships with VARs, systems integrators, Internet service providers and software developers. Competition for qualified sales personnel and for relationships with VARs, system integrators, Internet service providers and software developers is intense, and NeXT has at times experienced and continues to experience difficulty in recruiting such sales personnel and in establishing such third-party relationships. There can be no assurance that the expansion of NeXT's direct sales force or indirect sales channels will yield a growth in revenues or profitability, which could have a material adverse effect on NeXT's business, results of operations or financial condition. Any failure by NeXT to realize increased revenues as it expands its direct sales force or other distribution channels would have a material adverse effect on NeXT's business, results of operations and financial condition. In addition, NeXT expects that any material increase in the percentage of its sales through indirect channels, such as VARs, system integrators, Internet service providers and software developers, as a percentage of total revenues will adversely affect NeXT's average selling prices and gross margins due to the lower unit prices that are typically received by the vendor when selling through indirect channels. Agreements with VARs, system integrators, Internet service providers and software developers typically do not restrict such parties from distributing competing products, and in many cases may be terminated by either party without cause. Furthermore, sales through these indirect channels are frequently not accompanied by sales of NeXT's consulting, education or support services, which services comprised of 36.8% of total revenues in the nine months ended September 30, 1996. The timing of the expansion of NeXT's direct sales force or channels and the rate at which NeXT's new salespeople or third party resellers become productive could also cause material fluctuations in NeXT's quarterly financial condition or results of operations. See "— Fluctuations in Quarterly Results; Seasonality" and "— Dependence on Key Personnel" and "Business — Sales" and "— Strategic Relationships."

NeXT is also dependent in part on expanding its consulting engineering capabilities to support the expansion of its direct sales force. NeXT has in the past experienced and continues to experience difficulty in recruiting qualified engineers and consulting personnel, and it often takes three to six months for such personnel to be trained for providing consulting services to NeXT's customers. The timing of the expansion of NeXT's consulting engineering capabilities and the rate at which such consultants can become productive could cause material fluctuations in NeXT's quarterly financial condition or results of operations. There can be no assurance that NeXT can successfully expand its consulting engineering capabilities to meet the needs of its customers, which could cause a loss of sales or customer dissatisfaction, or otherwise have a material adverse effect on its business, financial condition or results of operations. See "— Fluctuations in Quarterly Results; Seasonality" and "— Dependence on Key Personnel" and "Business — Professional Services."

Dependence on a Limited Number of Customers

In recent years, a significant portion of NeXT's revenues was attributable to a few large customers. Sun Microsystems, Inc. ("Sun") accounted for 35% and 19% of total revenue in 1994 and 1995, respectively, which consisted of revenue from technology licensing, software licenses, services and research and development contracts; Canon accounted for 6%, 7% and 8% of total revenue in 1994, 1995 and the nine months ended September 30, 1996, respectively; and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") accounted for 7% and 13% of total revenue in 1995 and the nine months ended September 30, 1996, respectively. NeXT does not expect any of these customers to account for 10% or more of revenues in 1996 or future years; however, NeXT expects to continue to derive a significant portion of its revenues from sales to a limited number of customers. Sales are subject to significant variability from quarter to quarter. Such fluctuations could have a material adverse effect on NeXT's business, results of operations or financial condition. Furthermore, if NeXT were to lose a major customer, or if orders by a major customer were to otherwise decrease or be delayed, including reductions due to market or competitive conditions in the Internet/Web, Intranet or enterprise-wide client/server markets, NeXT's business, results of operations or financial condition could be materially and adversely affected. See "— Fluctuations in Quarterly Results; Seasonality" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on Key Personnel

NeXT's success depends to a significant degree upon the continuing contributions of its key personnel. The loss of key personnel could adversely affect NeXT. NeXT believes that its future success will depend in large part upon its ability to attract and retain highly-skilled managerial, sales, marketing, customer support and technical personnel. NeXT has at times experienced and continues to experience difficulty in retaining and recruiting qualified managerial, sales, marketing, customer support, technical and other personnel. In particular, NeXT has had, and is continuing to have, difficulty retaining and recruiting qualified Java programmers. Since 1993, NeXT has experienced turnover in several of its executive officer positions, as well as in its general employee base. Furthermore, competition for qualified personnel is intense, and there can be no assurance that NeXT will be successful in attracting and retaining such personnel. Competitors and others, most significantly small start-up companies developing Internet/Web-based products, in the past have recruited, and may in the future recruit, NeXT's officers and employees. Failure to attract and retain key personnel, or high rates of employee turnover, could have a material adverse effect on NeXT's business, results of operations or financial condition. See "Business — Employees" and "Management."

Divided Responsibilities of Chief Executive Officer

NeXT's Chief Executive Officer and Chairman, Steven P. Jobs, is also Chairman and Chief Executive Officer of Pixar Animation Studios ("Pixar"), a digital animation studio. Although Mr. Jobs spends approximately half of his time at NeXT and is active in NeXT's management, he is not committed to spend a certain amount of time at NeXT nor is he able to devote his full time and resources to NeXT. Further, NeXT does not have an employment agreement with Mr. Jobs. NeXT has established an Office of the President which includes three senior officers, Dominique Trempont, Mitchell Mandich and Avadis Tevanian, Jr., who are actively engaged in managing the business on a day-to-day basis. Mr. Jobs has informed NeXT that he intends to remain in his current position with NeXT; however, it is likely that NeXT will seek to hire a new Chief Executive Officer over the next 12 months or so. In addition, Mr. Jobs has informed NeXT that he intends to remain as Chairman of NeXT if a new Chief Executive Officer were to be appointed. There can be no assurance that Mr. Jobs' inability to devote his full time and resources to NeXT will not adversely affect NeXT's business, results of operations and financial condition. See "Management."

Management of a Changing Business and Potential Growth

NeXT has recently expanded its market focus from solely developing and marketing object-oriented software products to the enterprise-wide client/server market to also developing and marketing software products for Internet/Web and intranet applications. This has resulted in new and increased responsibilities for NeXT's employees. In addition, in an effort to exploit the market window for its products and services, NeXT has expanded and intends to continue to expand the number of its employees (in particular sales and technical personnel), the products and product enhancements it offers and the geographic area of its operations. This expansion has placed and will continue to place significant strain upon NeXT's management, operating and financial systems and resources. To accommodate its expansion, compete effectively and manage potential future growth, NeXT must continue to implement and improve information systems, procedures and controls. NeXT's future success will depend to a significant extent on the ability of its current and future management personnel to operate effectively, both independently and as a group. There can be no assurance that NeXT's personnel, systems, procedures and controls will be adequate to support NeXT's market focus and its future operations. Further strain could also be placed on NeXT's resources should NeXT choose to make acquisitions of complementary businesses, products or technologies. Any failure to implement and improve NeXT's operational, financial and management systems or to expand, train, motivate or manage employees could have a material adverse effect on NeXT's business, operating results or financial condition. See "— Dependence on Key Personnel" and "Business — Employees." Furthermore, as a result of NeXT's emphasis on the commercialization of open software for developing applications in client/server and Internet/Web-based environments, regardless of the operating system or hardware architecture, NeXT expects to dedicate less time and resources to developing, distributing and marketing its NEXTSTEP product line than it has in the past, and further expects sales of NEXTSTEP products to decline. Through 1995, revenues relating to NEXTSTEP products and related services accounted for all of NeXT's total revenues. In the nine months ended September 30, 1996, these products and services accounted for 38.7% of total revenues. If NeXT does not receive revenues from its OPENSTEP and WebObjects products sufficient to offset the decline in revenue attributable to its NEXTSTEP products, NeXT's revenues and net income will decline from historical levels, and NeXT's business, results of operations and financial condition will be materially adversely affected.

Lengthy Sales Cycle

NeXT's products are typically used to develop applications that are critical to a customer's business. As a result, the license and implementation of many of NeXT's products generally involves a significant commitment of management attention and resources by prospective customers. Accordingly, the sales process for such products, in particular its intranet and enterprise-wide client/server-based products, is often subject to delays associated with a long approval process that typically accompanies significant initiatives or capital expenditures. It is also difficult to accurately predict the size and timing of sales of the WebObjects product line as the market for that product line develops. For these and other reasons, the sales cycle associated with the license and implementation of many of NeXT's products is often lengthy and subject to a number of significant delays over which NeXT has little or no control. There can be no assurance that NeXT will not experience these or additional delays in the future. See "— Fluctuations in Quarterly Results; Seasonality" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risk of Software Defects

Software products that are as internally complex as NeXT's products frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Although

NeXT has not experienced material adverse effects resulting from any such defects or errors to date, there can be no assurance that, despite testing by NeXT and by current and potential customers, defects and errors will not be found in NeXT's current versions or future products or enhancements after commencement of commercial shipments. This may result in loss of revenues, increased costs or a delay in market acceptance, which in turn could have a material adverse effect on NeXT's business, results of operations or financial condition. see "Business — Research and Product Development."

Reliance on Strategic Relationships

A key element of NeXT's business strategy is to develop relationships with leading industry organizations in order to increase NeXT's market presence, expand distribution channels and broaden NeXT's product lines. Accordingly, NeXT maintains relationships with software vendors (such as Microsoft and Netscape), hardware vendors (such as Hewlett-Packard Company ("Hewlett-Packard"), Digital Equipment Corporation ("Digital") and Sun) and database providers (such as Oracle, Sybase and Informix). In July 1996, NeXT announced an Enterprise Alliance Program targeted at VARs, systems integrators, Internet service providers and software developers. NeXT believes that its continued success depends in large part on its ability to develop and maintain such relationships. Many of NeXT's relationships are unwritten, informal and non-exclusive, and do not require the other party to sell NeXT's products. In addition, these relationships generally can be terminated by either party at any time. There can be no assurance that NeXT's existing or future strategic partners will not develop and market products in direct competition with NeXT or otherwise discontinue their relationships with NeXT, or that NeXT will be able to successfully develop additional strategic relationships. The failure of NeXT's strategic partners to augment the sales of NeXT's products could have a material adverse effect on NeXT's business, results of operations or financial condition. See "Business — Strategic Relationships."

Dependence on Proprietary Technology; Intellectual Property

NeXT's success and ability to compete is dependent in part upon its proprietary technology. While NeXT relies on a combination of patent, copyright, trademark and trade secret protection law, employee and third party nondisclosure agreements, and other methods to establish and protect its proprietary rights, NeXT believes that factors such as the technological and creative skills of its personnel are more essential to its success and ability to compete.

NeXT currently holds 14 software patents issued in the United States, three patents issued in Canada and one patent issued in the United Kingdom, which patents will expire from 2009 to 2013. In addition, NeXT has 12 patent applications pending in the United States, three pending in Japan, and two pending under the Patent Cooperation Treaty. There can be no assurance that any patent applied for will be granted pursuant to NeXT's patent applications, or if patents do issue, that any claims issued will be sufficiently broad to protect NeXT's technology. In addition, there can be no assurance that any patents issued to NeXT, or that NeXT may license from third parties, will not be challenged, reissued with narrower scope, dominated by patents of others, invalidated or circumvented, or that any rights granted thereunder would provide proprietary protection to NeXT. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to NeXT's technologies.

The source code for each of NeXT's proprietary software products is protected both as a trade secret and as copyrighted work. NeXT generally enters into confidentiality or license agreements with its employees, consultants, and vendors, and generally controls access to and distribution of its software, documentation and other proprietary information. NeXT's products are distributed in object code form only, and all end-user license agreements prohibit unlawful reverse engineering or decompiling of NeXT's software. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use NeXT's products or technology without authorization, or to develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. To license its software products, NeXT generally relies on "shrink wrap" licenses that are not signed by the end-user and, therefore, may be unenforceable under the laws of certain jurisdictions. NeXT's products and technology generally are branded with trade names, some of which are registered trademarks, and which are intended to identify and distinguish NeXT's products from those of others. Despite NeXT's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of NeXT's products or intellectual property, or to obtain and use information that NeXT regards as proprietary. Policing unauthorized use of NeXT's products and intellectual property is difficult. There can be no assurance that the steps taken by NeXT will prevent misappropriation of its technology or intellectual property, or that such agreements will be enforceable. In addition, litigation has been necessary in the past and may be necessary in the future to enforce NeXT's intellectual property rights, to protect NeXT's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on NeXT's business, results of operations or financial condition. See "— Dependence on Third-Party Technology" and "Business — Intellectual Property Rights."

Dependence on Third-Party Technology

NeXT relies on certain technology that it licenses from third parties, including software which is integrated and used with internally developed software. For example, NeXT incorporates certain Microsoft files in OPENSTEP for Windows NT and in Release 3.0 of the WebObjects product line, Adobe Systems Incorporated's Display PostScript software in OPENSTEP and certain OPENSTEP-based applications and UNIX software in OPENSTEP for Mach. There can be no assurance that these and other third-party technology licenses will continue to be available to NeXT on commercially reasonable terms or at all. Any required replacement licenses could prove more costly than NeXT's current license relationships and might not provide technology as powerful and functional as the third-party technology currently licensed by NeXT. While it may be necessary or desirable in the future to obtain other licenses relating to one or more of NeXT's products or relating to current or future technologies, there can be no assurance that NeXT will be able to do so on commercially reasonable terms or at all. The loss of or inability to maintain any of these technology licenses could result in delays or reductions in product shipments until equivalent technology could be identified, licensed and integrated, which could have a material adverse effect on NeXT's business, results of operations or financial condition. In addition, NeXT pays royalties under its licenses with third parties. Under the terms of the license agreements, the royalty payments are subject to audit by the third-party licensor, and any such audit may result in additional royalties owed by NeXT, which, if material, could have an adverse effect on NeXT's results of operations. See "— Dependence on Proprietary Technology; Intellectual Property" and "Business — Strategic Relationships" and "— Intellectual Property Rights."

Dependence on Government Market

NeXT has derived a large portion of its revenues to date from sales and services provided to federal, state and local government agencies which accounted for approximately 8.0% and 15.2% of total revenue for 1995 and for the nine months ended September 30, 1996, respectively. Given the scope of the initiatives typical of a government contract, these contracts are generally large in nature and one contract may constitute a significant portion of the Company's revenues in any given period. See "— Fluctuations in Quarterly Results; Seasonality." Although NeXT believes that its new products and expanded sales force and distribution channels will enable it to further diversify its customer base, NeXT expects that, for the foreseeable future, the percentage of its revenues attributable to customers in federal, state and local government agencies will continue to be substantial.

Demand for NeXT's product and services by federal, state and local government agencies is directly related to the level of funding for such agencies. There can be no assurance that these agencies will have the available resources to do business with NeXT, that such agencies will continue to be funded even if resources are available or that such agencies will to continue to purchase NeXT's products or services. In addition, NeXT's contracts with federal, state and local government agencies generally include provisions which permit the government agency to terminate the contract at its convenience. The loss of government customers or a reduction in sales and services provided to government agencies could have a material adverse effect on NeXT's business, results of operations or financial condition.

Risk of Missing Customer Project Requirements

NeXT actively consults with and supports its customers in managing and implementing their application projects. Although it is NeXT's policy not to take responsibility for project management or for guaranteeing the specified functionality of project deliverables, from time to time, NeXT may commit to certain delivery schedules or specifications. In addition, NeXT's customers could cancel their orders or terminate their contracts for products or services with NeXT. Nonfulfillment of delivery schedules or an inability to meet product or project specifications by NeXT could result in, among other things, cancellation of contracts, penalties or discounting of the purchase price or a delay in receipt of revenues, any of which could have a material adverse effect on NeXT's business, results of operations or financial condition.

Product Liability

NeXT markets its products and services to customers for the development, deployment and management of critical business applications. NeXT has included in its products an implementation of the Secure Sockets Layer ("SSL"), a security protocol which operates in conjunction with encryption and authentication technology licensed from RSA Data Security, Inc. Despite the existence of this technology, NeXT's products may be vulnerable to break-ins and similar disruptive problems caused by Internet/Web users. Such computer break-ins and similar disruptive problems would jeopardize the security of information stored in and transmitted through the computer systems of end users of NeXT's products, which may result in significant liability claims against NeXT and may also deter potential customers. Alleviating problems caused by third parties may require significant expenditures of capital and resources by NeXT and may cause interruptions, delays or cessation of service to NeXT's customers; such expenditures and interruptions could have a material adverse effect on NeXT's business, results of operations or financial condition. Moreover, the security and privacy concerns of existing and potential customers, as well as concerns related to computer viruses, may inhibit the growth of the Internet/Web marketplace generally, and NeXT's customer base and revenues in particular.

NeXT's license agreements with its customers typically contain provisions designed to limit NeXT's exposure to potential liability claims. NeXT may not, however, always be able to obtain adequate contractual limitations on liability from its customers and end users and, in any event, such provisions may not be effective as a result of existing or future federal, state or local laws or ordinances or unfavorable judicial decisions. In addition, although NeXT maintains product liability insurance to protect against these risks, there can be no assurance that such insurance will continue to be available to NeXT on commercially reasonable terms or at all, or that such insurance will be sufficient to protect NeXT from such risks. Although NeXT has not experienced any material product liability claims to date, the sale and support of NeXT's products may entail the risk of such claims, which could be significant. A successful product liability claim brought against NeXT could have a material adverse effect upon NeXT's business, results of operations or financial condition.

Risks Associated with International Operations

In 1994, 1995 and the nine months ended September 30, 1996, NeXT derived 15.1%, 19.2% and 20.0%, respectively, of its total revenues from sales to customers outside of the United States and Canada. NeXT intends to expand its operations outside of the United States and Canada and enter international markets, which will require significant management attention and financial resources. NeXT's ability to expand the acceptance and use of its core technologies internationally is limited by the general acceptance of the Internet/Web and Intranets in other countries. In addition, the use of encryption technologies in NeXT's products could subject such products to export and/or import restrictions. Any such export or import limitations could have a material adverse effect on the ability to sell NeXT's products internationally. NeXT expects to commit additional time and development resources to customizing its products for selected international markets and developing international sales and support channels. There can be no assurance that such efforts will be successful. As NeXT increases its international sales, its total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower international sales that typically occur during the summer months. Furthermore, international sales are generally made in U.S. dollars. NeXT has not engaged, and currently does not intend to engage, in foreign currency hedging activities, and international revenues are currently subject to currency exchange fluctuation risk. If NeXT's international revenues increase as a percentage of total revenues in the future, its foreign currency exposure may increase. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Unknown Costs Associated with Discontinued Operations

In late 1992, NeXT discontinued its workstation business, and in 1993 NeXT sold certain assets associated with the workstation business to Canon. Although NeXT established a reserve of approximately $20 million (of which approximately $5.8 million is remaining) that NeXT believed was adequate for the cost of disposing the workstation business, including any unknown contingent expenses associated with the workstation business, there can be no assurance that unforeseen expenses will not occur, which, if material, could have a material adverse effect on NeXT's results of operations or financial condition. For example, NeXT's former manufacturing facility in Fremont, California underwent minor environmental cleanup and there can be no assurance that there will not be further expenses arising from NeXT's prior use of the facility. In addition, there can be no assurance that environmental or other lawsuits will not arise from NeXT's discontinuance of the workstation business. If any such lawsuits, individually or in the aggregate, result in expenses or damages that are in excess of NeXT's reserve, NeXT's business, results of operations or financial condition could be materially and adversely affected. See "— Environmental Regulations."

Dependence on Sole Supplier

NeXT is dependent upon Bindco Corporation ("Bindco") to duplicate substantially all of its disks and to package and assemble substantially all of its finished products for worldwide distribution. To date, NeXT has not experienced any material difficulties or significant delays in the filling of any of its orders due to delays by Bindco. However, if there were a significant failure by Bindco to perform duplication services for NeXT on a timely basis or if NeXT were to lose Bindco as a supplier before NeXT could make arrangements with alternate suppliers, which NeXT believes could take as long as ten weeks to complete, NeXT could incur delays or reductions in the shipment of its products. These delays or reductions could damage customer relationships or otherwise have a material adverse effect on NeXT's business, results of operations or financial condition.

Government Regulation and Legal Uncertainties

NeXT is not currently subject to direct regulation by any governmental agency in the United States, other than regulations applicable to business generally, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet/Web. Due to the increasing popularity and use of the Internet/Web, however, it is possible that a number of laws and regulations may be adopted with respect to the Internet/Web, covering issues such as user privacy, pricing and characteristics and quality of products and services. The adoption of any such laws or regulations may decrease the growth of the Internet/Web, which could in turn decrease the demand for NeXT's WebObjects products and increase NeXT's cost of doing business or otherwise have a material adverse effect on NeXT's business, results of operations and financial condition. Moreover, the applicability to the Internet/Web of existing laws governing issues such as property ownership, libel and personal privacy is uncertain. See "Business — Government Regulation."

Business Interruptions and Dependence on a Single U.S. Facility

NeXT's primary operations, including product development, technical support, computer operations, sales, marketing, distribution and general administration, are housed in a single facility in Redwood City, California. NeXT currently does not maintain off-site backup facilities for its computer records. Any material disruption in NeXT's operations, whether due to computer failure, fire, earthquake, natural disaster or otherwise, could have a material adverse effect on NeXT's business, results of operations or financial condition. See "Business — Facilities."

Environmental Regulations

NeXT is subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals with respect to properties owned or leased by NeXT. Although NeXT does not currently use significant amounts of toxic materials in the operation of its business, toxic materials could be found on the property currently occupied by NeXT. Whether or not NeXT is responsible for any such contamination, NeXT could be found liable as a tenant of the property and could be required to expend significant funds for the cleanup of the contamination, which could have a material adverse effect on the business, results of operations or financial condition of NeXT. See "— Unknown Costs Associated with Discontinuing the Hardware Business" and "Business — Facilities."

Concentration of Stock Ownership

Upon completion of the offerings, Steven P. Jobs, Canon and H. Ross Perot will beneficially own approximately %, % and %, respectively, of the outstanding Common Stock (assuming no exercise of the Underwriters' over-allotment options) and %, % and %, respectively, of the outstanding Common Stock (assuming exercise of the Underwriters' over-allotment options). The present directors, executive officers, holders of 5% or more of the Common Stock, and their respective affiliates (including Mr. Jobs) will beneficially own approximately % of the outstanding Common Stock (assuming no exercise of the Underwriters' over-allotment options) and % of the outstanding Common Stock (assuming exercise of the Underwriters' over-allotment options). As a result, these shareholders will be able to exercise significant influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of NeXT. See "Principal Shareholders" and "Description of Capital Stock."

No Prior Public Market; Possible Volatility of Stock Price

Prior to the offerings, there has been no public market for NeXT's Common Stock, and there can be no assurance that an active public market for the Common Stock will develop or be sustained after the offerings. The initial public offering price will be determined by negotiation between NeXT and the Underwriters based upon several factors. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The market price of the Common Stock is likely to be highly volatile and could be subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by NeXT or its competitors, changes in financial estimates by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to NeXT or other events or factors. In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the market price of equity securities of many high technology companies and that have been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of NeXT's Common Stock, regardless of NeXT's operating performance. Further, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on NeXT's business, results of operations and financial condition.

Uncertainty as to Use of Proceeds

As of the date of this Prospectus, NeXT has no specific plans to use the net proceeds from the offerings other than for the payment of certain debt and for working capital and general corporate purposes. Accordingly, NeXT's management will retain broad discretion as to the allocation of a substantial portion of the net proceeds from the offerings. Pending such uses, NeXT plans to invest the net proceeds in government securities and other short-term, investment-grade, interest-bearing securities. See "Use of Proceeds."

Shares Eligible for Future Sale

Sales of a substantial number of shares of Common Stock in the public market following the offerings could adversely affect the market price for the Common Stock. See "Description of Capital Stock" and "Shares Eligible for Future Sale."

Anti-takeover Effects of Charter Documents; Outstanding Preferred Stock

The Board of Directors has the authority to issue up to 5,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of NeXT. NeXT has no present plans to issue shares of Preferred Stock. Further, certain provisions of NeXT's Articles of Incorporation and of NeXT's Bylaws could delay or make difficult a merger, tender offer or proxy contest involving NeXT. See "Description of Capital Stock — Preferred Stock" and "— Certain Anti-takeover Provisions."

Dilution

Investors in the offerings will incur immediate, substantial dilution. To the extent outstanding options to purchase NeXT's Common Stock are exercised, there will be further dilution. See "Dilution."

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THE COMPANY

NeXT develops, markets and supports software that enables customers to easily and quickly implement business applications on the Internet/Web, intranets and enterprise-wide client/server networks. NeXT provides customers with standards-based solutions that offer a unique combination of functionality, scalability, reliability and performance. NeXT's WebObjects product line is designed to allow the rapid development of dynamic, server-based applications for the Internet/Web and intranets that enable organizations to extend their market presence, to enhance their customer interactions and to improve workforce productivity. NeXT's OPENSTEP product line enables the development and deployment of dynamic business applications on more traditional client/server networks, especially applications that require sophisticated user interfaces or the ability to support complex, high-volume transaction processing. Both WebObjects and OPENSTEP are designed to enable organizations to integrate their existing applications and databases, significantly reduce the time and effort spent on application development and deployment and take greater advantage of the opportunities offered by the Internet/Web, intranets and enterprise-wide client/server networks.

NeXT believes that there are significant market opportunities created by both the tremendous growth of the Internet/Web and intranets and the continuing growth of more traditional enterprise-wide client/server networks within organizations. NeXT's technology enables customers to develop dynamic business applications and NeXT believes that one of its principal competitive advantages derives from its long-term investments in object-oriented technologies. Unlike the products offered by many Internet/Web companies, NeXT's product lines share a technological foundation that has been developed, deployed, tested and proven in the enterprise business solutions market over the past decade. Furthermore, as the Internet/Web and client/server technologies converge, NeXT believes that it is well positioned to deliver to its customers software and services that enable comprehensive business applications.

NeXT's objective is to become the leading provider of dynamic network application software products and services used by organizations to provide their customers, employees and business partners with enhanced service and greater access to business applications and information through the Internet/Web, intranets and enterprise-wide client/server networks. The key elements of NeXT's strategy are to (i) maintain technology leadership by continuing to invest significant resources in technology, (ii) target the convergence of the Internet/Web, intranet and enterprise-wide client/server markets with product lines that integrate with customers' existing applications and databases, (iii) expand direct and indirect sales channels on a global basis, (iv) foster the success of customer application development efforts through its team of highly trained software engineers providing consulting and training services and technical support, and (v) develop complementary and value-added products based on industry standards.

To pursue customer opportunities worldwide, NeXT employs a direct sales force and professional services organization, augmented by the use of multiple indirect distribution channels, including VARs, system integrators, Internet service providers and software developers. NeXT's sales strategy is aimed at building relationships with large and mid-sized customers for continued sales and support of NeXT's software products and services, and with VARs, system integrators, Internet service providers and software developers to extend the market presence of NeXT and its software products and services. NeXT is also continuing to engage in and further evaluate certain relationships with large Internet/Web and client/server software companies, including Microsoft and Netscape, to expand its market presence and to provide flexible and integrated solutions to such companies' customers. In addition, NeXT has established a professional services organization in order to provide a high level of professional services and support to its customers, including consulting engineering, training and technical support.

Since 1993, NeXT has licensed its software to over 2,000 customers, including AT&T Wireless Services, BBN Planet, British Telecom, Cablevision Systems Corporation, Dow Jones Telerate, Inc., Fannie Mae, Lufthansa Technik AG, MCI, NTT, Nissan, Sabre,SwissBank and U.S. West Communications, Inc.

NeXT was incorporated in California as "NeXT, Inc." in 1985, and, in 1995, NeXT's name was changed to "NeXT Software, Inc." NeXT's executive offices are located at 900 Chesapeake Drive, Redwood City, California 94063, and its telephone number is (415) 366-0900.

NeXT, the NeXT cube logo, NEXTSTEP and OPENSTEP are registered trademarks of NeXT and WebObjects is a trademark of NeXT. All other tradenames and trademarks appearing in this Prospectus are the property of their respective holders.

USE OF PROCEEDS

Based on an assumed initial public offering price of $16.00 per share, NeXT will receive approximately $72.0 million from the sale of shares of Common Stock to be sold by NeXT pursuant to the offerings (approximately $83.2 million if the Underwriters' over-allotment options are exercised in full) after deducting the estimated underwriting discount and offering expenses payable by NeXT.

NeXT intends to use the net proceeds of the offerings for repayment of $9,000,000 of indebtedness to Morgan Guaranty Trust Company of New York ("Morgan Guaranty") (which debt bears interest at prime rate, which was 8.25% as of September 30, 1996, is due on demand, and was incurred for working capital and general corporate purposes), and for working capital and general corporate purposes. NeXT may also apply a portion of the net proceeds of the offerings to acquire business, products and technologies that are complementary to those of NeXT. Although NeXT has not identified any specific businesses, products or technologies that it may acquire, nor are there any current agreements or negotiations with respect to any such transaction, NeXT evaluates such opportunities from time to time. Pending such uses, the net proceeds will be invested in governmental securities and other short-term, investment-grade, interest-bearing instruments.

Additional purposes of the offerings are to increase NeXT's equity capital, to create a public market for the Common Stock, to facilitate future access by NeXT to public equity markets, to provide liquidity for NeXT's existing shareholders and to provide increased visibility of NeXT in a marketplace where many of its competitors are publicly held companies.

DIVIDEND POLICY

NeXT has not declared or paid cash dividends on its capital stock and does not intend to pay any cash dividends in the foreseeable future. NeXT's term loan agreement dated July 27, 1992, as amended, with Canon prohibits NeXT from paying or declaring any dividends on its capital stock. Future dividends, if any, will be determined by the Board of Directors.

DILUTION

The pro forma net tangible book value of NeXT as of September 30, 1996 was $(19,016,000), or $(1.08) per share of Common Stock. "Pro forma net tangible book value" per share represents the net tangible book value (tangible assets less total liabilities) divided by the number of shares of Common Stock outstanding. After giving effect to the sale by NeXT of the 5,000,000 shares of Common Stock in the offerings at an assumed public offering price of $16.00 per share (after deducting the estimated underwriting discount and offering expenses payable by NeXT), the adjusted pro forma net tangible book value of NeXT as of September 30, 1996 would have been $52,984,000, or $2.34 per share. This represents an immediate increase in the pro forma net tangible book value of $ per share to existing shareholders and an immediate dilution of $ per share to new investors purchasing shares of Common Stock in the offerings.

Assumed initial public offering price per share		$ 16.00
Pro forma net tangible book value per share before the offerings	$ (1.08)	
Increase per share attributable to new investors	$ 3.42	
Pro forma net tangible book value per share after the offerings		2.34
Dilution per share to new investors		$ 13.66

The following table sets forth, on a pro forma basis as of September 30, 1996, the number of shares of Common Stock purchased, the consideration paid and the average price per share paid to NeXT by existing shareholders and by investors purchasing shares of Common Stock in the offerings at an assumed initial public offering price of $16.00 per share (before deducting estimated underwriting discount and offering expenses).

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing shareholders	17,668,015	77.9%	$	%	$
New investors	5,000,000	22.1%	80,000,000		16.00
Total	22,668,015	100.0%		100.0%	

The foregoing tables assume no exercise of stock options outstanding at September 30, 1996. As of September 30, 1996, there were options outstanding to purchase a total of shares of Common Stock at a weighted average exercise price of $ per share, of which options to purchase shares at a weighted average exercise price of $ per share were exercisable, and shares reserved for grant of future options under NeXT's stock plans. To the extent that any of these options are exercised, there will be further dilution to new investors. See "Capitalization," "Management — Stock Plans" and Note 7 of Notes to Consolidated Financial Statements.

CAPITALIZATION

The following table sets forth, as of September 30, 1996, (i) the actual capitalization and short-term debt of NeXT, (ii) the pro forma capitalization of NeXT adjusted to reflect the automatic conversion of all outstanding shares of Preferred Stock into 13,235,809 shares of Common Stock upon the effectiveness of the Registration Statement of which this Prospectus is a part, the conversion of certain amounts owed to Canon under a term loan agreement into 1,896,639 shares of Common Stock and the conversion of certain amounts owed to MLBPS under a line of credit into 537,634 shares of Common Stock (in each case at an assumed conversion price of $14.88 per share) and (iii) the pro forma as adjusted capitalization of NeXT giving effect to the sale by NeXT of the 5,000,000 shares of Common Stock in the offerings at an assumed initial public offering price of $16.00 per share (after deduction of the estimated underwriting discount and expenses of the offerings). See "Use of Proceeds" and "Certain Transactions."

	September 30, 1996		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands)		
Notes payable, short-term(1)	$ 47,252		
Long-term capital lease obligations(2)	$ 179	$ 179	$ 179
Shareholders' deficit:			
Preferred Stock, no par value; 26,612,000 shares authorized, 13,222,250 shares issued and outstanding, actual; 5,000,000 shares authorized, none issued and outstanding, pro forma and as adjusted	215,167	—	—
Common stock, no par value; 100,000,000 shares authorized, actual, pro forma and as adjusted; 1,997,933 shares issued and outstanding, actual; 17,668,015 shares issued and outstanding, pro forma; 22,668,015 shares issued and outstanding, as adjusted(3)	2,610	253,999	325,999
Paid-in capital — warrants	400	400	400
Notes receivable from shareholders	(10)	(10)	(10)
Accumulated equity (deficit)	(273,405)	(273,405	(273,405
Total shareholders' equity (deficit)	$ (55,238)	(19,016)	52,984
Total capitalization	$ (55,059)	$18,840)	$53,163

(1) See Note 4 to Notes to Consolidated Financial Statements.

(2) See Note 5 to Notes to Consolidated Financial Statements.

(3) Excludes as of September 30, 1996, shares of Common Stock issuable upon exercise of outstanding stock options as of September 30, 1996 at a weighted average exercise price of $ per share and shares reserved for grant of future options under NeXT's stock plans. See "Management — Stock Plans" and Note 7 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, notes thereto and other financial information included elsewhere in this Prospectus. The consolidated statement of operations data for the years ended December 31, 1993, 1994 and 1995, and the consolidated balance sheet data at December 31, 1994 and 1995 are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Prospectus. The consolidated statement of operations data for the years ended December 31, 1991 and 1992 and the consolidated balance sheet data at December 31, 1991, 1992 and 1993 are derived from NeXT's audited consolidated financial statements that do not appear herein. The consolidated statement of operations data for the nine months ended September 30, 1995 and 1996 and the balance sheet data as of September 30, 1995 and 1996 are derived from unaudited consolidated financial statements included elsewhere in this Prospectus and that include, in the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of the results of the unaudited interim periods. The financial results for the nine months ended September 30, 1996 are not necessarily indicative of the results to be expected for any other interim period or the entire year. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	Year Ended December 31,					Nine Months Ended September 30,	
	1991(1)	1992(1)	1993	1994	1995	1995	1996
	(in thousands, except per share data)					(unaudited)	
Consolidated Statement of Operations Data:							
Revenues:							
Software licensing	—	—	$ 10,076	$ 25,894	$ 26,762	$ 19,295	$ 22,498
Services	—	—	2,359	3,759	10,672	7,524	13,190
Technology licensing	—	—	38	17,554	7,543	7,500	12
Research and development contracts	—	—	1,800	2,390	1,829	1,829	195
Total revenues	—	—	14,273	49,597	46,806	36,148	35,895
Cost of Revenues:							
Software licensing	—	—	4,007	5,136	2,895	1,992	2,271
Services	—	—	4,612	4,265	8,011	5,647	10,349
Technology licensing	—	—	—	194	208	208	—
Research and development contracts	—	—	1,667	1,393	365	365	71
Total cost of revenues	—	—	10,286	10,988	11,479	8,212	12,691
Gross margin	—	—	3,987	38,609	35,327	27,936	23,204
Operating Expenses:							
Research and development	—	—	8,944	10,655	12,412	9,074	9,367
Sales and marketing	—	—	26,150	20,582	17,158	12,190	18,334
General and administrative	—	—	5,240	4,744	5,628	4,142	4,184
Total operating expenses	—	—	40,334	35,981	35,198	25,406	31,885
Operating income (loss) from continuing operations	—	—	(36,347)	2,628	129	2,530	(8,681)
Other income (expense):							
Interest, net	—	—	(3,107)	(1,595)	(2,089)	(1,523)	(2,136)
Foreign exchange gain (loss)	—	—	(643)	54	(48)	(43)	(246)
Other, net	—	—	(122)	17	467	11	8
Income (loss) from continuing operations before income taxes	—	—	(40,219)	1,104	(1,541)	975	(11,055)
Income taxes	—	—	3	74	9	53	5
Income (loss) from continuing operations	—	—	(40,222)	1,030	(1,550)	922	(11,060)
Discontinued operations:							
Operating (loss)	$(64,024)	$(46,081)	—	—	—	—	—
Gain (loss) on disposal of discontinued operations	—	(19,996)	—	—	750	—	—
Net income (loss)	$(64,024)	$(66,077)	$(40,222)	$ 1,030	$ (800)	$ 921	$(11,060)
Pro forma net income (loss) per share(2)				$ 0.10	$ 0.05	$ (0.72)	
Pro forma weighted average number of shares outstanding(2)				14,948	17,753	15,220	
Consolidated Balance Sheet Data (at period end):							
Cash and cash equivalents	$ 13,982	$ 26,662	$ 8,073	$ 2,310	$ 440	$ 2,903	$ 2,088
Investments	966	1,731	506	910	471	473	724
Working capital	18,397	10,789	(16,165)	(12,366)	(44,258)	(41,980)	(58,260)
Total assets	60,763	73,365	14,853	14,476	14,047	15,273	15,921
Long-term debt and capital lease obligations	20,254	75,077	53,222	28,222	277	269	179
Total shareholders' equity (deficit)	6,473	(58,532)	(78,585)	(47,342)	(47,541)	(45,990)	(55,238)

(1) All activities in 1991 and 1992 were associated with NeXT's former workstation business, which was discontinued in the fourth quarter of 1992. Accordingly, all results in 1991 and 1992 have been presented as discontinued operations.

(2) Pro forma net income (loss) per share and pro forma weighted average number of shares outstanding included 15,670,082 shares of Common Stock resulting from the conversion of convertible preferred stock and debt. Historical net income (loss) per share has not been presented as it is not meaningful.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other parts of this Prospectus contain forward-looking statements that involve risks and uncertainties. NeXT's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below and under the captions "Risk Factors" and "Business."

Overview

NeXT develops, markets and supports software that enables customers to easily and quickly implement business applications on the Internet/Web, intranets and enterprise-wide client/server networks. Originally founded as a hardware company in 1985, NeXT released the first NeXT Computer in 1989, which operated using NeXTStep, the Company's proprietary operating system and object oriented development environment. In the fourth quarter of 1992, NeXT discontinued its workstation business to focus solely on the development and marketing of its object-oriented application development environment. In connection with this decision, NeXT incurred losses from discontinued operations of $46.1 million and recorded a $20 million loss associated with the disposal of the exited business. This loss included charges associated with future potential liabilities.

Beginning in 1993, NeXT's new focus and strategy was to make its proprietary NEXTSTEP operating system and object-oriented application development environment available on all major UNIX platforms. By supporting industry standards, the NeXTStep software product line (used to develop and deploy complex enterprise-wide business applications) could be more easily integrated with businesses' existing technology. Towards this end, NeXT formed technology and marketing relationships with Hewlett-Packard, Sun and Digital in 1993 and 1994. One of the most significant of these technology licensing agreements was entered into in November 1993 with Sun Microsystems. Sun licensed the right to port NeXTStep to the Solaris UNIX-based operating system. NeXT recognized, in connection with this agreement, $17.5 million in 1994 and $7.5 million in 1995 in license and distribution fees. These strategic partnerships in addition to a previous relationship with Intel Corporation ("Intel") where both NeXT and the hardware providers shared in the cost of porting and development, resulted in NeXTStep becoming available on many major platforms including HP-UX and Solaris Operating systems and the Sparc PA-RISC and Intel's 486 and pentium processors.

In August 1995, NeXT announced two planned additions to its product line and further refined the Company's focus. First, NeXTStep would be made available on Microsoft's Windows NT operating system. This product was commercially released under the name OPENSTEP for Windows NT on June 30, 1996. NeXT also announced plans for the WebObjects product line. WebObjects, which is based on the same technological foundation that underlies the NeXTStep and OPENSTEP product lines, is used to build dynamic internet/web-based applications that integrate with existing business logic across the enterprise. WebObjects was released on March 31, 1996. From commercial release of WebObjects in the first quarter of 1996 and OpenStep in the second quarter of 1996, NeXT has recognized a total of $10.1 million in software revenues or 45% of total software licensing revenue through September 30, 1996.

Factors Affecting Operating Results

NeXT's OPENSTEP and WebObjects product lines provide a platform for NeXT to address the changing requirements of companies that are developing applications for use within client/server computing environments as well as on the Internet/Web and intranets. As a result of NeXT's emphasis on the commercialization of open software, NeXT expects to dedicate less time and resources to developing, distributing and marketing its proprietary NEXTSTEP product line than it has in the past, and further expects revenues relating to NEXTSTEP products and related services to decline. From 1993 through 1995, revenues relating to NEXTSTEP products and related services accounted for all of NeXT's total revenues. In the nine months ended September 30, 1996, NEXTSTEP products and services accounted for 38.7% of total revenues. If NeXT does not receive revenues from its OPENSTEP and WebObjects product lines and related services sufficient to offset the expected decline in revenues attributable to its NEXTSTEP products and related services, NeXT's revenues and net income will decline from historical levels, and NeXT's business, operating results and financial condition will be materially and adversely affected.

NeXT believes that the client/server software business served by its NEXTSTEP and OPENSTEP product lines has a number of significant differences from the Internet/Web-based software business served by NeXT's WebObjects product line. NeXT's client/server software business has been historically characterized by long sales cycles, large initial sales orders, more complex applications, a limited number of customers per quarter, a very high mix of software revenues versus services revenues, long product development cycles of typically nine months to one year and higher royalty payments to third parties for embedded technology. Further, sales of NeXT's client/server software have been predominantly made to large institutions and the United States government. Conversely, the Internet/Web-based software business is characterized by relatively shorter sales cycles, lower prices per product with profitability more dependent on achieving volume sales, smaller initial sales orders per customer, less complex applications, a higher number of customers per quarter, a higher services component of revenues for the initial installation, short product development cycles of typically three months and lower royalty payments to third parties for embedded technology. In addition, although NeXT has only sold its WebObjects product line since March 1996, sales during that time have been made to companies of many different sizes in a variety of industries. The intranet software business is a combination of the client/server and Internet/Web-based software businesses. In certain circumstances, depending upon the complexity of the application, the transactional volume and the sophistication of the user interface, the intranet software business has characteristics that more closely resemble the client/server software business, and in other instances, the intranet software business has characteristics that more closely resemble the Internet/Web-based software business.

NeXT believes that the market for client/server software products and the market for Internet/Web-based solutions will eventually converge as enterprises adopt HTTP-based software intranet information systems for most internal and external communications. If the markets for these products converge, sales of NeXT's OPENSTEP product lines could be materially and adversely affected. If the markets for these products do not converge and NeXT is required to focus its resources on one market, NeXT's business, operating results or financial condition could be materially and adversely affected if the market on which it does not focus its resources becomes the predominant market.

To date, only a limited number of NeXT's customers have developed and deployed Internet/Web applications using NeXT's WebObjects software. NeXT expects that its future revenues will depend to a significant degree on the market acceptance of its recently introduced products and enhanced versions of its products, and its ability to successfully develop, introduce and obtain market acceptance for new and enhanced versions of products within the WebObjects and OPENSTEP product lines. NeXT began shipping Release 3.0 of its WebObjects product line in October 1996. In addition, by the end of 1996, NeXT intends to offer an add-on to WebObjects to enable Java developers to write server-based WebObjects applications entirely in Java to take advantage of the scalability, database access and performance available in WebObjects. There can be no assurance that this product, or any of NeXT's recently introduced or future products and product enhancements will achieve market acceptance, and any failure to do so could have a material adverse effect on NeXT's business, results of operations and financial condition.

For the reasons set forth above, in particular the limited history of NeXT in its targeted markets, the lengthy and uncertain sales cycle for many of NeXT's products and the expected increase in revenues derived from sales of WebObjects products as a percentage of total revenues, NeXT's future revenues are difficult to predict. NeXT's expense levels, which are to a large extent fixed, are based in part on NeXT's expectations as to future revenues. NeXT may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, any significant shortfall of demand for NeXT's products and services in relation to NeXT's expectations would have an immediate material adverse effect on NeXT's business, results of operations and financial condition. NeXT believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of its future performance. There can be no assurance that NeXT will be able to achieve significant revenues or that the level of revenues in the future will not decrease from past levels.

NeXT's overall gross margins have been and may continue to be impacted by the mix of software licensing revenues, services revenues, technology licensing revenues and research and development contracts revenues, the mix of software products and services sold, the mix of distribution channels used by NeXT, and the mix of international versus domestic revenues. NeXT typically realizes higher gross margins on direct sales than on sales through indirect channels, higher gross margins on technology licensing revenues than on software licensing revenues, higher gross margins on software licensing revenues than on services revenues and higher gross margins on domestic sales than on international sales. If revenues through indirect channels and international sales increase as a percentage of total revenues, as NeXT anticipates, or if software licensing revenues or services revenues increase as a percentage of total revenues, NeXT's overall gross margins will be adversely affected. Gross margins in the future may also be adversely affected due to price reductions, especially those made as a result of competitive pressures. NeXT also does not anticipate that it will continue to generate significant technology licensing revenues, which disproportionately contributed to NeXT's overall gross margins in 1994 and 1995. In addition, there can be no assurance that any future products introduced by NeXT will have gross margins equal to or better than NeXT's existing products.

NeXT's operating expenses have generally increased in absolute dollar amounts each quarter since January 1, 1995. This trend reflects NeXT's investment in the infrastructure required to be a complete enterprise solution provider. NeXT plans to increase its operating expenses to expand its sales and marketing operations, diversify its distribution channels, fund greater levels of research and development, broaden its customer support and consulting services capabilities, expand its administrative infrastructure and incur other significant costs related to being a public company. In addition, since 1994, NeXT's Chief Executive Officer, Steven P. Jobs, has received an annual salary of only one dollar. As it is likely that NeXT will seek to hire another person to perform the functions of this position, it is likely NeXT will incur significant additional costs in future periods. Furthermore, NeXT's current operating expense levels are based in part on its expectations of future revenues. Accordingly, to the extent that any such expenses precede or are not subsequently followed by an increase in revenues, NeXT's business, operating results and financial condition will be materially and adversely affected.

Significant Accounting Policies

Software licensing revenues are generally recognized upon shipment, provided that no significant obligations of NeXT remain and collection of the resulting receivable is deemed probable. Product returns and sales allowances (which have not been significant through September 30, 1996) are estimated and provided at the time of sale. Revenues attributable to ongoing maintenance and support are recognized ratably over the term of the maintenance agreement, which is typically twelve months. Payments for maintenance fees are generally made in advance and are non-refundable. Services revenues from training and consulting are recognized when the services are performed or ratably over the life of the agreement. Revenues from technology licensing are recognized upon release of the rights to the technology or achievement of agreed-upon milestones or contractually committed dates. Research and development contracts revenues, which are generally nonrefundable, are recognized upon achievement of agreed-upon milestones. See Note 2 of Notes to Consolidated Financial Statements.

Research and development expenditures have been charged to operations as incurred. Statement of Financial Accounting Standards ("FAS") 86 requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on NeXT's product development process, technological feasibility is established upon completion of a working model. Costs incurred by NeXT between completion of the working model and the point at which the product is ready for general release have been insignificant.

In October 1995, FAS 123, *Accounting for Stock Based Compensation*, was issued and was adopted by NeXT on January 1, 1996. NeXT intends to continue to account for employee stock options in accordance with APB Opinion No. 25 and provide footnote disclosure of the pro forma amounts of compensation expense using the guidance in FAS 123. See Note 2 of Notes to Consolidated Financial Statements.

Results of Operations

The following table sets forth certain operational data as a percentage of total revenues.

	Year Ended December 31,			Nine Months Ended September 30,	
	1993	1994	1995	1995	1996
Revenues:					
Software licensing	70.6 %	52.2%	57.2 %	53.4%	62.7 %
Services	16.5	7.6	22.8	20.8	36.8
Technology licensing	0.3	35.4	16.1	20.7	—
Research and development contracts	12.6	4.8	3.9	5.1	0.5
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenues:					
Software licensing	28.1	10.4	6.2	5.5	6.3
Services	32.3	8.6	17.1	15.6	28.9
Technology licensing	—	0.4	0.4	0.6	—
Research and development contracts	11.7	2.8	0.8	1.0	0.2
Total cost of revenues	72.1	22.2	24.5	22.7	35.4
Gross margin	27.9	77.8	75.5	77.3	64.6
Operating expenses:					
Research and development	62.7	21.5	26.5	25.1	26.1
Sales and marketing	183.2	41.5	36.7	33.7	51.1
General and administrative	36.7	9.5	12.0	11.5	11.6
Total operating expenses	282.6	72.5	75.2	70.3	88.8
Operating income (loss) from continuing operations	(254.7)	5.3	0.3	7.0	(24.2)
Other income (expense):					
Interest, net	(21.8)	(3.2)	(4.5)	(4.2)	(5.9)
Foreign exchange gain (loss)	(4.5)	0.1	(0.1)	(0.1)	(0.7)
Other, net	(0.8)	—	1.0	—	—
Income (loss) before income taxes from continuing operations	(281.8)	2.2	(3.3)	2.7	(30.8)
Income taxes	—	0.1	—	0.2	—
Income (loss) from continuing operations	(281.8)	2.1	(3.3)	2.5	(30.8)
Discontinued operations					
Operating gain	—	—	1.6	—	—
Gain on disposal of discontinued operations	—	—	1.6	—	—
Net income (loss)	(281.8)%	2.1%	(1.7)%	2.5%	(30.8)%

Nine Months Ended September 30, 1995 and 1996

Revenues

Total revenues were $36.1 million and $35.9 million in the nine months ended September 30, 1995 and 1996, respectively. Total revenues reflect the recognition of $7.5 million of revenues under a technology licensing agreement with Sun in the first nine months of 1995. Technology licensing revenues recognized in the first nine months of 1996 were immaterial. Total revenues, excluding technology licensing revenues, increased by $7.2 million, or 25.3%, in the first nine months of 1996 from the same period of 1995.

Software Licensing Revenues. Software licensing revenues consist of fees from licenses of NeXT's software products, predominantly in the NEXTSTEP, OPENSTEP and WebObjects product lines. Software licensing revenues were $19.3 million and $22.5 million in the nine months ended September 30, 1995 and 1996, respectively. Software licensing revenues increased in the first nine months of 1996 over the same period in 1995 due primarily to the commercial releases of NeXT's WebObjects product line in March 1996 and OPENSTEP for Windows NT in June 1996. Prior to 1996, software licensing revenues consisted almost entirely of licensing fees attributable to the NEXTSTEP product line.

Services Revenues. Services revenues consist of fees for consulting, maintenance, support and training services. Services revenues were $7.5 million and $13.2 million in the nine months ended September 30, 1995 and 1996, respectively. Services revenues increased in the first nine months of 1996 over the same period in 1995 due primarily to increased consulting, maintenance, support and training provided to a larger installed base, as well as the introduction in 1996 of new products which resulted in more services provided.

Technology Licensing Revenues. Technology licensing revenues consist of licensing fees from the licensing of certain of NeXT's technology to third parties. Technology licensing revenues were $7.5 million and $11,000 in the nine months ended September 30, 1995 and 1996, respectively. Technology licensing revenues in the first nine months of 1995 reflect the revenues recognized under the technology licensing agreement with Sun. NeXT does not anticipate that it will continue to generate significant technology licensing revenues.

Research and Development Contract Revenues. Research and development contracts revenues consist of fees generated for the provision of research and development services by NeXT's engineering department. Research and development contracts revenues were $1.8 million and $195,000 in the nine months ended September 30, 1995 and 1996, respectively. Research and development contracts revenues decreased in the first nine months of 1996 over the same period in 1995 since contract work related to porting NEXTSTEP to major UNIX platforms was substantially completed in 1995. NeXT does not anticipate that it will continue to generate significant research and development contracts revenues.

International Revenues. International revenues (sales to customers outside of the United States and Canada) were 19.8% and 20.0% of total revenues in the nine months ended September 30, 1995 and 1996, respectively. International sales are generally made in U.S. dollars. NeXT has not engaged in, and does not intend to engage in, foreign currency hedging activities, and, accordingly, international revenues are currently subject to currency exchange fluctuation risk. NeXT anticipates that international revenues will increase as a percentage of total revenues in the future, and, as a result, foreign currency exposure may increase.

Cost of Revenues

Cost of Software Licensing Revenues. Cost of software licensing revenues consists primarily of the costs of product media and duplication, manuals, packaging materials and royalties paid for licensed technology. Cost of software licensing revenues was $2.0 million and $2.3 million in the nine months ended September 30, 1995 and 1996, respectively, representing 10.3% and 10.1%, respectively, of the related revenues.

Cost of Services Revenues. Cost of services revenues consists primarily of salaries and other personnel-related costs incurred in providing maintenance and support, consulting services and training to customers. Cost of services revenues was $5.6 million and $10.4 million in the nine months ended September 30, 1995 and 1996, respectively, representing 75.1% and 78.5%, respectively, of the related revenues. Cost of services revenues increased in dollars and as a percentage of the related revenues in the first nine months of 1996 over the same period in 1995 due primarily to a significant increase in the number and training of consulting personnel.

Cost of Technology Licensing Revenues. Cost of technology licensing revenues consists primarily of the cost of salaries and overhead associated with providing technical assistance. Cost of technology licensing revenues has been relatively insignificant in all periods.

Cost of Research and Development Contract Revenues. Cost of research and development contracts revenues consists primarily of the cost of salaries and overhead associated with the research and development contracts work. Cost of research and development contracts revenues was $365,000 and $71,000 in the nine months ended September 30, 1995 and 1996, respectively, representing 20.0% and 36.4%, respectively, of the related revenues.

Operating Expenses

Research and Development Expenses. Research and development expenses consist primarily of salaries and other personnel-related costs, associated equipment and overhead costs and consulting fees to support product development. Research and development expenses were $9.1 million and $9.4 million in the nine months ended September 30, 1995 and 1996, respectively, representing 25.1% and 26.1%, respectively, of total revenues. Research and development expenses increased in dollars and as a percentage of total revenues in the first nine months of 1996 over the same period in 1995 due to an increase in the number of personnel and associated equipment costs to support the concurrent release of WebObjects and OPENSTEP for Windows NT. NeXT intends to increase the level of research and development expenses in future periods as NeXT adds additional personnel and related support for the development of new products and enhancements to existing products.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries (including sales commissions and bonuses) and other personnel-related costs, consulting fees, trade show expenses, advertising and cost of marketing literature. Sales and marketing expenses were $12.2 million and $18.3 million in the nine months ended September 30, 1995 and 1996, respectively, representing 33.7% and 51.1%, respectively, of total revenues. Sales and marketing expenses increased in dollars and as a percentage of total revenues in the first nine months of 1996 over the same period in the prior year due to an increase in direct sales personnel, systems engineers and marketing personnel. NeXT believes that sales and marketing expenses will increase in absolute dollars in future periods.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries for management and administrative personnel, professional fees and insurance costs. General and administrative expenses were $4.1 million and $4.2 million in the nine months ended September 30, 1995 and 1996, respectively, representing 11.5% and 11.6%, respectively, of total revenues. General and administrative expenses were flat in the first nine months of 1996 versus the same period in the prior year, although there was a slight decrease in personnel in the first nine months of 1996, which was offset by higher legal fees. NeXT expects general and administrative expenses to increase in absolute dollars in future periods as NeXT hires for currently unfilled positions and incurs additional costs related to being a public company, such as expenses related to increased amounts for directors' and officers' insurance, investor relations programs and increased professional fees, and expansion of its administrative staff and facilities.

Other Income (Expense). Other expense consists primarily of interest expense on lines of credit and leases payable and foreign exchange gains and losses. Other expense was $1.6 million and $2.4 million in the nine months ended September 30, 1995 and 1996, respectively. Other expense increased in the first nine months of 1996 as compared to the same period of the prior year due to increases in the utilization of lines of credit to fund operations. See Note 4 of Notes to Consolidated Financial Statements.

Income Taxes. Income taxes were $53,000 and $5,000 in the nine months ended September 30, 1995 and 1996, respectively. Income tax expense in each of these periods represents federal and state alternative minimum taxes after utilization of net operating loss carryforwards.

As of December 31, 1995, NeXT had net operating loss carryforwards of approximately $210 million and $135 million for federal and state income tax purposes, respectively. In addition, NeXT had research and development credit carryforwards of approximately $9 million and $3 million for federal and California income taxes, respectively. If not utilized, these carryforwards will expire beginning in 2001 through 2010. The ability to utilize these net operating loss carryforwards may be limited should NeXT have an "ownership change" as defined by Section 382 of the Internal Revenue Code. See Notes 2 and 6 of Notes to Consolidated Financial Statements.

Years Ended December 31, 1993, 1994 and 1995

Revenues

Total revenues were $14.3 million, $49.6 million and $46.8 million in 1993, 1994 and 1995, respectively. Total revenues increased from 1993 to 1994 due primarily to an increase in software licensing revenues in 1994 and the recognition of $17.5 million in scheduled technology licensing revenues in 1994 pursuant to a technology licensing agreement with Sun. Total revenues decreased from 1994 to 1995 due primarily to the recognition in 1995 of lower scheduled revenues under NeXT's technology licensing agreement with Sun. Total revenues, excluding technology licensing revenues, increased by $17.8 million, or 125.1%, from 1993 to 1994 and by $7.2 million, or 22.5%, from 1994 to 1995, primarily due to an increase in the number of software licenses sold.

Software Licensing Revenues. Software licensing revenues were $10.1 million, $25.9 million and $26.8 million in 1993, 1994 and 1995, respectively. Software licensing revenues increased from 1993 to 1994 primarily due to an increase in the number of software licenses sold and, to a lesser extent, the release in December 1994 of a new release of NEXTSTEP. In addition, NeXT sold software licenses for a full twelve months in 1994 as compared to only seven months in 1993. Software licensing revenues increased modestly from 1994 to 1995, primarily due to revenues associated with increased sales of server-based components of the NEXTSTEP product line.

Services Revenues. Services revenues were $2.4 million, $3.8 million and $10.7 million in 1993, 1994 and 1995, respectively. Services revenues increased from 1993 to 1994 due primarily to the introduction of a formal consulting services program in August 1994. Services revenues increased from 1994 to 1995 due primarily to increased consulting, maintenance, support and training provided to a larger installed base.

Technology Licensing Revenues. Technology licensing revenues were $38,000, $17.6 million and $7.5 million in 1993, 1994 and 1995, respectively. In November 1993, NeXT and Sun entered into a technology licensing agreement under which Sun licensed the rights to port NEXTSTEP to the Solaris operating system and distribute the ported product. As a result, NeXT recognized revenues of $17.5 million in 1994 and $7.5 million in 1995 in license and distribution fees.

Research and Development Contract Revenues. Research and development contracts revenues were $1.8 million, $2.4 million and $1.8 million in 1993, 1994 and 1995, respectively. Research and development contracts revenues increased from 1993 to 1994 due primarily to research and development contracts work for the porting of NEXTSTEP to the Sun Sparc platform. Research and development contracts revenues decreased from 1994 to 1995 due to the completion of several significant contracted research and development projects by early 1995.

International Revenues. International revenues were 17.2%, 15.1% and 19.2% of total revenues in 1993, 1994 and 1995, respectively.

Cost of Revenues

Cost of Software Licensing Revenues. Cost of software licensing revenues was $4.0 million, $5.1 million and $2.9 million in 1993, 1994 and 1995, respectively, representing 39.8%, 19.8% and 10.8%, respectively, of related revenues. Cost of software licensing revenues decreased as a percentage of the related revenues from 1993 to 1994 due primarily to increased revenues from sales of lower royalty-bearing products in 1994. In 1993, in connection with a new release of NEXTSTEP, NeXT also sold starter kits of its NEXTSTEP products at a lower price than in 1994. Cost of software licensing revenues decreased as a percentage of the related revenues from 1994 to 1995 due to a non-recurring credit on third party royalties, reduced ongoing royalty rates and increased revenues in 1995, including revenues from sales of higher margin products.

Cost of Services Revenues. Cost of services revenues was $4.6 million, $4.3 million and $8.0 million in 1993, 1994 and 1995, respectively, representing 195.5%, 113.5% and 75.1%, respectively, of the related revenues. Cost of services revenues decreased as a percentage of the related revenues from 1993 to 1994 primarily due to the increase in services revenues in 1994, somewhat offset by start-up costs associated with NeXT's consulting organization. Cost of services revenues decreased as a percentage of the related revenues from 1994 to 1995 primarily due to the increase in services revenues.

Cost of Technology Licensing Revenues. Cost of technology licensing revenues has been relatively insignificant in all periods.

Cost of Research and Development Contract Revenues. Cost of research and development contracts revenues was $1.7 million, $1.4 million and $365,000 in 1993, 1994 and 1995, respectively, representing 92.6%, 58.3% and 20.0%, respectively, as a percentage of the related revenues. The decrease in cost of research and development contracts revenues as a percentage of the related revenues reflects increased use of cost plus contracts as opposed to cost recovery contracts.

Operating Expenses

Research and Development. Research and development expenses were $8.9 million, $10.7 million and $12.4 million in 1993, 1994 and 1995, respectively, representing 62.7%, 21.5% and 26.5%, respectively, of total revenues. Research and development expenses increased in dollars from 1993 to 1994 primarily due to an increase in the number of personnel and associated costs, but decreased as a percentage of total revenues, due to increased total revenues in 1994. Research and development expenses increased in both dollars and percentage of total revenues from 1994 to 1995, primarily due to increased costs incurred for the development of the OPENSTEP and WebObjects product lines. Research and development expenses as a percentage of total revenues also increased due to a decrease in total revenues in 1995.

Sales and Marketing. Sales and marketing expenses were $26.2 million, $20.6 million and $17.2 million in 1993, 1994 and 1995, respectively, representing 183.2%, 41.5% and 36.7%, respectively, of total revenues. Sales and marketing expenses decreased in dollars and as a percentage of revenues from 1993 to 1994 primarily due to a decrease in staffing and lower associated costs as part of cost containment measures. Sales and marketing expenses as a percentage of total revenues also decreased from 1993 to 1994 due to an increase in total revenues in 1994. Sales and marketing expenses decreased in dollars and as a percentage of revenues from 1994 to 1995 primarily due to a decrease in staffing and lower associated costs.

General and Administrative. General and administrative expenses were $5.2 million, $4.7 million and $5.6 million in 1993, 1994 and 1995, respectively, representing 36.7%, 9.6% and 12.0%, respectively, of total revenues. General and administrative expenses decreased from 1993 to 1994 primarily due to lower legal expenses in 1994. General and administrative expenses as a percentage of total revenues also decreased from 1993 to 1994 due to an increase in total revenues in 1994. General and administrative expenses increased in both dollars and as a percentage of total revenues from 1994 to 1995 due primarily to an increase in staffing. General and administrative expenses as a percentage of total revenues also increased from 1994 to 1995 due to a decrease in total revenues in 1995.

Other Income (Expense), Net. Other expense was $3.9 million, $1.5 million and $1.7 million in 1993, 1994 and 1995, respectively. Other expense decreased from 1993 to 1994 due to lower service on debt as a result of conversion by Canon to equity of $25 million in debt in January 1994. Other expense for 1995 as compared to 1994 reflects increased debt servicing offset by a credit from a value added tax matter in Europe that was resolved favorably for NeXT.

Income Taxes. Income taxes were $3,000, $74,000 and $9,000 in 1993, 1994 and 1995, respectively. Income tax expense in each of these periods represents federal and state alternative minimum taxes (after utilization of net operating loss carryforwards).

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Discontinued Operations. NeXT recorded a loss on disposal of discontinued operations upon its decision to exit the workstation business in 1992. This $20 million charge, of which $5.8 million remains as of September 30, 1996, was associated with future lease commitments relating to real estate and equipment no longer used in continuing operations, the excess of cost over net realizable value for certain materials, the writedown of certain leasehold improvements and their property and equipment, and other estimated legal, tax and accounting expenses to be incurred in connection with NeXT's departure from the workstation business. Results of operations for 1995 include a $750,000 gain from the resolution of an inventory-related exposure which had been accrued in 1992 as part of the estimated loss on disposal of discontinued operations. See Note 11 of Notes to Consolidated Financial Statements.

Selected Quarterly Results of Operations

The following table sets forth certain unaudited quarterly consolidated statement of operations data, both in dollar amount and as a percentage of total revenues, for each of the seven quarters ended September 30, 1996. In the opinion of management, this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in this prospectus, and all necessary adjustments, consisting of only normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of NeXT and related notes thereto. The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Three Months Ended						
	March 31, 1995	June 30, 1995	September 30, 1995	December 31, 1995	March 31, 1996	June 30, 1996	September 30, 1996
				(in thousands)			
Revenues:							
Software licensing	$ 5,902	$ 6,363	$ 7,030	$ 7,467	$ 5,267	$ 8,573	$ 8,658
Services	1,752	2,865	2,907	3,148	3,450	4,309	5,431
Technology licensing	7,500	—	—	43	—	10	2
Research and development contracts	879	825	125	—	63	31	101
Total revenues	16,033	10,053	10,062	10,658	8,780	12,923	14,192
Cost of revenues:							
Software licensing	421	785	786	903	721	723	827
Services	1,506	2,090	2,051	2,364	2,949	3,247	4,153
Technology licensing	208	—	—	—	—	—	—
Research and development contracts	290	75	—	—	27	28	16
Total cost of revenues	2,425	2,950	2,837	3,267	3,697	3,998	4,996
Gross margin	13,608	7,103	7,225	7,391	5,083	8,925	9,196
Operating expenses:							
Research and development	2,848	2,998	3,228	3,338	3,563	3,116	2,688
Sales and marketing	3,861	3,939	4,390	4,968	5,404	6,267	6,663
General and administrative	1,443	1,327	1,372	1,486	1,297	1,497	1,390
Total operating expenses	8,152	8,264	8,990	9,792	10,264	10,880	10,741
Operating income (loss) from continuing operations	5,456	(1,161)	(1,765)	(2,401)	(5,181)	(1,955)	(1,545)
Other income (expense):							
Interest, net	(567)	(457)	(499)	(566)	(618)	(693)	(825)
Foreign exchange gain (loss)	41	(66)	(18)	(5)	(60)	(80)	(106)
Other, net	8	1	2	456	1	—	7
Income (loss) from continuing operations before income taxes	4,938	(1,683)	(2,280)	(2,516)	(5,858)	(2,728)	(2,469)
Income taxes	7	31	15	(44)	(4)	9	—
Income (loss) from continuing operations	4,931	(1,714)	(2,295)	(2,472)	(5,854)	(2,737)	(2,469)
Discontinued operations							
Operating gain	—	—	—	750	—	—	—
Net income (loss)	$ 4,931	$(1,714)	$(2,295)	$(1,722)	$(5,854)	$(2,737)	$(2,469)

	Three Months Ended						
	March 31, 1995	June 30, 1995	September 30, 1995	December 31, 1995	March 31, 1996	June 30, 1996	September 30, 1996
Revenues:							
Software licensing	36.8%	63.3%	69.9%	70.1%	60.0%	66.4%	61.0%
Services	10.9	28.5	28.9	29.5	39.3	33.3	38.3
Technology licensing	46.8	—	—	0.4	—	0.1	—
Research and development contracts	5.5	8.2	1.2	—	0.7	0.2	0.7
Total revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenues:							
Software licensing	2.6	7.8	7.8	8.5	8.2	5.6	5.8
Services	9.4	20.8	20.4	22.2	33.6	25.1	29.3
Technology licensing	1.3	—	—	—	—	—	—
Research and development contracts	1.8	0.8	—	—	0.3	0.2	0.1
Total cost of revenues	15.1	29.4	28.2	30.7	42.1	30.9	35.2
Gross margin	84.9	70.6	71.8	69.3	57.9	69.1	64.8
Operating expenses:							
Research and development	17.8	29.8	32.1	31.3	40.6	24.1	18.9
Sales and marketing	24.1	39.2	43.6	46.6	61.5	48.5	47.0
General and administrative	9.0	13.2	13.6	13.9	14.8	11.6	9.8
Total operating expenses	50.9	82.2	89.3	91.8	116.9	84.2	75.7
Operating income (loss) from continuing operations	34.0	(11.6)	(17.5)	(22.5)	(59.0)	(15.1)	(10.9)
Other income (expense):							
Interest, net	(3.5)	(4.5)	(5.0)	(5.3)	(7.0)	(5.4)	(5.8)
Foreign exchange gain (loss)	0.3	(0.7)	(0.2)	(0.1)	(0.7)	(0.6)	(0.7)
Other, net	—	—	—	4.3	—	—	—
Income (loss) from continuing operations before income taxes	30.8	(16.8)	(22.7)	(23.6)	(66.7)	(21.1)	(17.4)
Income taxes	—	0.3	0.1	0.4	—	0.1	—
Income (loss) from continuing operations	30.8	(17.1)	(22.8)	(23.2)	(66.7)	(21.2)	(17.4)
Discontinued operations							
Operating gain	—	—	—	7.0	—	—	—
Net income (loss)	30.8%	(17.1)%	(22.8)%	(16.2)%	(66.7)%	(21.2)%	(17.4)%

Software licensing revenues increased in each quarter of 1995, primarily as existing customers purchased upgrades and maintenance of products in the NEXTSTEP product line and, to a lesser extent, as new customers purchased NEXTSTEP. In August 1995, NeXT also notified these customers that they would be able to deploy OPENSTEP for Windows NT upon its release in 1996. In the first quarter of 1996, NeXT believes that revenues declined from the fourth quarter of 1995 because customers deferred purchases of NEXTSTEP until the release of OPENSTEP. However, software licensing revenues increased in the second and third quarters of 1996 following the introduction of NeXT's WebObjects product lines in the first quarter of 1996 and OPENSTEP in the second quarter of 1996. Services revenues were generally higher in the first three quarters of 1996 than in the four quarters of 1995. This increase resulted from a rise in consulting and training engagements, as customers developed applications using its new WebObjects and OPENSTEP product lines. Cost of software licensing revenues decreased as a percent of the related revenues in the second and third quarters of 1996 as compared to the two prior quarters due to increased sales of lower royalty-bearing products. Cost of services revenues increased in each quarter of 1995 and 1996 due to staffing increases.

Operating expenses have generally increased in dollar amount quarter to quarter due to increased staffing related expenses. Research and development expenses as a percent of total revenues increased in the first quarter of 1996 due to a decline in total revenues and the hiring of new engineers to support NeXT's late-stage development and release of its new WebObjects and OPENSTEP product lines. During the second and third quarters of 1996, research and development expense as a percentage of total revenues declined due to an increase in total revenues and due to costs associated with the concurrent release of the WebObjects and OPENSTEP for Windows NT products incurred in the last quarter of 1995 and the first quarter of 1996. Sales and marketing expenses were higher in the first three quarters of 1996 as NeXT aggressively expanded its sales, sales support and marketing capabilities and increased its advertising and public relations expenditures. [Insert to come from JNS]

NeXT's quarterly operating results have varied significantly in the past and are likely to continue to vary significantly in the future. Such fluctuations may be caused by many factors, including demand for NeXT's products, introduction, enhancement or announcement of products by NeXT and its competitors, market acceptance of new products, size and timing of significant orders, budgeting cycles of its customers, variability of the receipt of orders from government customers, mix of distribution channels, mix of products and services sold, announcements or enactments of pricing changes by NeXT or its competitors, changes in the level of operating expenses, mix of international and domestic revenues, the effect of, and changes in, NeXT's sales incentive plans, customer order deferrals in anticipation of enhancements of new products offered or announced by or changes in pricing policies of, NeXT or its competitors and general economic conditions. In particular, NeXT plans to increase its operating expenses to expand its sales, marketing and consulting operations, expand its distribution channels, fund greater levels of research and development, broaden its customer support and consulting services capabilities and increase its administrative infrastructure. The timing of such expansion and the rate at which NeXT's new salespeople or consultants become productive could also cause material fluctuations in NeXT's quarterly financial condition or results of operations.

The operating results of many software companies reflect seasonal trends, and NeXT expects to be affected by such trends in the future. NeXT believes that the capital spending cycles of its customers as well as the efforts of NeXT's direct sales force to meet year-end sales quotas will result in NeXT experiencing relatively higher revenues in the second half of a year than in the first half of such year. In addition, to the extent international operations constitute a higher percentage of NeXT's total revenues, NeXT anticipates that it may also experience relatively weaker demand in the quarter ending September 30 as a result of reduced international sales activity during the summer months.

Liquidity and Capital Resources

NeXT has financed its operations primarily through private sales of equity securities and borrowings from banks and shareholders and, to a lesser extent, through technology licensing fees, deferred revenue and funding for contract research and development work.

Net cash provided by (used in) operating activities was $(6.6) million, ($5.0) million and $(3.0 million) in 1993, 1994 and 1995, respectively, and $1.1 million and $(12.2) million in the nine months ended September 30, 1995 and 1996, respectively. Net cash used in operating activities in 1993 reflects the substantial losses incurred and charges taken upon exited the workstation business as is evidenced from accounts payable, accrued expenses, and accrued discontinued operations. Net cash used in operating activities in fiscal 1994 and 1995 reflects an increase in accounts receivable associated with increased revenues, accounts payable, accrued liabilities, and charges taken to accrued discontinued operations for expenses to be incurred as a result of NeXT's departure from the workstation business. Net cash provided in the nine months ended September 30, 1995 resulted primarily from the increase in net income. Net cash used in the nine months ended September 30, 1996 reflected lower net income and lower deferred revenue. Deferred revenue represents amounts received from customers for support, software maintenance, and software in advance of revenue recognition by the Company. Deferred revenue will fluctuate based on the level of sales, as well as, the timing of product shipments.

Net cash used in investing activities was $88,000, $500,000, and $1.5 million in 1993, 1994 and 1995, respectively, and was $(1.4) million and $(1.4) million in the nine months ended September 30, 1995 and 1996, respectively. In fiscal 1993, 1994, 1995 and for the nine months ended September 30, 1996, NeXT's investing activities have consisted primarily of purchases of property and equipment, primarily computer hardware, to support NeXT's development efforts and growing employee base. Capital expenditures in fiscal 1993, 1994 and 1995 totaled $1.3 million, $0.9 million, $1.6 million, respectively. For the nine months ended September 30, 1996, capital expenditures were $1.2 million. At September 30, 1996, NeXT did not have any material commitments for capital expenditures.

Net cash provided by financing activities was $11.9 million, $100,000 and $2.3 million in 1993, 1994 and 1995, respectively, and was $0.4 million and $15.3 million in the nine months ended September 30, 1995 and 1996, respectively. Net cash provided by financing activities in 1993 was primarily attributable to equity issuances. Net cash provided by financing activities in 1994 was primarily attributable to notes receivable from shareholders offset by repayments on borrowings. Net cash provided by financing activities in 1995 and the nine months ended September 30, 1996 was primarily attributable to the issuance of short term notes.

At September 30, 1996, NeXT had $2.1 million in cash and cash equivalents and in October 1996, the Company increased the available line with Morgan Guaranty by $4 million.

At September 30, 1996, NeXT's material debt obligations consisted of the following:

Canon Loan Agreement. As of September 30, 1996, NeXT had a remaining balance of approximately $28.2 million outstanding under the term loan agreement with Canon dated July 27, 1992, as amended (the "Canon Loan Agreement"). Principal amounts outstanding under the Canon Loan Agreement accrue interest at LIBOR plus 20 basis points, determined on a periodic basis depending on the date of the particular advance. Of such principal amounts, $20.0 million of the outstanding balance bore interest at 6.39% as of September 30, 1996 and matures on April 27, 1997 and $8.2 million of the outstanding balance bore interest at 6.08% as of September 30, 1996 and matures on May 20, 1997. Accrued interest aggregated approximately $300,000 as of September 30, 1996, all of which was subsequently paid in July and August. Amounts outstanding under the Canon Loan Agreement are collateralized by certain intangible assets, including certain patents and patent applications. Pursuant to the Canon Loan Agreement, NeXT's accounts receivable may also become collateral for such amounts. Either NeXT or Canon may convert any or all of the then outstanding principal into NeXT Common Stock upon a firm commitment public offering aggregating $75 million or greater of NeXT's equity securities at a per share price equal to NeXT's initial public offering price. In October 1996, NeXT notified Canon that it intends to convert all principal amounts outstanding under the Canon Loan Agreement into shares of Common Stock upon consummation of the offerings. The Canon Loan Agreement prohibits NeXT from paying cash dividends on any of its preferred or common stock and also prohibits, among other things, any redemption, purchase or other acquisition of NeXT's outstanding shares other than repurchases under employee benefit plans. See "Certain Transactions — Relationship with Canon Inc." and Note 4 of Notes to Consolidated Financial Statements.

Morgan Guaranty Note. NeXT also has a unsecured demand promissory note with Morgan Guaranty ("The Morgan Guaranty Note") which is personally guaranteed by NeXT's Chief Executive Officer. The Morgan Guaranty Note, which was increased to $15 million in October 1996 from $11 million in September 1996 bears interest at the prime rate. Borrowings under the Morgan Guaranty Note were $11 million as of September 30, 1996. The prime rate was 8.25%. Amounts outstanding under the Morgan Guaranty Note are due on demand. NeXT agreed to pay $9 million of the outstanding principal amount of the Morgan Guaranty Note with the net proceeds of the offering pursuant to an agreement entered into in connection with the agreement of NeXT's Chief Executive Officer to personally guarantee increases in the Morgan Guaranty Note.

Merrill Lynch Business Financial Services Line of Credit. NeXT has a line of credit (the "MLBFS Line of Credit") of $8.0 million with MLBFS. Borrowings under the MLBFS Line of Credit were fully utilized as of June 30, 1996. Of the total amounts outstanding under the MLBFS Line of Credit, 20% (up to a maximum of $2.0 million) are personally guaranteed by NeXT's Chief Executive Officer. Interest accrues at the 30-day commercial paper rate plus 2.50% (8.0% as of September 30, 1996). The maturity date for the principal amount outstanding under the MLBFS Line of Credit is March 1997 or upon completion of an initial public offering. Pro forma balance sheet and Shareholder Equity Statements reflect Merrill Lynch's conversion of $8.0 million in debt into common stock at the IPO. See "Certain Transactions" and Note 4 of Notes to Consolidated Financial Statements.

Deferred revenues consist of the unrecognized portion of software licensing and services revenues received pursuant to maintenance and support contracts and payments received in advance for unreleased products. Significant obligations resulting in the deferral of revenues relate primarily to software upgrades and maintenance and support yet to be provided. Deferred revenues were $11.6 million, $11.7 million and $11.3 million as of December 31, 1993, 1994 and 1995, respectively, and $8.8 million as of June 30, 1996. As of December 31, 1995, Deferred Revenue was comprised of $6.7 million in software licensing prepayments, $2.8 million in Software Maintenance, and $1.8 million in support. As of September 30, 1996, Deferred Revenue was comprised of $4.6 million in Software maintenance, $2.9 million in software licensing revenue prepayments, and $0.8 million in support and training. NeXT expects deferred revenues to decrease in future periods.

Capital expenditures were approximately $1.3 million, $506,000 and $1.6 million in 1993, 1994 and 1995, respectively, and $928,000 in the six months ended September 30, 1996. NeXT has no material commitments other than the debt arrangements described above and obligations under capital and operating leases for equipment and facilities. See Notes 4 and 5 of Notes to Consolidated Financial Statements.

At September 30, 1996, NeXT's principal source of liquidity was approximately $2.1 million in cash and cash equivalents and $724,000 in short term investments. NeXT believes that the net proceeds from this offering, together with available funds and cash flows expected to be generated by operations, will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for at least the next twelve months. Thereafter, if cash generated by operations is insufficient to satisfy NeXT's liquidity requirements, NeXT may sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities will result in additional dilution to NeXT's shareholders.

BUSINESS

NeXT develops, markets and supports software that enables customers to easily and quickly implement business applications on the Internet/Web, intranets and enterprise-wide client/server networks. NeXT provides customers with standards-based solutions that offer a unique combination of functionality, scalability, reliability and performance. NeXT's WebObjects product line is designed to allow the rapid development of dynamic, server-based applications for the Internet/Web and intranets that enable organizations to extend their market presence, to enhance their customer interactions and to improve workforce productivity. NeXT's OPENSTEP product line enables the development and deployment of dynamic business applications on more traditional client/server networks, especially applications that require sophisticated user interfaces or the ability to support complex, high-volume transaction processing. Both WebObjects and OPENSTEP are designed to enable organizations to integrate their existing applications and databases, significantly reduce the time and effort spent on application development and deployment and take greater advantage of the opportunities offered by the Internet/Web, intranets and enterprise-wide client/server networks. Since 1993, NeXT has licensed its software to over 2,000 customers, including AT&T Wireless Services, BBN Planet, British Telecom, Cablevision Systems Corporation, Dow Jones Telerate, Inc., Fannie Mae, Lufthansa Technik AG, MCI, NTT, Nissan, Sabre, SwissBank and U.S. West Communications, Inc.

NeXT believes that it is a technology leader in enabling customers to develop dynamic business applications and that one of its principal competitive advantages derives from its long-term investments in object-oriented technologies. Unlike the products offered by many Internet/Web companies, NeXT's product lines, OPENSTEP and WebObjects, share a technological foundation that has been developed, deployed, tested and proven in the enterprise business solutions market over the past decade.

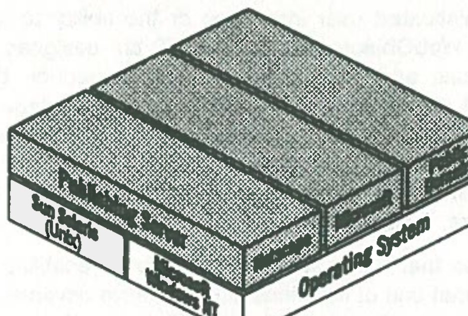
The Market Opportunities and NeXT's Solutions

Organizations are increasingly relying on information technology to provide a strategic competitive advantage by improving access to existing and potential customers, by providing the data and analyses necessary to make more timely, better informed business decisions and by increasing workforce productivity. The advent of the Internet/Web and intranets has dramatically altered the information technology landscape, which had traditionally been dominated by centralized mainframes and, subsequently, distributed enterprise-wide client/server networks. The proliferation of web browsers and the implementation of standards and protocols that are not dependent upon specific hardware or operating systems have significantly increased the potential for organizations to exchange a broad range of information with customers, employees and business partners on a timely basis.

NeXT believes that there are significant market opportunities created by both the tremendous growth of the Internet/Web and intranets and the continuing growth of more traditional enterprise-wide client/server networks within organizations. NeXT's WebObjects and OPENSTEP enterprise solutions, which operate on Windows NT or UNIX-based operating systems, are designed to enable organizations to develop and deploy dynamic business applications on the Internet/Web, intranets and enterprise-wide client/server networks. WebObjects is designed specifically for the Internet/Web and intranet environments which are characterized by "thin" clients (clients with little or no business application logic), "fat" servers (servers with substantial business application logic) and accelerated development cycles. OPENSTEP is designed to allow developers to take advantage of the more sophisticated user interfaces and large-scale deployments enabled under traditional enterprise-wide client/server environments. Organizations using WebObjects or OPENSTEP can easily migrate their business applications between and among the Internet/Web, their intranets and their enterprise-wide client/server networks. Furthermore, as these technologies converge, NeXT believes that it is well positioned to deliver to its customers software and services that enable comprehensive business application solutions.

The Internet/World Wide Web Market Opportunity

NeXT believes that the emergence of the Internet/Web infrastructure can provide organizations with significant new business opportunities by improving access to existing and potential customers, by improving customer service through better communication and by enhancing workforce productivity through easier access to business applications and information across the enterprise. However, most organizations have been unable to capitalize fully on these opportunities because of the lack of high-performance, dynamic, scalable Internet/Web software applications that provide more than static information.

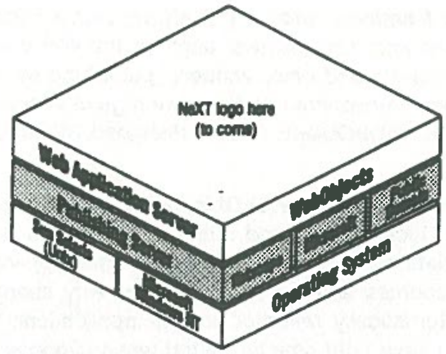


Today, the Internet/Web is primarily a medium for publishing information. A publishing server (running software from Netscape, Microsoft or other vendors) resides on top of an operating system, such as Windows NT or UNIX-based operating systems, and is accessed from the client desktop using a web browser. The browser displays the accessed web page, which usually consists of static information that needs to be manually updated and is unlikely to be readily customizable to the user. Many companies provide filtering and searching software, but this software only accesses pre-built pages of information. As the number of web pages and the information contained in them increases, the inability of existing web development tools to enable the creation and customization of the web page content "on the fly" can be a serious impediment to an organization's ability to maximize the opportunity to develop and deploy Internet/Web-based business solutions. Dynamic web pages, however, allow organizations to provide better access to information through customized responses to users' requests, while at the same time greatly reducing the time and effort required to keep that information available and up-to-date.

NeXT believes that the publishing of information and accessing of applications on the Internet/Web, intranets and enterprise-wide client/server networks is rapidly evolving. Information published on the Internet/Web and intranets has been primarily static, and dynamic applications are needed to create web page content "on the fly" in response to specific user requests for information in existing applications and databases. While dynamic Internet/Web applications represent a significant improvement in interactivity over static publishing applications, traditional client/server networks still remain better suited to running certain applications, especially those handling high-volume, complex transactions or requiring sophisticated user interfaces. NeXT believes, however, that as Internet/Web and intranet technologies mature, they will acquire more of the capabilities of existing client/server technologies.

WebObjects

WebObjects is designed to enable organizations to develop and deploy high-performance, dynamic, scalable Internet/Web applications quickly, easily and at reduced cost. WebObjects is a server-based technology that connects an organization's existing data and applications directly to a web server while automatically building HTML pages in response to customer requests made through any standard web browser.



WebObjects significantly shortens and simplifies development cycles by allowing developers to focus on the creation of relevant business logic. WebObjects handles the complexities associated with accessing data and generating HTML to form a complete, dynamic Internet/Web application.

WebObjects provides the following benefits:

Flexible, Dynamic Internet/Web Applications. WebObjects enables organizations to create dynamic Internet/Web applications in which web pages are built "on the fly" in response to user requests. These dynamic Internet/Web applications can be programmed to access enterprise databases and information, as well as link with other web sites, to update the information displayed in the web browser. WebObjects applications are able to draw on a variety of data sources, thereby reducing the need to employ significant resources to manually update static web pages. This is particularly important for those applications that contain or access information that changes frequently. In addition, WebObjects provides developers with a significant degree of flexibility in building applications by allowing the reuse, editing and integration of pre-built and customized objects.

Significantly Reduced Development Times. By employing WebObjects, NeXT's object-based technology enables customers to significantly reduce development times by allowing developers to integrate a wide range of software components. Many pre-built, customizable modules are included in NeXT's products to reduce application development time. In addition, WebObjects supports many specialized components offered by third parties and components built by customers. Object-oriented development also provides a parallel and iterative development process enabling a division of labor for building applications. Programmers can break down complex applications into manageable pieces, or objects, and develop and test them separate from the entire system. When objects are completed, they can be easily integrated into a final application.

Improved Scalability and Performance. WebObjects enables organizations to significantly improve the scalability and performance of applications by optimizing existing hardware and supporting a distributed application environment. WebObjects allows multiple application processes running on a single application server to handle large volumes of requests and utilize the full capacity of the hardware. When the number of requests exceeds the capabilities of the machine, WebObjects is easily configured, without additional programming, to dynamically distribute the load across a pool of application servers for parallel processing.

Integration of Applications, Databases and Legacy Systems. WebObjects enables an organization to integrate its applications, databases and legacy systems with new and existing applications. This allows organizations to preserve the value of their investment in information technology while potentially revitalizing existing applications and preserving business rules by readily transitioning them to the Internet/Web and intranet environments. WebObjects enables integration with data residing in Oracle, Sybase, Informix and ODBC-compliant databases, Windows applications through OLE and, through third-party offerings, a number of mainframe systems.

Support for Dominant Industry Platforms and Technologies. WebObjects works with industry standard platforms and technologies, such as the Windows NT, Solaris and HP-UX operating systems, Microsoft's, Netscape's and other vendors' publishing servers and standard web browsers. In addition, WebObjects allows developers to take advantage of client-side technologies, such as Java, ActiveX and third-party plug-ins. WebObjects is also designed to interoperate with new Internet/Web standards as they emerge.

Ease of Maintainability. WebObjects allows developers to isolate an application's business logic from surrounding technologies and store it centrally on an application server. The business logic can access multiple data sources and be reused in other applications while remaining separate from both the underlying data sources and the user interface. Any changes in business logic, therefore, are made in isolation and automatically reflected in any applications that subsequently access it. Consequently, organizations can save both time and effort when changes in business logic are required to be reflected across the enterprise and thereby avoid the high cost of maintaining applications whose code is duplicated throughout the network.

Products

The WebObjects product line includes WebObjects Enterprise and WebObjects Pro. The WebObjects product line was announced in August 1995. Release 1.0 was first shipped in March 1996, Release 2.0 was first shipped in June 1996, and Release 3.0 was first shipped in October 1996. An introductory version of WebObjects is available for free by downloading it from the NeXT web site and is intended for basic applications that do not require scalability or integration with existing applications or data.

WebObjects Enterprise. WebObjects Enterprise is NeXT's complete solution for building enterprise-wide dynamic web applications. Among its significant features:

- WebObjects integrates with data residing in Oracle, Sybase, Informix and ODBC-compliant databases and, through third-party offerings, a number of mainframes;
- WebObjects provides a true multi-tier architecture that separates business logic from data sources and the user interface, promoting improved reusability, allowing the integration of multiple data sources and enhancing application scalability and performance;
- WebObjects is based on an open architecture that is compatible with client-based web technologies for enhanced multimedia user interfaces, such as Java, ActiveX and plug-ins;
- WebObjects applications run on both Windows NT and UNIX servers and interface with existing web servers through the Common Gateway Interface, as well as server-specific application programming interfaces ("APIs") from Microsoft and Netscape;
- WebObjects can access OLE automation capabilities, whether on the same server or across the network;
- WebObjects supports both scripted and compiled languages, including Java Script, VisualBasic Script, C, C++ and Objective C; and
- WebObjects supports current security standards, such as S-HTTP and SSL, and provides enhanced security with user authentication capabilities. WebObjects is also compatible with standard network firewall systems.

In September 1996, WebObjects Enterprise was awarded the PC Magazine Editor's Choice Award. The price for WebObjects Enterprise starts at $30,000.

WebObjects Pro. WebObjects Pro is a mid-level product suitable for less complex applications that need to work with existing applications and ODBC databases. Developers can use WebObjects Pro to build robust commercial applications for the Internet/Web or "webbify" existing applications for an intranet. The price for WebObjects Pro starts at $6,000.

Release 3.0. NeXT began shipping Release 3.0 of its WebObjects product line in October 1996. Release 3.0 is designed to increase the interactivity of web applications by allowing Java applets on the client to communicate directly with the server, so that data in web pages can be refreshed without having to reload the entire page. Release 3.0 also incorporates WebObjects Builder, a complete graphical development environment designed for rapid development of WebObjects applications, providing drag and drop integration of data and Java applets onto HTML pages. In addition, by the end of 1996, NeXT intends to offer an add-on to Release 3.0 to enable Java developers to write server-based WebObjects applications entirely in Java allowing such developers to take advantage of the scalability, database access and performance available in WebObjects.

Customers

The following is a representative list of NeXT's customers that have licensed WebObjects Enterprise:

Communications
Bellsouth Telecommunications, Inc.
British Telecom
Hearst New Media & Technology

Financial/Insurance
Abeille Vie
General Electric Capital Corp.
Merrill Lynch & Co., Inc.

Government
City of Baltimore
Fannie Mae
NASA Goddard Space Flight Center
NCCOSC RDTE (U.S. Navy)
U.S. Department of Agriculture
U.S. Postal Service

Manufacturing
Bosch
Dell Computer Corporation
Hitachi, Ltd.
Motorola, Inc.
Nissan
Raychem Corporation
Toyota Motor Corp.
UB Networks, Inc.

Solution Provider/Distributor
Digital Equipment Corporation
Internet Systems, Inc.
Memphis Online, Inc.
Poweragent

Transportation
Sabre
Skyway Freight Systems, Inc.
Lufthansa Technik AG
Marine Terminals Inc.

Other
Bozell, Jacobs Kenyon and Eckhardt, Inc.
Capital Radio PLC
Cyberslice
Gage Marketing Group, LLC
Intermountain Health Care, Inc.
KN Energy, Inc.
Sharper Image Corporation

WebObjects has been used in the development and deployment of many web-based applications, including the following:

Dell Computer Corporation. Dell Computer, a personal computer manufacturer, uses WebObjects for the Dell Store, an Internet/Web-based application. Built in four weeks, it provides up-to-the minute pricing, configuration information, and online ordering capabilities to Dell Computer's customers. The Dell Store also provides secure payment, financing options and order delivery status. Dell Computer chose WebObjects to provide synchronization of corporate data with the information customers see on the Internet/Web which is critical in a market where prices change daily. Dell Computer plans to expand its offering to address business-to-business needs such as corporate discounts, pre-arranged payment terms, approved system configurations and management reports.

KN Energy. KN Energy, a public pipeline and utility service company, is the first natural gas transmission company to provide its customers with an interactive pipeline management system on the Internet/Web. KN Energy uses WebObjects to improve customer service to shippers and operators that transport natural gas through its various pipelines and companies. The application manages the nomination process for pipeline capacity and delivery locations to determine availability and scheduling for over 200 customers. The WebObjects application, which was developed and deployed in two months, allows KN Energy to decommission its previous legacy application, and thereby will significantly reduce its ongoing systems maintenance costs.

KPMG Peat Marwick LLP/Sanctuary Woods. KPMG Peat Marwick LLP ("KPMG") has been contracted by Sanctuary Woods, an educational software development company, to implement an interactive website targeted toward children. Using WebObjects, educational software titles with multimedia content will be showcased online. The application is built on top of a Netscape web server and an Oracle database and utilizes client-side plug-ins, such as Macromedia's Shockwave, to provide a high-quality multimedia experience with "thin clients." WebObjects was chosen by KPMG for its flexibility in integrating other web technologies and its ability to facilitate the rapid application development environment which enables them to deploy their site quickly.

The Sharper Image. The Sharper Image, a leading specialty retailer, has replaced its previous online catalog with a dynamic, customizable WebObjects-based application that provides significant benefits in terms of enhanced flexibility and maintainability and that substantially reduced development and deployment times. The previous online catalogue was based on static HTML pages that required time-intensive manual updating to incorporate frequent product information additions or changes. With the new online catalog, product information is readily updated by Sharper Image personnel who are not programmers. In addition, WebObjects enabled The Sharper Image to construct the GiftFinder, which allows customers to state their product preferences and, in response, creates a customized catalog based on those preferences. NeXT technology has enabled The Sharper Image to both streamline operations and enhance customer interaction.

The Client/Server Market Opportunity

While many organizations are developing and deploying applications on the Internet/Web and intranets, NeXT believes that enterprise-wide client/server networks will continue to play significant roles for organizations for the foreseeable future. In particular, the distributed client/server environment currently enjoys some advantages relative to the Internet/Web, including:

- more sophisticated user interfaces,
- more robust enterprise-wide development tools, and
- proven scalability and reliability in high volume, complex transaction environments.

Nevertheless, distributed enterprise-wide client/server networks are posing significant challenges to information technology managers. The use of different hardware platforms, operating systems, software applications and databases has fostered the development of islands of information within organizations and has jeopardized the ability of many of these organizations to access information resources across departmental or divisional boundaries.

With respect to enterprise-wide client/server networks, NeXT views Microsoft's latest offerings of Windows 95, Windows NT and the BackOffice suite as the target platforms upon which NeXT will add value. NeXT's products are developed to complement Microsoft's offerings and expand their capabilities so that developers can rapidly build dynamic applications that span the enterprise. In addition, NeXT also views the UNIX operating system as a platform with growth potential for application development.

OPENSTEP

OPENSTEP is an object-oriented development environment for developing and deploying enterprise-wide, dynamic business applications across Windows NT and UNIX-based platforms. OPENSTEP includes sets of pre-assembled, compiled objects that provide common application functionality. This allows developers to focus primarily on building core business logic, which can then be reused to achieve significant savings in time and effort.

OPENSTEP provides in the client/server environment many of the same benefits that WebObjects provides in the Internet/Web or intranet environments, including the ability to build flexible, dynamic business applications; significant reductions in development time; integration of existing applications, databases and legacy systems; and support for dominant industry platforms and technologies. OPENSTEP also provides these additional benefits:

Supports Large-Scale, Enterprise-Wide Deployments. OPENSTEP has been used successfully to develop and deploy applications that support thousands of users in high volume, complex transaction environments. OPENSTEP's object-oriented design facilitates the use of application partitioning and other methods of promoting scalability and enhancing performance. Business applications built using OPENSTEP are designed to scale across their networks and maintain performance levels even in the face of significant increases in user activity.

Creation of Customized User Interfaces. The level of sophistication of client/server user interfaces exceeds those currently available on the Internet/Web and intranets, even with the advent of such technologies as Java, ActiveX and plug-ins. OPENSTEP is designed to enable developers to create customized user interfaces that provide for real-time interaction, easy-to-use ergonomic design, quick navigation of the network, access to multiple screens simultaneously and the ability to tie into other applications.

Quick Deployment on the Internet/World Wide Web. Applications developed with OPENSTEP can be quickly deployed on the Internet/Web and intranets using WebObjects because the client/server applications can share business logic with the WebObjects applications and the back-end functionality and connectivity do not need to be significantly rewritten. This provides an opportunity for organizations to move their OPENSTEP applications to these new media with minimal development time and effort.

Products

The OPENSTEP product line includes OPENSTEP Enterprise and OPENSTEP for Mach. OPENSTEP for Mach, formerly known as NEXTSTEP, was introduced in late 1989 and has gone through four major product releases. OPENSTEP Enterprise was announced in August 1996 and was first shipped in September 1996. OPENSTEP Enterprise includes an updated version of OPENSTEP for Windows NT, which was first shipped in June 1996, and other bundled software. OPENSTEP applications are compatible across all OPENSTEP platforms, providing a migration path for those customers wishing to move to OPENSTEP Enterprise from OPENSTEP for Mach.

OPENSTEP Enterprise. OPENSTEP Enterprise is the OPENSTEP solution for Windows-based client/server systems. It incorporates a Windows NT application development environment and is deployable on Windows NT, Solaris and HP-UX servers as well as Windows NT clients. It supports integration with major relational databases, mainframe data and applications (through third-party programs) and Microsoft OLE-based applications. Used in conjunction with WebObjects, developers can build applications that span the Internet/Web, intranet and enterprise-wide client/server networks. The price of OPENSTEP Enterprise starts at $5,000.

OPENSTEP for Mach. OPENSTEP for Mach is a UNIX application development environment running on Mach, a proprietary UNIX-based operating system. It supports deployment on Windows NT, Solaris, HP-UX and NEXTSTEP servers as well as Windows NT and NEXTSTEP clients. The price for OPENSTEP for Mach starts at $6,000. OPENSTEP for Mach is primarily intended for existing NEXTSTEP customers transitioning to Windows NT, although certain components continue to be sold on a stand-alone basis.

Customers

The following is a representative list of NeXT's customers that have licensed OPENSTEP products:

Communications
AT&T Wireless Services
British Telecom
France Telecommunications
LA Cellular
MCI
Southwestern Bell Mobile
U.S. West Communications, Inc.
Worldcom Inc.

Distributor/OEM Partner
Bifrost workstations
Computer 2000
Data General Corporation
DArt
Fidelity Investment Co.
Logibec
Microage Corporate Systems
NEC Technologies, Inc.
What! Software
Workstation AG

Financial/Insurance
Dow Jones Telerate, Inc.
First National Bank of Chicago
Industrial Indemnity Company
Merrill Lynch & Co., Inc.
NationsBank-CRT
Phibro Energy USA, Inc.
SHL Systemhouse, Inc.
SwissBank
Ticino Vita
Trimark Investment Management
UBS Securities Inc.
Union Bank of Switzerland

Value Added Resellers
ALI Technologies, Inc.
AMG Industries Inc.
Comnetix
Filoli Information Systems
International Business Machines Corporation
LAM Research Corporation
Mitsubishi Electric U.K.

Internet Service Providers
BBN Planet
Multicom Publishing
ThoughtPort Authority

Government
County of Los Angeles
Fannie Mae
NCCOSC RDTE (U.S. Navy)
U.S. Postal Service

Healthcare
Preferred Health Care
Rush-Presbyterian - St. Luke

Manufacturing
Avnet, Inc.
Motorola, Inc.
Stratus Computer Inc.

System Integrators and Software Developers
Advanced Information Systems
BDM International, Inc.
Lockheed Martin
Perot Systems Corporation
PSW Technologies
Trident Data Systems

Other
Cablevision Systems Corporation
Linklaters & Paines
Pancanadian Petroleum Limited
Bozell, Jacobs Kenyon and Eckhardt, Inc.
Trilobyte, Inc.
VirtualWare Corp.
Entex
Skyway Freight Systems, Inc.
William Morris Agency Inc.

OPENSTEP has been used in the development and deployment of many enterprise-wide client/server applications, including the following representative applications:

AT&T Wireless Services. AT&T Wireless, formerly McCaw Cellular, is one of the largest providers of cellular telephone services in the United States. Using OPENSTEP, AT&T Wireless reengineered its customer service applications and realized significant productivity improvements. For example, these applications have enabled AT&T Wireless to electronically sign up new customers, verify credit, suggest appropriate billing terms and quickly activate cellular service, reducing cellular activation time from over one hour to under seven minutes. AT&T Wireless has also utilized NeXT's technology to develop and maintain a billing software application. This application is available across the entire AT&T Wireless enterprise and handles the billing of millions of calls per day in over 100 markets.

Nippon Telephone and Telegraph. NTT is one of the world's largest telecommunications companies. Using NeXT's technology, NTT developed a suite of applications for Intel-based PCs that provide its operators and technicians in local telephone offices with easy access to its telecommunications network information, stored in Sybase databases. For example, its investment planning application allows managers to make planning decisions for upgrading their networks from copper cable to fiber optics. NTT chose NeXT's technology because of the robustness of the application environment and the speed at which they could develop new applications based on previous projects. Its network management system, developed using NEXTSTEP technology, also enabled it to quickly restore portions of its phone networks after the 1995 Kobe earthquake. This application earned them the NTT President's Award in Japan.

[Swissbank. Swissbank is one of the leading derivatives trading firms in the world. Time to market is critical in their business as they model high-end investments. Their competitive advantage is to be the first to market with new forms of securities. Their experienced staff had planned their first development effort to last over one year using competing development tools. NeXT's rapid application development tools enabled their developers to build the application in just weeks. Swissbank's first application using NeXT technology netted them hundreds of millions of dollars in trading profits in the first year alone. Swissbank achieves performance goals with NeXT's distributed application environment. In production since 1993, their global trading system now has thousands of traders using NeXT technology 24 hours a day providing instant response times to their traders in New York, Chicago, London and Tokyo.]

The NeXT Strategy

NeXT's objective is to become the leading provider of dynamic network application software products and services used by organizations to provide their customers, employees and business partners with enhanced service and greater access to business applications and information through the Internet/Web, intranets and enterprise-wide client/server networks. NeXT's strategy includes the following key elements:

Maintain Technology Leadership

NeXT believes that it is the technology leader in enabling customers to develop dynamic business applications and that one of its principal competitive advantages derives from its long-term investments in these technologies. Unlike the products offered by many companies in the Internet/Web environment, the products in NeXT's product lines, OPENSTEP and WebObjects, share a technological foundation that has been developed, deployed, tested and proven in the enterprise business solutions market over the past decade. NeXT's solutions are designed to provide the functionality, scalability, reliability and performance required by customers. NeXT believes that its ten-year investment in technology provides a significant advantage over its potential competitors and, therefore, NeXT intends to continue to invest significant resources in technology to maintain its technology leadership position. NeXT also believes that the ability of its product development team to rapidly design and develop innovative software solutions is a competitive advantage in maintaining technological leadership.

Target the Convergence of the Internet/World Wide Web, Intranets and the Enterprise-Wide Client/Server Markets

NeXT believes that Internet/Web, intranet and enterprise-wide client/server markets are converging and that this trend presents a significant business opportunity for NeXT. NeXT's WebObjects and OPENSTEP product lines are designed to enable organizations to integrate their existing applications and databases, significantly reduce the time and effort spent on application development and deployment and take greater advantage of the opportunities offered by the Internet/Web, intranets and enterprise-wide client/server networks. These product lines also allow applications developed for one environment to be quickly deployed on another. NeXT believes that this capability is unique and positions NeXT well to take advantage of this convergence.

Expand Direct and Indirect Sales Channels on a Global Basis

NeXT believes that its 85-person direct sales force provides NeXT with a significant competitive advantage relative to smaller start-up companies. NeXT intends to continue to invest in building a global direct sales force by hiring experienced software professionals, including enhancing its presence in European and Asian markets. In addition, NeXT plans to continue to leverage its direct sales efforts through the expanded use of indirect channels, including VARs, systems integrators, Internet service providers and software developers.

Foster the Success of Customer Application Development Efforts

NeXT recognizes that the power and sophistication of NeXT's products alone is not sufficient to ensure the success of their customers' application development efforts. Consequently, NeXT has assembled a team of highly trained software engineers to provide consulting and training services, as well as product support, in order to foster the success of customers' application development efforts. As of September 30, 1996, 86 NeXT personnel were dedicated to these efforts and it is expected that they will remain a critical aspect of NeXT's strategy.

Develop Complementary and Value-Added Products Based on Industry Standards

NeXT is committed to developing products that complement and add value to de facto industry standard platforms and technologies offered by vendors such as Microsoft, Netscape and Sun. The technologies that support dynamic network applications are emerging rapidly. New technologies such as Java, ActiveX and plug-ins are expected to have a significant impact on the type and sophistication of applications that organizations will be able to develop and deploy. NeXT's products currently support and complement these technologies and it is NeXT's intention to continue to support them, as well as the technologies that follow.

Technology

Over the past decade, NeXT has developed an object-oriented application software system architecture that is the foundation of both its WebObjects and OPENSTEP product lines. NeXT believes that its technology, which has been market-tested over the last several years, is a significant competitive advantage. Key aspects of NeXT's technology include:

Isolated Application Logic

NeXT customers build applications that separate core business logic from both the database on the server and the user interface on the client. Applications gather data from diverse data sources, such as relational databases or mainframes, and integrate them with the developer's business logic. Developers can reuse business logic both within a single application and across applications, even if the database or user interface is different for each application. Developers can also dynamically replace pieces of an application without having to replace the whole application. For example, developers can modify business logic without altering the user interface or data sources, or they can change underlying data sources without modifying the business logic or the user interface.

Dynamic Object Model

An object model defines the way pools of objects communicate and how they are physically deployed on hardware platforms. Traditional object models are static in nature. If the application needs to change or be redeployed onto more powerful servers, developers need to reprogram the application or the physical distribution the objects and recompile. Dynamic object models provide significant advantages to developers. To modify a particular service, the developer simply edits the object that performs that service, not the entire pool of objects. To add a new service, the developer builds a new object and adds it to the pool of existing objects. Objects in all applications that subsequently look for these services can automatically use the new functionality or adapt to the changes. No other objects have to be modified and applications do not have to be regenerated. Users of any application accessing the new or modified objects perceive the changes no interruption in service.

NeXT's system is built on such a dynamic object model and provides integration with Microsoft's OLE/COM and the OMG's COBRA object standards.

Prebuilt, Reusable Application Modules

NeXT products include application modules, which are sets of ready-to-use objects that come pre-assembled to accomplish common tasks, freeing the developer to focus on building business logic. These application modules handle access to common low-level features, common user interface components and transparent distribution of applications among diverse clients and servers. NeXT's products also provide the capability of easily localizing these modules for use in international markets. Unlike some other vendors, NeXT offers objects that are pre-packaged and can be rapidly assembled, often without compiling the application. Developers can directly reuse objects contained in NeXT libraries, third-party libraries and those libraries built by the customer. Object-oriented development also provides a parallel and iterative development process enabling a division of labor for building applications. Programmers can break down complex applications into manageable pieces, or objects, and develop and test them in parallel to speed application development. When objects are completed, they can be easily integrated into the final application.

Integration with Databases and Legacy Systems

An object in the NeXT environment can integrate business logic with data from diverse sources across the enterprise. Data sources can be added or modified and the object continues to interact with them as though no change occurred. Applications, therefore, function independently of any particular data infrastructure. Developers can use specific database adaptors included in NeXT products to integrate business logic with Oracle, Sybase, Informix and ODBC-compliant databases. The adaptors free developers from having to write extensive SQL commands, as required by most other vendors' products. Developers can also integrate their logic with online data feeds.

In addition, developers can integrate business logic with mainframe data and applications using adaptors provided by third parties. These adaptors access the application and interactively map the information to the dynamic application. At run-time, these objects interact with mainframe data and services transparently, viewing them as just another database. Developers can continue to access and update data through their host applications, preserving the business logic, audit trails and security inherent to the legacy environment.

Transparent Distribution Across the Internet/World Wide Web, Intranets and Enterprise-Wide Client/Server Networks

NeXT's technology enables objects to reside anywhere on a network and communicate as if they all reside within a single application. Objects can reside on the same computer, be distributed among computers on the same local or wide-area network, or be transparently distributed among computers anywhere on the Internet/Web. Objects look the same to an application whether they are local or remote. No special coding is required to create remote objects, so an organization can develop business objects without planning where they will be deployed. When it is time to deploy, the organization can distribute objects wherever it wants among diverse clients, servers and databases. Developers can optimize performance by locating objects where they best balance computation and network requirements. The organization can even redistribute objects to try out different physical layouts without modifying them or recompiling the application.

Integrated Visual Development Environment

In addition to supporting Windows development tools offered by other vendors, NeXT products include an integrated suite of development tools that share a common user interface and user paradigm, making them easier to master. NeXT tools include a source level debugger, a class browser, a project management utility, a web user interface builder and compilers for client and server environments. NeXT's visual development tools facilitate reusing prebuilt modules provided by NeXT or third parties or developed by the customer. Developers do much of the work graphically, dragging and dropping to build user-interface components, mapping business logic to data, and assembling objects.

Sales

NeXT's sales strategy is to pursue customer opportunities worldwide through its field sales force and professional services organizations and to augment those efforts through multiple indirect distributions channels, including VARs, system integrators, Internet service providers and software developers. NeXT's sales strategy is aimed at building relationships with large and mid-sized customers for continued sales and support of NeXT's software products and services, and with VARs, system integrators, Internet service providers and software developers to extend the market presence of NeXT and its software products and services. Because NeXT's products facilitate the customer's sales and marketing and business development efforts, NeXT's direct sales representatives and members of NeXT's indirect sales channels often target a customer's sales, marketing and business development departments, as well as the information technology department, in their sales efforts.

Direct Sales Force. NeXT's direct sales force sells its products and services primarily to large and mid-sized customers on a worldwide basis. In order to achieve broad coverage by its sales force, NeXT has divided the direct sales force into geographic territories. Each sales representative sells both NeXT's WebObjects and OPENSTEP product lines in his or her territory. As of September 30, 1996, the direct sales force consisted of 85 professionals, up from 60 professionals as of December 31, 1995. NeXT intends to continue to add to its direct sales force to expand its reach. Sales representatives are assigned quotas and compensated for all revenues generated in their territories, both through direct and indirect sales channels. In addition to sales representatives, NeXT's direct sales force includes systems engineers who provide pre-sales engineering support and an inhouse telesales and telemarketing group.

Indirect Sales Channels. To augment its direct sales efforts, NeXT strives to develop relationships with a variety of domestic and international indirect sales channels, including VARs, system integrators, Internet service providers and software developers. NeXT believes that these relationships will be important in leveraging its sales and marketing efforts and accelerating the awareness of NeXT's products in its target markets. To that end, in July 1996 NeXT announced its Enterprise Alliance Program ("EAP"), which is targeted at VARs, systems integrators, Internet service providers and software developers. Participants in the EAP receive an integrated product and services suite for an annual subscription fee. As of September 30, 1996, NeXT had over 85 EAP members and relationships with over 150 other VARs, system integrators, Internet service providers and software developers delivering and implementing both Internet/Web and enterprise-wide client/server solutions in several vertical markets, including banking, telecommunications, insurance, transportation, publishing and government markets.

Value-added resellers. VARs license and distribute NeXT's products in conjunction with their products, and generally provide specialized application expertise in the installation, development and support of the customer's applications. NeXT's VARs include ALI Technologies, Inc., Comnetix, Filoli Information Systems and LAM Research Corporation.

System integrators and software developers. System integrators use NeXT's products to design and implement turnkey solutions for its customer, generally integrating NeXT's products with its own products or products of other companies. System integrators using NeXT's products include Advanced Information Systems, Andersen Consulting, BDM International, Inc., ISSC, KPMG Peat Marwick LLP, Lockheed Martin, Perot Systems Corporation, Price Waterhouse LLP, PSW Technologies, SHL Systemhouse and Trident Data Systems. Software developers are generally small companies or individuals that are using NeXT's products to develop a specific application for a customer.

Internet service providers. Internet service providers use NeXT products in connection with other products to provide content and web site hosting services. Internet service providers using NeXT's products include BBN Planet, Multicom Publishing and ThoughtPort Authority, as well as several small emerging companies.

To date, NeXT has sold its products primarily through its direct sales force. NeXT is currently investing, and plans to continue to invest, significant resources to expand its direct sales force as well as to expand its ability to sell through indirect channels by establishing and maintaining relationships with VARs, systems integrators, Internet service providers and software developers. Competition for qualified sales personnel and for relationships with VARs, system integrators, Internet service providers and software developers is intense, and NeXT has at times experienced and continues to experience difficulty in recruiting such sales personnel and in establishing such third-party relationships. There can be no assurance that the expansion of NeXT's direct sales force or indirect sales channels will yield a growth in revenues or profitability, which could have a material adverse effect on NeXT's business, results of operations or financial condition. Any failure by NeXT to realize increased revenues as it expands its direct sales force or other distribution channels would have a material adverse effect on NeXT's business, results of operations and financial condition. In addition, NeXT expects that any material increase in the percentage of its sales through indirect channels, such as VARs, system integrators, Internet service providers and software developers, as a percentage of total revenues will adversely affect NeXT's average selling prices and gross margins due to the lower unit prices that are typically received by the vendor when selling through indirect channels. Agreements with VARs, system integrators, Internet service providers and software developers typically do not restrict such parties from distributing competing products, and in many cases may be terminated by either party without cause. Furthermore, sales through these indirect channels are frequently not accompanied by sales of NeXT's consulting or education services. The timing of the expansion of NeXT's direct sales force or channels and the rate at which NeXT's new salespeople or third party resellers become productive could also cause material fluctuations in NeXT's quarterly financial condition or results of operations.

In 1993, 1994, 1995 and the nine months ended September 30, 1996, NeXT derived 17.2%, 15.1%, 19.2% and 20.0%, respectively, of its total revenues from sales to customers outside of the United States and Canada. NeXT intends to expand its operations outside of the United States and Canada and enter additional international markets, which will require significant management attention and financial resources. NeXT's ability to expand the acceptance and use of its core technologies internationally is limited by the general acceptance of the Internet/Web and intranets in other countries. NeXT expects to commit additional time and development resources to customizing its products for selected international markets and developing international sales and support channels. There can be no assurance that such efforts will be successful. As NeXT increases its international sales, its total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower international sales that typically occur during the summer months. Furthermore, international sales are generally made in U.S. dollars. NeXT has not engaged in foreign currency hedging activities, and international revenues are currently subject to currency exchange fluctuation risk. If NeXT's international revenues increase as a percentage of total revenues in the future, its foreign currency exposure may increase.

NeXT's products are typically used to develop applications that are critical to a customer's business and the purchase of NeXT's OPENSTEP products, in particular, is often part of a customer's implementation of client/server computing. As a result, the license and implementation of NeXT's OPENSTEP products generally involves a significant commitment of management attention and resources by prospective customers. Accordingly, the sales process for OPENSTEP products is often subject to delays associated with a long approval process that typically accompanies significant initiatives or capital expenditures. For these and other reasons, the sales cycle associated with the license and implementation of NeXT's OPENSTEP products is often lengthy and subject to a number of significant delays over which NeXT has little or no control. There can be no assurance that NeXT will not experience these additional delays in the future.

NeXT's sales backlog is not significant and NeXT believes that backlog is not a meaningful indicator of NeXT's future performance.

Strategic Relationships

NeXT is continuing to engage in and further evaluate certain relationships with large Internet/Web and client/server software companies, including Netscape and Microsoft, to expand its market presence and to provide flexible and integrated solutions to such companies' customers. In July, 1996, NeXT entered into a joint selling and marketing agreement with Netscape, pursuant to which NeXT compensates Netscape for sales of WebObjects products to customers whose names are provided to NeXT by Netscape. In addition, NeXT is a member of Netscape's App Foundry program, is an authorized reseller of Netscape's products and supports Netscape ONE, Netscape's open environment for developing business applications. NeXT's relationship with Microsoft is an informal relationship in which the two companies cooperate to ensure that NeXT's products interoperate with Microsoft's products. NeXT also believes that its relationships with hardware vendors, such as Hewlett-Packard, Digital and Sun, and database providers, such as Oracle, Sybase and Informix, are important to the ongoing growth and success of its business. In 199C, NeXT entered into a technology licensing agreement with Sun, under which Sun is selling application development tools based on NeXT's OPENSTEP product line.

A key element of NeXT's business strategy is to develop relationships with leading industry organizations in order to increase NeXT's market presence, expand distribution channels and broaden NeXT's product lines. Accordingly, NeXT maintains relationships with software vendors (such as Microsoft and Netscape), hardware vendors (such as Hewlett-Packard, Digital and Sun) and database providers (such as Oracle, Sybase and Informix). In July 1996, NeXT announced an Enterprise Alliance Program targeted at VARs, systems integrators, Internet service providers and software developers. NeXT believes that its continued success depends in large part on its ability to develop and maintain such relationships. Many of NeXT's strategic relationships are unwritten, informal and non-exclusive, and do not require the other party to sell NeXT's products. In addition, these relationships generally can be terminated by either party at any time. There can be no assurance that NeXT's existing or future strategic partners will not develop and market products in direct competition with NeXT or otherwise discontinue their relationships with NeXT, or that NeXT will be able to successfully develop additional strategic relationships. The failure of NeXT's strategic partners to augment the sales of NeXT's products could have a material adverse effect on NeXT's business, results of operations or financial condition.

Professional Services

To be competitive in providing its software products, NeXT believes that it must provide a high level of professional services and support to its customers. NeXT's Professional Services organization, consisting of the Consulting Engineering, Education and Technical Support departments, employed approximately 96 people as of September 30, 1996. Many of NeXT's customers currently have support agreements with NeXT and have also contracted with NeXT for consulting and training services at least in the initial phase of implementation of the customer's application. All fees for NeXT's consulting, education and technical support services are charged separately from the license fees for NeXT's products.

Consulting. NeXT's Consulting Engineering team provides expertise and experience in helping customers design, develop and deploy large, complex systems across the Internet/Web, intranets and enterprise-wide client/server systems. The team is staffed by highly trained software development engineers who have several years of experience with NeXT and third-party products. This depth of experience allows them to assist in fundamental architectural issues, application design and project management, as well as the implementation of NeXT's software. Consulting engineers serve as a vital link between customers and NeXT's own engineering organization. They work closely with customer development teams, frequently at the customer's facilities, which often allows the team to resolve problems and issues as they arise.

NeXT is also dependent in part on expanding its consulting engineering capabilities to support the expansion of its direct sales force. NeXT has in the past experienced and continues to experience difficulty in recruiting qualified engineers and consulting personnel, and it often takes three to six months for such personnel to be trained for providing consulting services to NeXT's customers. The timing of the expansion of NeXT's consulting engineering capabilities and the rate at which such consultants can become productive could cause material fluctuations in NeXT's quarterly financial condition or results of operations. There can be no assurance that NeXT can successfully expand its consulting engineering capabilities to meet the needs of its customers, which could cause a loss of sales or customer dissatisfaction, or otherwise have a material adverse effect on its business, financial condition or results of operations.

Although it is NeXT's policy not to take responsibility for project management or for guaranteeing the specified functionality of project deliverables, from time to time, NeXT may commit to certain delivery schedules or specifications. In addition, NeXT's customers may generally cancel their orders or terminate their contracts for products or services with NeXT at any time and for any reason. Nonfulfillment of delivery schedules or an inability to meet product or project specifications by NeXT could result in, among other things, cancellation of contracts, penalties or discounting of the purchase price or a delay in receipt of revenues, any of which could have a material adverse effect on NeXT's business, results of operations or financial condition.

Education. NeXT's Education Services department delivers technical training on all NeXT software products to NeXT's customers and strategic partners. NeXT provides open enrollment classes at NeXT's training facilities in Redwood City, California and in Washington, D.C. and, if requested, at the customer's site. These programs are designed to educate the NeXT customer in the architecture, design and management of a software development project.

Technical Support. NeXT's Technical Support department provides upgrades and technical support to NeXT's customers and strategic partners. NeXT provides an annual maintenance package with upgrades, patches, and updates, as necessary, as well as an on-line web support program, basic phone and e-mail support, an on-site visitation program and dedicated engineering support.

Marketing

NeXT's marketing department, comprised of marketing communication, product marketing and telemarketing, consists of 16 professionals as of September 30, 1996, and utilizes a variety of marketing efforts to increase its market presence and stimulate demand for its products and services, including attending trade shows, maintaining a web site and engaging in direct mail and on-going customer communications, public relations campaigns and advertising. NeXT also sponsors customer user group and advisory board meetings designed to obtain customer feedback on their experience with NeXT's products and application requirements. In addition, NeXT's marketing group provides competitive analyses of other companies' products, as well as strategic guidance in product positioning and future product development.

Research and Product Development

NeXT believes that its future success will depend in large part on its ability to enhance its product lines, develop new products, maintain technological leadership and satisfy continually changing customer requirements for business application development. NeXT's development group consists of 81 fulltime employees as of September 30, 1996 and is responsible for product architecture, functionality and quality assurance. NeXT's products have been developed primarily by its internal development staff. This group is also responsible for enhancing NeXT products to integrate with emerging industry standards, additional third-party application packages and leading database management systems, as well as for new product definition and development. NeXT believes that its development group provides a significant competitive advantage for NeXT. The development team includes persons with experience in, among other things, Internet and Web technology, visual programming design and object-oriented software development. NeXT's ability to attract and retain highly qualified development engineers will be a principal determinant of its success in maintaining technological leadership.

NeXT has made substantial investments in product development and technology integration. NeXT spent approximately $8.9 million, or 63% of revenues, $10.7 million, or 21% of revenues, $12.4 million, or 27% of revenues, and $9.4 million, or 26% of revenues, on research and development activities in 1993, 1994, 1995 and the nine months ended September 30, 1996, respectively. To date, all software development costs have been expensed as incurred. NeXT believes significant investments in product development are required to remain competitive. Accordingly, NeXT intends to increase the dollar amount of its product development expenditures in the future.

NeXT's current development efforts are focused on enhancements to its OPENSTEP Enterprise product and its WebObjects product line. For example, NeXT began shipping Release 3.0 of the WebObjects product line, which includes WebObjects Builder, in October 1996. In addition, by the end of 1996, NeXT intends to offer an add-on to WebObjects to enable Java developers to write server-based WebObjects applications entirely in Java to take advantage of the scalability, database access and performance available in WebObjects. There can be no assurance that NeXT will not experience difficulties that could delay or prevent the successful development, introduction, and marketing of new products and enhancements, or that its new products and enhancements will adequately meet the requirements of the marketplace and achieve market acceptance.

The software market in which NeXT competes is characterized by rapid technological change, frequent introductions of new products, changes in customer demands and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and unmarketable. For example, NeXT's customers have adopted a wide variety of hardware, software, database and networking platforms, and as a result, to gain broad market acceptance, NeXT has had to support the use of its software on many of such platforms. NeXT's future success will depend upon its ability to address the increasingly sophisticated needs of its customers by supporting existing and emerging hardware, software, database and networking platforms and by developing and introducing enhancements to NeXT's products on a timely basis that keep pace with such technological developments and emerging industry standards and customer requirements. In particular, NeXT believes that it is critical that, in the near future, WebObjects is enhanced to enable developers to build applications using Java, and NeXT is currently focusing its product development efforts on such enhancements. There can be no assurance that NeXT will be successful in developing and marketing enhancements to its products that respond to technological change, evolving industry standards or customer requirements, that NeXT will not experience difficulties that could delay or prevent the successful development, functionality, introduction and sale of such enhancements or that such enhancements will adequately meet the requirements of the marketplace and achieve any significant degree of market acceptance. Delays in the scheduled release of products or product enhancements may result in customer dissatisfaction and can adversely impact the market acceptance of such products or product enhancements. Although in the past NeXT has generally released new products and product enhancements as scheduled, NeXT has in certain instances been required to eliminate functionality intended for release with such products or product enhancements in order to meet scheduled release dates. If release dates of any future product enhancements or new products are delayed or if when released they fail to achieve market acceptance due to the elimination of expected functionality or otherwise, NeXT's business, results of operations and financial condition would be materially and adversely affected. In addition, the introduction or announcement of new product offerings or enhancements by NeXT or NeXT's competitors may cause customers to defer or forego purchases of current versions of NeXT's products, which could also have a material adverse effect on NeXT's business, results of operations or financial condition.

Software products that are as internally complex as NeXT's products frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Although NeXT has not experienced material adverse effects resulting from any such defects or errors to date, there can be no assurance that, despite testing by NeXT and by current and potential customers, defects and errors will not be found in NeXT's current versions or future products or enhancements after commencement of commercial shipments. This may result in loss of revenues or delay in market acceptance, which in turn could have a material adverse effect on NeXT's business, results of operations or financial condition.

Competition

The market for NeXT's software products and services is rapidly evolving and intensely competitive. NeXT expects competition to increase in the future from existing competitors and from companies that may enter NeXT's existing or future markets with similar or substitute solutions that may be less costly or provide better performance or functionality than NeXT's products. Many of NeXT's current and potential competitors have greater financial or management resources or name recognition or more extensive customer bases than NeXT. NeXT's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products. NeXT expects to face additional competition as other established and emerging companies enter the market for Internet/Web-based, intranet and client/server technologies and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share, any of which could materially adversely affect NeXT's business, results of operations and financial condition. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing the ability of their products to address the needs of NeXT's prospective customers. Current or potential competitors of NeXT could develop and bundle software containing the same functionality offered by NeXT's products with their product offerings at little or no additional charge. Current and potential competitors may also be more successful than NeXT in having their products or technologies accepted as industry standards. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Such competition could materially adversely affect NeXT's ability to obtain and retain support for its products and services. There can be no assurance that NeXT will be able to compete successfully against current and future competitors, and the failure to do so could have a material adverse effect upon NeXT's business, results of operations and financial condition.

Companies directly competing with NeXT include Internet/Web application development product companies such as NetDynamics and Bluestone, high-end client/server application development product companies such as Fortè and Seer and the object-oriented development product companies such as ParcPlace/Digitalk and Visix. In the future, NeXT expects competition from Netscape and Microsoft, which have announced their intention to offer application development products, IBM, which has invested significant resources in object-oriented technology, and others to increase. NeXT also may experience competition with respect to its client/server development products from Microsoft's VisualBasic development tools, particularly as VisualBasic is upgraded. In addition, NeXT expects database vendors such as

Oracle, and Informix to provide many of the capabilities needed in the development of Internet/Web-based, intranet and client/server applications. Any of these companies could use its superior financial resources, market presence and installed base of customers to compete effectively against NeXT.

NeXT believes that the principal competitive factors affecting the market for NeXT's products and services are ease of application development, deployment and management, functionality and features, product architecture, product performance, reliability, scalability, product quality, price and customer support. NeXT believes it presently competes favorably with respect to each of these factors. However, NeXT's market is still evolving, and there can be no assurance that NeXT will be able to compete successfully against current and future competitors. The failure to compete successfully could have a material adverse effect upon NeXT's business, results of operations or financial condition.

Intellectual Property Rights

NeXT's success and ability to compete is dependent in part upon its proprietary technology. While NeXT relies on a combination of patent, copyright, trademark and trade secret protection law, employee and third party nondisclosure agreements, and other methods to establish and protect its proprietary rights, NeXT believes that factors such as the technological and creative skills of its personnel are more essential to its success and ability to compete.

NeXT currently holds 14 software patents issued in the United States, three patents issued in Canada and one patent issued in the United Kingdom, which patents will expire from 2009 to 2013. In addition, NeXT has 12 patent applications pending in the United States, three pending in Japan, and two pending under the Patent Cooperation Treaty. There can be no assurance that any patent applied for will be granted pursuant to NeXT's patent applications, or if patents do issue, that any claims issued will be sufficiently broad to protect NeXT's technology. In addition, there can be no assurance that any patents issued to NeXT, or that NeXT may license from third parties, will not be challenged, reissued with narrower scope, dominated by patents of others, invalidated or circumvented, or that any rights granted thereunder would provide proprietary protection to NeXT. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to NeXT's technologies.

The source code for each of NeXT's proprietary software is protected both as a trade secret and as copyrighted work. NeXT generally enters into confidentiality or license agreements with its employees, consultants, and vendors, and generally controls access to and distribution of its software, documentation, and other proprietary information. NeXT's products are distributed in object code form only, and all end-user license agreements prohibit unlawful reverse engineering or decompiling of NeXT's software. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use NeXT's products or technology without authorization, or to develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. To license its software products, NeXT generally relies on "shrink wrap" licenses that are not signed by the end-user and, therefore, may be unenforceable under the laws of certain jurisdictions. NeXT's products and technology generally are branded with trade names, some of which are registered trademarks, and which are intended to identify and distinguish NeXT's products from those of others. Despite NeXT's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of NeXT's products or intellectual property, or to obtain and use information that NeXT regards as proprietary. Policing unauthorized use of NeXT's products and intellectual property is difficult. There can be no assurance that the steps taken by NeXT will prevent misappropriation of its technology or intellectual property, or that such agreements will be enforceable. In addition, litigation has been necessary in the past and may be necessary in the future to enforce NeXT's intellectual property rights, to protect NeXT's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on NeXT's business, results of operations or financial condition.

NeXT relies on certain technology that it licenses from third parties, including software which is integrated and used with internally developed software. For example, NeXT incorporates certain Microsoft files in OPENSTEP for Windows NT and in Release 3.0 of the WebObjects product line, Adobe Systems Incorporated's Display PostScript software in OPENSTEP and certain OPENSTEP-based applications and UNIX software in OPENSTEP for Mach. There can be no assurance that these and other third party technology licenses will continue to be available to NeXT on commercially reasonable terms or at all. Any required replacement licenses could prove more costly than NeXT's current license relationships and might not provide technology as powerful and functional as the third-party technology currently licensed by NeXT. While it may be necessary or desirable in the future to obtain other licenses relating to one or more of NeXT's products or relating to current or future technologies, there can be no assurance that NeXT will be able to do so on commercially reasonable terms or at all. The loss of or inability to maintain any of these technology licenses could result in delays or reductions in product shipments until equivalent technology could be identified, licensed and integrated, which could have a material adverse effect on NeXT's business, results of operations or financial condition. In addition, NeXT pays royalties under its licenses with third parties. Under the terms of the license agreements, the royalty payments are subject to audit by the third party licensor, and any such audit may result in additional royalties owed by NeXT, which, if material, could have an adverse effect on NeXT's results of operations.

Government Regulation

NeXT is not currently subject to direct regulation by any governmental agency in the United States, other than regulations applicable to business generally, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet/Web. Due to the increasing popularity and use of the Internet/Web, however, it is possible that a number of laws and regulations may be adopted with respect to the Internet/Web, covering issues such as user privacy, pricing and characteristics and quality of products and services. The adoption of any such laws or regulations may decrease the growth of the Internet/Web, which could in turn decrease the demand for NeXT's WebObjects products and increase NeXT's cost of doing business or otherwise have a material adverse effect on NeXT's business, results of operations and financial condition. Moreover, the applicability to the Internet/Web of existing laws governing issues such as property ownership, libel and personal privacy is uncertain.

Employees

As of September 30, 1996, NeXT employed a total of 324 employees. This total includes 81 in product development, 96 in professional services, 114 in sales and marketing, and 33 in administration. Geographically, 279 employees were located in the United States, 3 in Canada, 30 in Europe, and 12 in Asia. None of NeXT's employees is represented by a collective bargaining agreement, nor has NeXT experienced any work stoppages. NeXT considers its relations with its employees to be good.

NeXT's success depends to a significant degree upon the continuing contributions of its key personnel. The loss of key personnel could adversely affect NeXT. NeXT believes that its future success will depend in large part upon its ability to attract and retain highly-skilled managerial, sales, marketing, customer support and technical personnel. NeXT has at times experienced and continues to experience difficulty in retaining and recruiting qualified managerial, sales, marketing, customer support, technical and other personnel. In particular, NeXT has had, and is continuing to have, difficulty retaining and recruiting qualified Java programmers. Since 1993, NeXT has experienced turnover in several of its executive officer positions, as well as in its general employee base. Furthermore, competition for qualified personnel is intense, and there can be no assurance that NeXT will be successful in attracting and retaining such personnel. Competitors and others, most significantly small start-up companies developing Internet/Web-based products, in the past have recruited, and may in the future recruit, NeXT's officers and employees. Failure to attract and retain key personnel, or high rates of employee turnover, could have a material adverse effect on NeXT's business, results of operations and financial condition.

NeXT's Chief Executive Officer, President and Chairman, Steven P. Jobs, is also Chairman and Chief Executive Officer of Pixar, a digital animation studio. Although Mr. Jobs spends approximately half of his time at NeXT and is active in NeXT's management, he is not committed to spend a certain amount of time at NeXT nor is he able to devote his full time and resources to NeXT. NeXT has established an Office of the President which includes three senior officers, Dominique Trempont, Mitchell Mandich and Avadis Tevanian, Jr., who are actively engaged in managing the business on a day-to-day basis. Further, NeXT does not have an employment agreement with Mr. Jobs. Mr. Jobs has informed NeXT that he intends to remain in his current position with NeXT; however, it is likely that the Company will seek to hire a new Chief Executive Officer over the next twelve months or so. In addition, Mr. Jobs has informed NeXT that he intends to remain as Chairman of NeXT if a new Chief Executive Officer were to be appointed. There can be no assurance that Mr. Jobs' inability to devote his full time and resources to NeXT will not adversely affect NeXT's business, results of operations and financial condition.

Facilities

NeXT's primary administrative, sales, marketing, customer support and product development facility occupies approximately 106,000 square feet in Redwood City, California, under a lease agreement which expires in April 1999. In addition, NeXT leases sales and support office space in the following metropolitan areas: New York, NY; Chicago, IL; Washington D.C.; Austin, TX; Dallas, TX; Houston, TX; Boston, MA; Tampa, FL; Denver, CO; Minneapolis, MN; Vancouver B.C., Canada; Seattle, WA and Los Angeles, CA. NeXT also maintains offices in London, Paris, Munich and Tokyo. NeXT currently does not maintain off-site backup facilities for its corporate records. NeXT believes that its existing facilities are adequate to meet its requirements for the foreseeable future and that suitable additional or alternate office facilities will be available at reasonable terms as needed.

NeXT's primary operations, including product development, technical support, sales, marketing, distribution and general administration, are housed in a single facility in Redwood City, California. Any material disruption in NeXT's operations, whether due to fire, earthquake, natural disaster or otherwise, could have a material adverse effect on NeXT's business, results of operations or financial condition.

NeXT is subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals with respect to properties owned or leased by NeXT. Although NeXT does not currently use significant amounts of toxic materials in the operation of its business, toxic materials could be found on the property currently occupied by NeXT. Whether or not NeXT is responsible for any such contamination, NeXT could be found liable as a tenant of the property and could be required to expend significant funds for the cleanup of the contamination, which could have a material adverse effect on the business, results of operations or financial condition of NeXT.

Legal Proceedings

NeXT is not involved in any material legal proceedings.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of NeXT and their ages as of September 30, 1996 are as follows:

Name	Age	Position
Steven P. Jobs	41	Chief Executive Officer and Chairman of the Board
Dominique Trempont	42	Office of the President, Chief Financial Officer and Vice President, General and Administration Group
Mitchell Mandich	47	Office of the President and Vice President, Worldwide Sales and Services
Avadis Tevanian, Jr., Ph.D.	35	Office of the President and Vice President, Engineering
Nancy R. Heinen	39	Vice President, General Counsel and Secretary
Sina Tamaddon	39	Vice President
Scott Abel	38	Vice President, Professional Services
Mikio Akiyama	62	Director

(1) Member of Compensation Committee.

(2) Member of Audit Committee.

Mr. Jobs is a co-founder of NeXT and has served as its Chief Executive Officer and Chairman since October 1985 and its President from October 1985 to September 1996. Mr. Jobs is also a co-founder of Pixar Animation Studios ("Pixar"), a digital animation studio, and has served in the Office of the President and as a director of Pixar since February 1995, as its Chairman from 1986 to 1988 and since March 1991 and as its Chief Executive Officer since February 1986. Mr. Jobs was also a co-founder of Apple Computer, Inc., a computer company, where he co-designed the Apple II and led the development, manufacturing and marketing of the Macintosh and the LaserWriter printer. Mr. Jobs was awarded the National Technology Medal in 1985, the Jefferson Award for Public Service in 1987 and was named Entrepreneur of the Decade by *Inc.* magazine. Mr. Jobs attended Reed College in Portland, Oregon.

Mr. Trempont has served in the Office of the President since November 1996, and as NeXT's Chief Financial Officer and Vice President, General and Administration Group since July 1993. From 1980 to July 1993, Mr. Trempont served Raychem Corporation, high technology company, most recently as Director of Finance and Business Development for Raychem's Electronics Group, a $450 million business. Mr. Trempont holds a Masters of Business Administration degree from European Institute of Business Administration, France, and a Bachelors degree in Economics and Business Administration from the University of Louvain, Belgium.

Mr. Mandich has served in the Office of the President since November 1996 as NeXT's Vice President, Worldwide Sales and Services since August 1996 and was NeXT's Vice President, Worldwide Sales from December 1995 to August 1996. From January 1993 to November 1995, Mr. Mandich served as Senior Vice President of Americas Sales and Marketing at Pyramid Technology, a SIEMENS Nixdorf Company, a computer hardware company, where he increased their direct sales organization by 160 representatives. Prior to that, from September 1982 to December 1992, he served Tandem Computers Incorporated, a computer hardware company ("Tandem"), as Director of U.S. Sales Operations and Director of Western Region Sales. Mr. Mandich holds a Masters degree in Sociology from San Jose State University and a Bachelor of Arts degree in Sociology from the University of California at Berkeley.

Mr. Tevanian, Jr., Ph.D. has served in the Office of the President since November 1996, as NeXT's Vice President, Engineering since March 1995, and as a member of NeXT's engineering team since January 1988. He was a principal designer and engineer of the Mach operating system upon which NEXTSTEP is based and he led the development of many NeXT's technologies. Mr. Tevanian holds a Ph.D. and a Masters of Science degree in computer science from Carnegie Mellon University and a Bachelor of Arts degree in mathematics from the University of Rochester.

Ms. Heinen has served as NeXT's Vice President since June 1996, General Counsel since December 1994 and Secretary since April 1996 and has served NeXT since February 1994. Prior to that, Ms. Heinen served as Group Counsel and Assistant Secretary at Tandem from 1989 to February 1994, where she provided legal support for Tandem's sales and marketing, product development and manufacturing divisions and was responsible for periodic reporting to the Securities and Exchange Commission and for various Board of Directors matters. Prior to that, Ms. Heinen was in private practice in the San Francisco area. Ms. Heinen holds a Bachelor of Arts degree in English and Psychology from the University of California at Berkeley and a Juris Doctor degree from Boalt Hall School of Law, University of California at Berkeley.

Mr. Tamaddon has served as NeXT's Vice President of Professional Services from August 1994 to August 1996, and is currently on leave from NeXT. From May 1993 to August 1994, he was Vice President of Advanced Technology for Software Alliance, a subsidiary of Teknekron, a software company, where he led an organization responsible for the development of new products and provided consulting services based on object-oriented environments to large financial institutions. Before that, Mr. Tamaddon served as Regional Sales Manager for NeXT in Chicago from January 1988 to May 1993. Mr. Tamaddon attended the University of Arizona and Purdue University.

Mr. Abel has served as NeXT's Vice President, Professional Services since August 1996, and as a member of the engineering services team since August 1994 and during the period August 1988 to March 1993. From March 1993 to March 1994, he served PSW Technology, a consulting company, as Director of Business Systems Development and, from April 1994 to August 1994, he served Software Alliance, a subsidiary of Teknekron, a software company, as Director, Advance Product Development. Mr. Abel holds a Bachelor of Science degree in Physics from the University of Texas, Austin.

Mr. Akiyama has served as a director of NeXT since September 1992. Mr. Akiyama is currently an advisor to the SA & Affiliates Planning and Coordination Division, Corporate Development and Strategy Headquarters of Canon. Mr. Akiyama has served Canon since 1958 in various capacities, including General Manager, Deputy Director at Canon Office Systems Center, General Manager in charge of Canon Fax Business and Vice President at Canon Holosonics. Mr. Akiyama holds a Bachelor of Science degree in mechanical engineering from Tokyo Institute of Technology.

Mr. Akiyama was nominated and elected to the Board of Directors of NeXT pursuant to a voting agreement between Canon and Steven P. Jobs. This voting agreement will terminate upon the closing of the offerings.

NeXT's Chief Executive Officer and Chairman, Steven P. Jobs, is also Chief Executive Officer and Chairman of Pixar, a digital animation studio. Although Mr. Jobs spends approximately half of his time at NeXT and is active in NeXT's management, he is not committed to spend a certain amount of time at NeXT nor is he able to devote his full time and resources to NeXT. Further, NeXT does not have an employment agreement with Mr. Jobs. NeXT has established an Office of the President which includes three senior officers, Dominique Trempont, Mitchell Mandich and Avadis Tevanian, Jr., who are actively engaged in managing the business on a day-to-day basis. Mr. Jobs has informed NeXT that he intends to remain in his current position with NeXT; however, it is likely that the Company will seek to hire a new Chief Executive Officer over the next 12 months or so. In addition, Mr. Jobs has informed NeXT that he intends to remain as Chairman of NeXT if a new Chief Executive Officer were to be appointed. There can be no assurance that Mr. Jobs' inability to devote his full time and resources to NeXT will not adversely effect NeXT's business, results of operations or financial condition.

All directors hold office until the next annual meeting of shareholders or until their successors have been elected and qualified. Officers serve at the discretion of NeXT's Board of Directors (the "Board"). There are no family relationships between any of the directors or executive officers of NeXT.

Board Committees

Prior to consummation of the offerings, the Board will establish a Compensation Committee and an Audit Committee. The Compensation Committee will consist of Mr. Akiyama. The function of the Compensation Committee will be to review and approve salaries, bonuses and other benefits payable to NeXT's executive officers and to administer NeXT's stock plans. The Audit Committee will consist of Mr. Akiyama. The functions of the Audit Committee will be to recommend selection of independent public accountants to the Board, to review the scope and results of the year-end audit with management and the independent auditors and to review NeXT's accounting principles and its system of internal accounting controls. The Board currently has no nominating committee or other committee performing a similar function.

Director Compensation

Directors of NeXT are not compensated for their services as such, but are eligible to participate in NeXT's stock option plans. Under NeXT's 1990 Stock Option Plan, in 1994, Mr. Akiyama was granted an option to purchase 40,000 shares of Common Stock at an exercise price of $1.00 per share. The option vests annually over four years in equal installments. See "— Stock Plans — Stock Plans" and "Certain Transactions."

Compensation Committee Interlocks and Insider Participation

NeXT did not have a Compensation Committee during 1995, but each of the directors, including Steven P. Jobs (who also served as an executive officer of NeXT during 1995) participated in deliberations concerning executive compensation. See "Certain Transactions" for information regarding related-party transactions involving Mr. Jobs. No interlocking relationship exists between NeXT's executive officers, Board and the compensation committee of any other company.

Limitation of Liability and Indemnification Matters

NeXT's Amended and Restated Articles of Incorporation limit the liability of NeXT's directors for monetary damages to the maximum extent permitted by California law. Such limitation of liability has no effect on the availability of equitable remedies, such as injunctive relief or rescission.

NeXT's Amended and Restated Bylaws provide that NeXT will indemnify its directors and officers and may indemnify its employees and agents (other than officers and directors) against certain liabilities to the maximum extent permitted by California law. NeXT has entered into indemnification agreements with each of its current directors and officers that provide for indemnification of, and advancement of expenses to, such persons to the maximum extent permitted by California law, including by reason of action or inaction occurring in the past and circumstances in which indemnification and advancement of expenses are discretionary under California law.

At present, there is no pending or, to NeXT's knowledge, threatened litigation or proceeding involving any director, officer, employee or agent of NeXT, where indemnification will be required or permitted. NeXT is not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

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Executive Compensation

The following table sets forth certain summary information regarding compensation earned in the year ended December 31, 1995 by NeXT's Chief Executive Officer and the other executive officers whose total salary and bonus for 1995 exceeded $100,000 ("Named Executive Officers").

	Annual Compensation (1)			Long-Term Compensation	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation ($) (2)	Securities Underlying Options (#)	All Other Compensation ($) (3)
Steven P. Jobs .... Chairman, President and CEO	$ 1	$ —	$ —	—	$6,434
Mitchell Mandich .... Vice President, Worldwide Sales	16,667 (4)	—	—	200,000	551
Sina Tamaddon (5) .... Vice President	166,667	50,000	—	90,000	6,694
Avadis Tevanian, Jr. ...... Vice President, Engineering	162,500	500	—	125,000	6,687
Dominique Trempont ..... Chief Financial Officer and Vice President, General & Administration Group	200,000	—	33,931 (6)	—	6,746

(1) Paul Hegarty was NeXT's Vice President, OPENSTEP Engineering during 1995 and earned $180,152 in salary, bonus and other compensation in 1995. Mr. Hegarty left NeXT in June 1996.

(2) In accordance with the rules of the Securities and Exchange Commission, other compensation in the form of perquisites and other personal benefits has been omitted in those cases where the aggregate amount of such perquisites and other personal benefits constituted less than the lesser of $50,000 or 10% of the total annual salary and bonus for the Named Executive Officer for such year.

(3) Amounts represent premiums for health and term life insurance.

(4) Mr. Mandich was hired in December 1995. His base salary for 1996 is $200,000 and he is entitled to variable compensation of $150,000, which is guaranteed for 1996.

(5) Mr. Tamaddon took a leave of absence from NeXT in August 1996.

(6) This amount represents reimbursement for certain expenses incurred by Mr. Trempont which NeXT agreed to pay upon Mr. Trempont's employment with NeXT.

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Option Grants During the Fiscal Year Ended December 31, 1995

The following table sets forth certain information regarding the stock options granted during the year ended December 31, 1995 to each of the Named Executive Officers.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(5)	
Named Executive Officer	**Number of Securities Underlying Options Granted (#)(1)**	**% of Total Options Granted to Employees in Fiscal Year(2)**	**Exercise Price ($/Sh)(3)**	**Expiration Date(4)**	**5%($)**	**10%($)**
Steven P. Jobs	—	—	—	—	—	—
Mitchell Mandich	200,000	19.5%	$8.00	12/01/05	$1,006,231	$2,549,988
Sina Tamaddon	40,000	3.9	3.00	1/01/05	75,467	191,249
	50,000	4.9	8.00	7/20/05	251,558	637,497
Avadis Tevanian, Jr.	25,000	2.4	3.00	1/01/05	47,167	119,531
	50,000	4.9	3.00	2/27/05	94,334	239,061
	50,000	4.9	8.00	7/20/05	251,558	637,497
Dominique Trempont	—	—	—	—	—	—

(1) Each of the options shown in the above table is a nonqualified stock option that vests over a four year period such that 25% of the shares subject to the option vest on each of the first four anniversary dates of the grant of the option until the option is fully vested, provided that the optionee remains employed by NeXT on such anniversary date. See "— Stock Plans — 1990 Stock Option Plan."

(2) The total number of shares subject to options granted to employees in 1995 was 1,023,850.

(3) The options were granted at an exercise price equal to the fair market value of NeXT's Common Stock on the date of grant, as determined by the Board. The exercise price may be paid in cash, check, promissory note, shares of NeXT's Common Stock, proceeds from the sale of shares of Common Stock acquired upon the exercise of the option through a cashless exercise procedure or by any combination of such methods.

(4) Options may terminate before their expiration dates if the optionee's status as an employee or consultant is terminated or upon optionee's death.

(5) The Potential Realizable Value is calculated based on the fair market value on the date of grant, which is equal to the exercise price of options granted in 1995, assuming that the stock appreciates in value from the date of grant until the end of the option term at the annual rate specified (5% or 10%). Potential Realizable Value is net of the option exercise price. The assumed rates of appreciation are specified in rules of the Securities and Exchange Commission and do not represent NeXT's estimate or projection of future stock price. Actual gains, if any, resulting from stock option exercises and Common Stock holdings are dependent on the future performance of the Common Stock and overall stock market conditions, as well as the option holders' continued employment through the exercise/vesting period. There can be no assurance that the amounts reflected in this table will be achieved.

Aggregate Option Exercises in 1995 and 1995 Fiscal Year-End Option Values

The following table sets forth for each of the Named Executive Officers certain information concerning option exercises during 1995 and the value realized upon option exercises during 1995. Also reported are values for "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding options and the fair market value of NeXT's Common Stock as of December 31, 1995.

			Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End(3)	
Name	Shares Acquired on Exercise(#)	Value Realized($)(1)	Exercisable (#)(2)	Unexercisable (#)	Exercisable ($)(2)	Unexercisable ($)
Steven P. Jobs.....	—	$ —	—	—	$ —	$ —
Mitchell Mandich ...	—	—	—	200,000	—	—
Sina Tamaddon	7,500	45,000	17,500	102,500	—	365,000
Avadis Tevanian, Jr.	—	—	53,175	146,875	86,550	738,750
Dominique Trempont	—	—	80,000	120,000	480,000	720,000

(1) Based on the fair market value of the underlying securities on the date of exercise, as determined by NeXT's Board, minus the aggregate exercise price.

(2) Exercisable in accordance with the vesting provisions described above in Note 1 to the table entitled "Option Grants During the Fiscal Year Ended December 31, 1995."

(3) Calculated on the basis of the fair market value of the underlying securities as of December 31, 1995 ($8.00 per share), as determined by NeXT's Board, minus the aggregate exercise price.

Stock Plans

1990 Stock Option Plan. NeXT's 1990 Stock Plan, as amended (the "1990 Plan"), was approved by the Board of Directors in October 1989 and by the shareholders in August 1990, and was amended in July 1995. The 1990 Plan provides for the granting of options to purchase Common Stock to officers, directors, employees, consultants, advisors and other independent contractors of NeXT. As of September 30, 1996, an aggregate of 5,025,000 shares of Common Stock had been reserved for issuance under the 1990 Plan, an aggregate of shares of Common Stock had been issued under the 1990 Plan and options to purchase an aggregate of 3,218,832 shares of Common Stock were outstanding under the 1990 Plan. Options granted under the 1990 Plan generally vest over a four year period, and expire ten years from the date of grant. The Board of Directors has determined that no further options will be granted under the 1990 Plan after the closing of the offerings.

1997 Stock Option Plan. NeXT's 1997 Stock Plan (the "1997 Plan") provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and for the granting to employees and consultants of nonstatutory stock options and stock purchase rights ("SPRs"). The 1997 Plan was approved by the Board in [ ] 1996 and by the shareholders in January 1997. Unless terminated sooner, the 1997 Plan will terminate automatically in January 2007. The maximum aggregate number of shares of Common Stock which may be optioned and sold under the 1997 Plan is [ ], plus an annual increase equal to the lesser of (i) [ ] shares, (ii) [%] of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors.

The 1996 Plan may be administered by the Board or a committee of the Board (the "Committee"), which Committee shall, in the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The Committee has the power to determine the terms of the options or SPRs granted, including the exercise price, the number of shares subject to each option or SPR, the exercisability thereof, and the form of consideration payable upon such exercise. In addition, the

Committee has the authority to amend, suspend or terminate the 1997 Plan, provided that no such action may affect any share of Common Stock previously issued and sold or any option previously granted under the 1997 Plan.

Options and SPRs granted under the 1997 Plan are not generally transferable by the optionee, and each option and SPR is generally exercisable during the lifetime of the optionee only by such optionee. Options granted under the 1997 Plan must generally be exercised within three months of the end of optionee's status as an employee or consultant of NeXT, or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. In the case of SPRs, unless the Committee determines otherwise, the restricted stock purchase agreement shall grant NeXT a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with NeXT for any reason (including death or disability). The purchase price for shares repurchased pursuant to the restricted stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to NeXT. The repurchase option shall lapse at a rate determined by the Committee. The exercise price of all incentive stock options granted under the 1997 Plan must be at least equal to the fair market value of the Common Stock on the date of grant. The exercise price of nonstatutory stock options and SPRs granted under the 1997 Plan is determined by the Committee, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the exercise price must at least be equal to the fair market value of the Common Stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of NeXT's outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under the 1997 Plan may not exceed ten years.

The 1997 Plan provides that in the event of a merger of NeXT with or into another corporation, a sale of substantially all of NeXT's assets or a like transaction involving NeXT, each option shall be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted for as described in the preceding sentence, the Committee shall provide for the Optionee to have the right to exercise the option or SPR as to all of the optioned stock, including shares as to which it would not otherwise be exercisable. If the Committee makes an option or SPR exercisable in full in the event of a merger or sale of assets, the Committee shall notify the optionee that the option or SPR shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the option or SPR will terminate upon the expiration of such period.

1997 Employee Stock Purchase Plan. NeXT's 1997 Employee Stock Purchase Plan (the "1997 Purchase Plan") was adopted by the Board in , 1996 and by the shareholders in January 1997. The maximum aggregate number of shares of Common Stock which may be optioned and sold under the 1997 Purchase Plan is 500,000, plus an annual increase equal to the lesser of (i) [ ] shares, (ii) [%] of the outstanding shares on such date or (iii) a lesser amount determined by the Board. The 1997 Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, is implemented by twelve month offering periods beginning on the first trading day on or after February 15 and August 15 of each year, except for the first such offering period which commences on the first trading day on or after the effective date of the offerings and ends on the last trading day on or before February 15, 1998. During each offering period, payroll deductions are accumulated and shares of Common Stock are purchased with a participant's accumulated payroll deductions at the end of each such offering period. The 1997 Purchase Plan is administered by the Board or by a committee appointed by the Board. Employees are eligible to participate if they are customarily employed by NeXT or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year. The 1997 Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions of up to 10% of an employee's compensation [**(excluding commissions, overtime and other bonuses and incentive compensation)**], up to a maximum of $21,250 for all offering periods ending within the same calendar year. The price of stock purchased under the 1997 Purchase Plan is

85% of the fair market value of the Common Stock at the beginning or the end of an offering period, whichever is lower. Employees may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with NeXT.

Rights granted under the 1997 Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the 1997 Purchase Plan. The 1997 Purchase Plan provides that, in the event of a merger of NeXT with or into another corporation or a sale of substantially all of NeXT's assets, the Board shall shorten the offering periods then in progress (so that employees' rights to purchase stock under the Plan are exercised prior to the merger or sale of assets). The 1997 Purchase Plan will terminate in [ ] 2007. The Board has the authority to amend or terminate the 1997 Purchase Plan, except that no such action may adversely affect any outstanding rights to purchase stock under the 1997 Purchase Plan.

1997 Director Option Plan

Non-employee directors are entitled to participate in the 1997 Director Option Plan (the "Director Plan"). The Director Plan was adopted by the Board of Directors in [ ] and approved by the shareholders in January 1997, but it will not become effective until the date of this Offering. The Director Plan has a term of ten years, unless terminated sooner by the Board. A total of [ ] shares of Common Stock have been reserved for issuance under the Director Plan.

The Director Plan permits discretionary option grants to non-employee directors. In addition, it provides for the automatic grant of 30,000 shares of Common Stock (the "First Option") to each non-employee director on the date on which the person first becomes a non-employee director, unless immediately prior to becoming a non-employee director, such person was a director of the Company. Starting with the third anniversary of the date on which a person first became a non-employee director, he or she shall automatically be granted an option to purchase 10,000 shares (a "Subsequent Option") each anniversary of such date. Each First Option and each Subsequent Option shall have a term of 10 years and the shares subject to the option shall vest in equal annual increments over the three-year period immediately following the date of grant. The exercise prices of the First Option and each Subsequent Option shall be 100% of the fair market value per share of the Common Stock, generally determined with reference to the closing price of the Common Stock as reported on the Nasdaq National Market on the date of grant.

In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each option may be assumed or an equivalent option substituted by the successor corporation. If an option is assumed or substituted for, it shall continue to vest as provided in the Director Plan. However, if a non-employee director's status as a director of the Company or the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the non-employee director, each option granted to such non-employee director shall become fully vested and exercisable. If the successor does not agree to assume or substitute for the option, each option shall also become fully vested and exercisable for a period of thirty days from the date the Board notifies the optionee of the option's full exercisability, after which period the option shall terminate. Options granted under the Director Plan must be exercised within three months of the end of the optionee's tenure as a director of the Company, or within twelve months after such director's termination by death or disability, but in no event later than the expiration of the option's ten year term. No option granted under the Director Plan is transferable by the optionee other than by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by such optionee.

CERTAIN TRANSACTIONS

Relationship with Canon Inc.

Prior to July 1993, Canon acquired six million shares of Series C Preferred Stock for an aggregate of $120 million. In July 1993, NeXT entered into a Master Agreement (the "Master Agreement") with Canon providing for (i) the execution of an Asset Purchase Agreement (the "Asset Purchase Agreement") for the sale by NeXT to Canon of the certain intangible and tangible assets (including certain patents) related to a design project for a RISC-based computer workstation for $13 million (the "Asset Purchase"), (ii) the execution by NeXT and Canon of a Distributor Agreement (the "Distributor Agreement"), including the advance payment of $10 million against future software purchases, (iii) NeXT's agreement to provide marketing and technical consulting services to a subsidiary of Canon for two years following the closing of the Asset Purchase in consideration for Canon's payment to NeXT of $1 million and (iv) the execution of a license, pursuant to which NeXT granted a non-exclusive, nontransferable and paid-up license to a subsidiary of Canon to use certain custom in-house applications developed by NeXT, for which Canon would pay NeXT $1 million. In consideration for NeXT entering into the Master Agreement, Canon agreed to cancel all interest accrued and principal amounts owed to Canon by NeXT under a Loan Agreement dated as of April 22, 1991 and all interest and certain principal amounts owed to Canon by NeXT under the Canon Loan Agreement. In addition, under the Asset Purchase Agreement, NeXT agreed not to compete directly or indirectly with Canon in the development or manufacture of a RISC-based computer workstation for a period of five years from the closing of the Asset Purchase.

Under the Distributor Agreement, executed in October 1993, NeXT granted Canon exclusive distribution rights (subject to certain limited exceptions) for NeXT's NEXTSTEP products (including updates, improvements, enhancements, upgrades, successors and replacements) in Japan, the Republic of Korea, Taiwan, Hong Kong, Singapore, Indonesia, Thailand, the Phillippines, Malaysia, Myanmar and the People's Republic of China (the "Territory") and nonexclusive distribution rights outside of the Territory. The exclusivity of this agreement terminated on December 31, 1994.

In addition, under the Master Agreement, Canon agreed to convert up to a maximum of $25 million of NeXT's obligation to Canon under the Canon Loan Agreement into shares of NeXT's Series C Preferred Stock (the "Series C Preferred") upon the receipt by NeXT of $25 million of equity capital from outside investors (the "Series C Financing"). In January 1994, Canon converted $25 million of the outstanding balance under the Canon Loan Agreement for 1,250,000 shares of NeXT's Series C Preferred Stock pursuant to a Series C Stock Purchase Agreement dated January 31, 1994 among NeXT and certain investors (including Canon). In connection with the Series C Financing, such investors were granted certain piggyback registration rights and a co-sale right to participate in any sales of NeXT's securities by Steven P. Jobs. See "Description of Capital Stock — Registration and Other Rights."

In addition, Mr. Jobs and Canon have entered into a voting agreement whereby Mr. Jobs agreed to vote his shares of NeXT capital stock for a Canon representative on the Board of Directors. Mikio Akiyama is currently serving on NeXT's Board of Directors as Canon's representative under this voting agreement. The voting agreement terminates upon the consummation of NeXT's initial public offering. Canon has also agreed that in the event it proposes to transfer, assign or otherwise dispose of any of its shares of capital stock of NeXT, NeXT has a right of first refusal and Mr. Jobs has a second right of refusal to purchase all, but not less than all, of the shares of capital stock proposed to be disposed of. These refusal rights of NeXT and Mr. Jobs terminate on December 31, 1996. Canon has also agreed to a standstill agreement with NeXT with respect to the acquisition of up to a specified amount of additional capital stock of NeXT by Canon other than the conversion of obligations of NeXT to Canon under the Canon Loan Agreement. See "Management — Executive Officers and Directors" and "Description of Capital Stock — Registration and Other Rights."

As of December 31, 1995, NeXT had a principal balance of approximately $28 million outstanding under the Canon Loan Agreement, $20 million of which carries interest at 6.2% and was due on July 27, 1996 and approximately $8 million of which carries interest at 6.26% and was due on August 21, 1996. In , 1996, Canon and NeXT entered into an agreement to extend the due date of the outstanding balances under the Canon Loan Agreement to April 27, 1997 and May 21, 1997, respectively. Loans under this agreement are collateralized by certain intangible assets of NeXT including certain patents and patent applications. The Canon Loan Agreement also prohibits NeXT from paying cash dividends on any of its capital stock or from entering into a consolidation, merger or sale of all or substantially all of its assets resulting in a change of control of NeXT, and prohibits any redemption, purchase or other acquisition of NeXT's outstanding shares by NeXT, other than repurchases under employee benefit plans. In addition, under the Canon Loan Agreement, either NeXT or Canon may convert any or all of the then outstanding principal into Common Stock of NeXT upon the consummation of a firm underwritten public offering of securities aggregating $75 million or greater of NeXT's equity securities at a per share price equal to NeXT's initial public offering price. In October 1996, NeXT notified Canon that it intends to convert all amounts outstanding under the Canon Loan Agreement into 1,896,639 shares of Common Stock upon consummation of the offerings. As of September 30, 1996, NeXT's outstanding principal balance under the Canon Loan Agreement was $28,222,000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 4 of Notes to Consolidated Financial Statements.

Relationship with Steven P. Jobs

Prior to January 1993, Mr. Jobs acquired 15,450,000 shares of capital stock of NeXT for an aggregate purchase price of $. In December 1993, Mr. Jobs acquired an additional 250,000 shares of Series C Preferred Stock of NeXT at an aggregate purchase price of $5 million. Under the stock purchase agreement between NeXT and Mr. Jobs, NeXT has a right of first refusal with respect to any proposed transfers of the Series C Preferred Stock held by Mr. Jobs. In connection with the Series C Financing and prior preferred stock financings by NeXT, Mr. Jobs has also granted to Canon and certain other purchasers of preferred stock of NeXT a right to participate in any sale by Mr. Jobs of the shares of NeXT's capital stock as set forth under the Rights Agreement dated July 27, 1992, as amended (the "Rights Agreement") and has agreed to vote his shares of stock of NeXT to maintain a representative of Canon on the Board. The voting agreement terminates upon the closing of the offerings. See "Management — Executive Officers and Directors" and "Description of Capital Stock — Registration and Other Rights."

In , Mr. Jobs entered into an agreement with NeXT and Morgan Guaranty to guarantee the payment of up to $6.5 million of the outstanding balance of NeXT's loans from Morgan Guaranty. The amount guaranteed was increased to $11 million in July 1996 and to $15 million in October 1996 in connection with corresponding increases in the amount outstanding to Morgan Guaranty. NeXT agreed to pay the outstanding principal amount of the Morgan Guaranty Note in excess of $6 million with a portion of the net proceeds of the offerings pursuant to an agreement with Steven P. Jobs to personally guarantee the principal amounts outstanding under the Morgan Guaranty Note up to $15 million. As of September 30, 1996, the outstanding balance under such loans was $11 million, with interest accruing at the prime rate (8.25% as of September 30, 1996). The loans are due on demand.

In December 1995, Mr. Jobs entered into an agreement with NeXT and MLBFS to guarantee the payment of up to [25] of the outstanding balance of NeXT's loans from MLBFS up to a maximum of $2 million. As of September 30, 1996, the outstanding balance of such loans was $8 million, with interest accruing at the 30-day commercial paper rate plus 2.50% (8.0% as of September 30, 1996). The maturity date for such loans is March 31, 1997 or will convert to common stock upon the completion of the offerings.

Other Events

In February 1994, NeXT granted an option to purchase 40,000 shares at $1.00 per share to each of Mikio Akiyama who was a non-employee director of NeXT at such time.

NeXT has entered into indemnification agreements with each of its directors and executive officers. Such agreements require NeXT to indemnify such individuals to the fullest extent permitted by California law. See "Management — Limitation of Liability and Indemnification Matters."

NeXT believes that all of the transactions set forth above were made on terms no less favorable to NeXT than could have been obtained from unaffiliated third parties. All future transactions, including loans, between NeXT and its officers, directors and principal shareholders and their affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested directors of the Board of Directors, and will be on terms no less favorable to NeXT than could be obtained from unaffiliated third parties.

PRINCIPAL SHAREHOLDERS

The following table sets forth the beneficial ownership of NeXT's Common Stock as of September 30, 1996, and as adjusted to reflect the sale by NeXT of the shares of Common Stock offered hereby, the conversion of all outstanding shares of Preferred Stock into shares of Common Stock upon closing of the offerings, by (i) each person known to NeXT to be the beneficial owner of more than 5% of NeXT's Common Stock, (ii) each of NeXT's directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group. Except as otherwise indicated in the footnotes to the table, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws, where applicable.

Name	Shares Beneficially Owned(1)	Percentage Ownership Before the Offerings	Percentage Ownership After the Offerings
Steven P. Jobs 900 Chesapeake Drive Redwood City, California 94063			
Canon Inc.(2) 30-2, Shimomaruko 3-chome Ohta-ku, Tokyo 146 Japan			
H. Ross Perot The Perot Group 1700 Lakeside Square 12377 Merit Drive Dallas, Texas 75251			
Mitchell Mandich			
Sina Tamaddon			
Avadis Tevanian			
Dominique Trempont			
Miko Akiyama			
All officers and directors as a group (8 persons)			

* Less than one percent

(1) Assumes no exercise of the Underwriters' overallotment options. Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission (the "Commission"). In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of November 30, 1996 are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder's name.

(2) Assumes conversion of all amounts owed by NeXT to Canon under the Canon Loan Agreement into 1,896,639 shares of Common Stock.

DESCRIPTION OF CAPITAL STOCK

Upon consummation of the offerings, the authorized capital stock of NeXT will consist of 100 million shares of Common Stock, no par value per share, and 5 million shares of Preferred Stock, no par value per share. Upon consummation of the offerings, 22,668,015 shares of Common Stock (23,418,015 shares if the Underwriters' overallotment options are exercised in full) will be outstanding. The following is qualified in its entirety by reference to NeXT's Articles of Incorporation and Bylaws.

Common Stock

As of September 30, 1996, there were 17,668,015 shares of Common Stock outstanding and held of record by shareholders. Holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Subject to the rights of holders of Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor. In the event of a liquidation, dissolution or winding up of NeXT, subject to the rights of the holders of Preferred Stock, the holders of Common Stock are entitled to share ratably in all assets. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock to be outstanding upon consummation of the offerings will be fully paid and non-assessable.

Preferred Stock

Pursuant to NeXT's Articles of Incorporation, the Board is authorized to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions, including the dividend rights, conversion rights, voting rights, redemption price or prices, liquidation preferences, and the number of shares constituting any series or the designations of such series, without further vote or action by the shareholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change of control of NeXT. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others. NeXT has no present plans to issue any shares of Preferred Stock.

Registration and Other Rights

Registration Rights. The holders of shares of Common Stock are entitled to certain piggyback or demand rights with respect to the registration of their shares under the Securities Act. Pursuant to the Rights Agreement dated July 27, 1992, as amended (the "Rights Agreement"), among NeXT and the holders (the "Holders") of shares of capital stock (the "Registrable Securities"), the Holders are entitled to certain demand registration rights pursuant to which they may require NeXT to file a registration statement under the Securities Act at their expense with respect to their Registrable Securities. The Holders of at least 25% of Registrable Securities may exercise their demand registration right no earlier than 270 days after the closing of NeXT's initial public offering and only once, provided, however, that if the underwriters in any such registration limit the number of Registrable Securities that may be included in the offering to less than 80% of the Registrable Securities requested to be included, the Holders shall be entitled to one additional demand registration. If NeXT proposes to register any of its securities under the Securities Act after its initial public offering, the Holders are entitled to notice of such registration and to include their Registrable Securities therein ("piggyback registration rights"). Such demand and piggyback 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 included in such registration. These registration rights terminate upon the earlier to occur of (i) with respect to all Holders except Canon, December 31, 1997 (December 31, 1998 if the proposed amendment to reduce the Rule 144(k) holding period from three to two years is not adopted and effective prior to December 31, 1997) or with respect to Canon, December 31, 1999, or (ii) with respect to each Holder, the date on which all of the Registrable Securities held by such Holder may be sold under Rule 144 under the Securities Act ("Rule 144") in any three month period after NeXT's initial public offering.

Pursuant to the Series C Preferred Stock Purchase Agreements between NeXT and each of Sun, Motorola, Steven P. Jobs and Canon (the "Series C Holders"), NeXT granted to the Series C Holders piggyback registration rights with respect to the aggregate of [1,253,761] shares of Common Stock issuable upon conversion of the Series C Preferred (the "Series C Registrable Securities") held by them on the same terms and conditions as set forth in the Rights Agreement. These registration rights terminate upon the earlier to occur of (i) with respect to each Holder except Canon, December 31, 1996, or with respect to Canon, December 31, 1999, or (ii) with respect to each Holder, the date on which all of the Series C Registrable Securities of such Series C Holder may be sold under Rule 144 in any three month period after NeXT's initial public offering.

Pursuant to the Series D Preferred Stock Purchase Agreement dated January 19, 1996, between NeXT and MLBC, Inc. ("MLBC"), MLBC is entitled to certain demand registration rights pursuant to which it may require NeXT to file a registration statement under the Securities Act at MLBC's expense with respect to the 80,000 shares of Common Stock issuable upon conversion of the Series D Preferred held by it (the "MLBC Registrable Securities"). MLBC may exercise its demand registration right no earlier than 270 days after the closing of the offerings and only once, provided, however, that if the underwriters in any such registration limit the number of MLBC Registrable Securities that may be included in the offering to less than 80% of the MLBC Registrable Securities requested to be included, MLBC shall be entitled to one additional demand registration. MLBC was also granted piggyback registration rights. These registration rights terminate upon the earlier to occur of December 31, 1997 (December 31, 1998 if the proposed amendment to reduce the Rule 144(k) holding period from three to two years is not adopted and effective prior to December 31, 1997) or the date on which all the MLBC Registrable Securities may be sold under Rule 144 in any three month period after NeXT's initial public offering.

Pursuant to the Series D Preferred Stock Purchase Agreement dated May 29, 1996, between NeXT and Motorola, Motorola is entitled to piggyback registration rights with respect to the 36,000 shares of Common Stock issuable upon conversion of the Series D Preferred held by it (the "Motorola Registrable Securities"). These registration rights terminate upon the earlier to occur of December 31, 1996 or the date on which all of such Motorola Registrable Securities may be sold under Rule 144 in any three month period after NeXT's initial public offering.

Co-Sale Rights. Pursuant to the Rights Agreement, Steven P. Jobs agreed that he will not sell, transfer or exchange any of the shares of capital stock of NeXT owned by Mr. Jobs as of June 1989 for consideration without first giving the other Holders the opportunity to participate pro rata in such transfer based upon the relative percentage ownership of NeXT by Jobs and each other Holder who elects to participate. This co-sale right terminates upon the earlier to occur of (i) with respect to all Holders, except H. Ross Perot, J. Thomas Walter, Jr. and William K. Gaydon (collectively, the "Perot Affiliates") and Canon, December 31, 1996 or with respect to Canon and the Perot Affiliates, December 31, 1997, or (ii) with respect to any Holder (other than Mr. Jobs), the date on which all of the preferred stock of NeXT (or Common Stock issued upon conversion of such preferred stock) held by such Holder may be sold under Rule 144 in any three month period after the initial public offering of NeXT.

Rights of First Refusal. NeXT has a right of first refusal with respect to an aggregate of shares of Common Stock held by Steven P. Jobs, Canon, the Perot Affiliates, Sun, Motorola, The Stepstone Corporation, MLBC, Carnegie Mellon University and Stanford University in the event any such shareholder desires to transfer certain of its or his shares of Common Stock. Mr. Jobs also has a second right of refusal with respect to the aggregate of shares of Common Stock held by Canon, under the same terms and conditions. After consummation of NeXT's initial public offering, the price at which NeXT or Mr. Jobs, as the case may be, may purchase the shares of Common Stock under these rights of refusal shall be the closing price on the date on which NeXT receives notice of the proposed transfer. The right of first refusal and the second right of refusal terminates with respect to shares held by the Perot Affiliates, Canon, Carnegie Mellon University and Stanford University on December 31, 1996 and with respect to The Stepstone Corporation on December 31, 1999. The right of first refusal and the second right of refusal, as applicable, with respect to shares held by Sun, Motorola, MLBC and Mr. Jobs terminates on December 31, 1998.

Certain Anti-takeover Provisions

Authorized But Unissued or Undesignated Capital Stock. NeXT's authorized capital stock consists of 100 million shares of Common Stock and 5 million shares of Preferred Stock. NeXT's Articles of Incorporation grants the Board broad power to establish the rights, preferences and privileges of authorized and unissued shares of Preferred Stock and to issue such shares in one or more transactions. The issuance of Preferred Stock pursuant to the Board's authority described above may have the effect of delaying, deferring or preventing a change in control of NeXT. The Board does not currently intend to seek shareholder approval prior to any issuance of Preferred Stock, unless otherwise required by law. In addition, the issuance of large blocks of Common Stock may have the effect of delaying, deferring or preventing a change in control of NeXT.

Right of First Refusal. Pursuant to a Software Porting and Marketing Agreement between NeXT and Hewlett-Packard dated May 18, 1993 (the "HP Agreement"), Hewlett-Packard has a right of first refusal in the event of a proposed merger, consolidation, acquisition or other corporate reorganization or change of control, whether voluntary or involuntary, (a "Reorganization Transaction") of NeXT with one of certain specified companies. Under this right of first refusal, NeXT is required to offer to Hewlett-Packard to enter into an agreement with Hewlett-Packard on substantially the same terms and conditions as the proposed Reorganization Transaction, and Hewlett-Packard has five business days to either accept or reject such offer. If Hewlett-Packard declines the offer or fail to respond within five days, NeXT may consummate the proposed Reorganization Transaction pursuant to the terms set forth in the offer within a six month period. At the end of such six month period, NeXT is prohibited from consummating any such Reorganization Transaction without complying with the HP Agreement.

Standstill Agreements. In connection with their purchases of Preferred Stock, Canon and Mr. Perot entered into standstill agreements with NeXT, providing that such shareholders will not acquire any securities of NeXT if after such acquisition such shareholder will hold, in the aggregate, more than 20% of the total combined voting power of all classes of securities of NeXT (such percentage may be adjusted with respect to certain shareholders for additional issuances or dispositions of securities to or by any such shareholder), nor will any such shareholder (i) become a participant in a solicitation of proxies with respect to NeXT, (ii) form any group for the purpose of voting, purchasing or disposing of NeXT's securities or (iii) deposit any securities of NeXT in a voting trust or subject them to a voting agreement or other arrangement of similar effect (with certain limited exceptions). These standstill agreements terminate (i) with respect to Mr. Perot on the earlier to occur of (x) December 31, 1996 or (y) at such time as Mr. Jobs owns less than one-third of the total combined voting power of all classes of securities of NeXT and (ii) with respect to Canon, on the earlier to occur of (a) June 30, 1999 or (b) the date on which the standstill restrictions applicable to Mr. Perot terminate or are waived by NeXT. In addition, in connection with their acquisitions of Preferred Stock, Sun, Motorola and The Stepstone Corporation entered into standstill agreements with NeXT, providing that such shareholders will not (i) acquire any securities of NeXT without the prior written consent of NeXT or (ii) become a participant in the solicitation of proxies with respect to NeXT. This standstill agreement terminates (i) with respect to Sun and Motorola on December 31, 1998 and (ii) with respect to The Stepstone Corporation on December 31, 1999. MLBC also entered into a standstill agreement with NeXT in connection with its purchase of preferred stock, which agreement provides that MLBC, or any of its affiliates, will not (i) become a participant in a solicitation of proxies with respect to NeXT, (ii) form any group for the purpose of voting, purchasing or disposing of NeXT's securities or (iii) deposit any securities of NeXT in a voting trust or subject them to a voting agreement or other arrangement of similar effect.

Other Anti-Takeover Provisions. See "Management — Stock Plans" for a discussion of certain provisions of the 1990 Plan, the 1996 Plan and the 1996 Purchase Plan which may have the effect of discouraging, delaying or preventing a change in control of NeXT or unsolicited acquisition proposals.

Transfer Agent and Registrar

The Transfer Agent and Registrar for NeXT's Common Stock is .

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the offerings, NeXT will have outstanding 22,668,015 shares of Common Stock (assuming no exercise of outstanding options after September 30, 1996). Of these shares, the 5,000,000 shares sold in the offerings will be freely tradable without restriction or further registration under the Securities Act unless purchased by "affiliates" of NeXT as that term is defined in Rule 144 under the Securities Act (an "Affiliate"), which shares will be subjected to the resale limitations of Rule 144 adopted under the Securities Act. The remaining shares outstanding upon completion of the offerings and held by existing shareholders will be "Restricted Securities" as that term is defined under Rule 144 (the "Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 144(k) promulgated under the Securities Act, which rules are summarized below. As a result of the contractual restrictions described below, and the provisions of Rule 144 and 144(k), additional shares will be available for sale in the public market as follows: (i) no shares will be available for immediate sale in the public market on the date of this Prospectus, (ii) currently outstanding shares will be eligible for sale upon expiration of lock-up agreements 180 days after the date of this Prospectus and (iii) currently outstanding shares will be eligible for sale upon expiration of their respective two-year holding periods, subject in the case of shares held by Affiliates to compliance with certain volume restrictions.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years (and, with respect to non-affiliates of NeXT, a person who has beneficially owned Restricted Securities more than two but less than three years), will be entitled to sell in any three-month period a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of NeXT's Common Stock (approximately shares immediately after the offerings) or (ii) the average weekly trading volume of NeXT's Common Stock in the Nasdaq Stock Market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Securities and Exchange Commission (the "Commission"). Such sales pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about NeXT. A person (or persons whose shares are aggregated) who is not deemed to have been an Affiliate of NeXT at any time during the 90 days immediately preceding the sale and who has beneficially owned Restricted Shares for at least three years is entitled to sell such shares pursuant to Rule 144(k) without regard to the limitations described above. The Commission has recently proposed to reduce the two and three year holding periods under Rule 144 to one and two years, respectively. If enacted, such modification will have a material effect on the timing of when certain shares of Common Stock become eligible for resale.

In addition, following the offerings, the holders of shares of outstanding Common Stock will have rights under certain circumstances to require NeXT to register their shares for future sale. See "Description of Capital Stock — Registration Rights."

Persons who hold approximately shares of NeXT's Common Stock after completion of the offerings, including all officers, directors and certain shareholders of NeXT, have agreed with the Representatives and/or NeXT that subject to certain exceptions, for a period of 180 days following the date of this Prospectus, they will not sell, offer to sell, contract to sell, grant any option to purchase, make any short sale or otherwise dispose of any shares of Common Stock of NeXT, or any options or warrants to purchase any shares of Common Stock of NeXT, or any securities convertible into or exchangeable for shares of Common Stock of NeXT, whether now owned or hereinafter acquired, by such holders or with respect to which they have beneficial ownership within the rules and regulations of the Commission. NeXT has also agreed not to sell, offer to sell, contract to sell, grant any option to purchase or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or any rights to acquire Common Stock for a period of 180 days following the date of this Prospectus without the prior written consent of Goldman, Sachs & Co. on behalf on the Underwriters, subject to certain limited exceptions. The lock-up agreements may be released at any time as to all or any portion of the shares subject to such agreements at the sole discretion of Goldman, Sachs & Co. on behalf of the Underwriters.

NeXT intends to file a Registration Statement on Form S-3/S-8 to register certain shares of Common Stock issued under the NeXT's stock plans and issuable upon exercise of options granted under NeXT's stock plans. Following the filing of the Form S-3/S-8, shares of Common Stock issued under NeXT's stock plans will be available for sale in the public market, subject to lock-up restrictions described above and the Rule 144 volume limitations applicable to Affiliates.

Prior to the offerings, there has been no prior-public market for the Common Stock and there is no assurance a significant public market for the Common Stock will develop or be sustained after this offering. Sales of a substantial amount of Common Stock in the public market could adversely affect the market price of the Common Stock and could impair NeXT's future ability to raise capital through the sale of its equity securities. See "Risk Factors."

LEGAL MATTERS

Certain legal matters with respect to the legality of the issuance of the shares of Common Stock offered hereby will be passed upon for NeXT by Wilson Sonsini Goodrich & Rosati, A Professional Corporation, Palo Alto, California. Certain legal matters in connection with the offerings will be passed upon for the Underwriters by Shearman & Sterling, San Francisco, California.

EXPERTS

The consolidated financial statements and schedules of NeXT as of December 31, 1994 and 1995 and for each of the years in the three year period ended December 31, 1995, included herein in the Registration Statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

NeXT has filed with the Commission a Registration Statement on Form S-1 under the Securities Act with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to NeXT and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed therewith. Statements contained in this Prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement, and the exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at 7 World Trade Center, Suite 1300, New York, New York 10048 and Suite 1400, 500 West Madison Street, Chicago, Illinois 60661. Copies of all or any part of the Registration Statement may be obtained from such offices or by mail from the Public Reference Section of the Commission at its principal office upon the payment of the fees prescribed by the Commission. The Commission also maintains a World Wide Web site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

GLOSSARY

ActiveX .... Microsoft's set of technologies which enable interactive content on web-based networks such as the Internet. ActiveX provides multimedia effects, interactive objects, and applications which can run on the web browser or web server.

Applications programming interface (API) .... A set of rules within a program that describe how software functions and routines are made available to be accessed by other programs.

Applet .... A small application delivered over the Web which is run within a browser window. The applet may be based on Java or ActiveX technologies.

C, C++, Objective C .... Software development languages used to build applications.

Business Logic or Business Rules .... The portion of a program which contains the calculations and functions pertinent to business operations such as calculating interest, determining credit limits, and processing orders.

Client .... An application or computer that communicates with and requests information from a server.

Client/server .... Individual users on desktop computers, clients, communicate with centralized resources such as files, databases, and applications running on a server. Servers are generally higher-power machines designed to support multiple users simultaneously. Applications are often distributed to run some portions on the client desktop and other portions on a server where higher computational speed is often desired.

Distributed Objects .... Componentized pieces of software which are able to communicate easily with each other running locally on the same computer or on separate computers via a network connection.

Enterprise Applications .... Computer systems built by organizations that often support upwards of thousands of users, provide mission critical functionality 24 hours a day, 7 days a week, and are accessed by users across the corporation and often outside the organization.

Firewall .... A combination of hardware and software that isolates a private network from public networks for security purposes.

HP-UX .... An operating system which runs on computers developed by Hewlett-Packard.

Hypertext markup language (HTML) .... The language used to build electronic documents on the Web. Documents may contain regular text in a variety of forms and tags that tell the browser what to do when a link is activated.

Hypertext transport protocol (HTTP) .... The communications mechanism between web browsers and web servers for exchanging information and requesting documents.

Hypertext .... Text that contains references to other text documents, allowing the reader to skip around and read the documents in various orders.

Hypertext link .... A link to another section of the same document or to another separate document.

Intranet .... A private network inside a company or organization.

Interoperability .... The ability of hardware or software made by different manufacturers or as part of different computer systems to easily communicate and share information.

Java .... A cross platform programming language invented by Sun that is specifically designed for enabling interactive dynamic applications.

Legacy systems .... Refers to preexisting computer systems that have usually been in place for a long period of time and are often costly to replace. A mainframe application is typically referred to as a legacy system.

Mach .... An operating system originally developed at Carnegie Mellon University and later adopted by NeXT as the basis for the NEXTSTEP operating system. Mach provides a strong foundation for distributed objects.

Objects .... Building blocks of software which allow developers to create reusable modular components that can be easily combined in different ways to build applications — much like prefabricated parts on an assembly line.

Object linking and embedding (OLE) .... An industry standard developed by Microsoft for connecting objects into applications.

Object-oriented programming ..... A type of software programming in which a program is viewed as a collection of discrete software objects, each of which is a self-contained collection of common data structures and data processing routines.

Open database connectivity (ODBC) .... An industry standard for accessing various database systems.

Open systems .... Open systems are usually standardized and compatible with a number of other vendors' technology and are generally adept at running on multiple operating platforms and interacting with other software.

Operating system .... The software that manages a computer's core functionality such as memory, disk space, processing and peripheral devices (monitor, keyboard, mouse, printer, modem and so on). The operating system starts running before any other software and stays in memory the whole time a computer is on.

Plug-ins .... Programs which are added to a web browser that provide expanded capabilities such as multimedia.

Publishing server .... A web server which typically receives requests for information and returns static pages and documents.

Secure sockets layer (SSL) ...... A standard protocol for ensuring private communication across a network using encryption and authentication.

Server .... A network application or computer that supplies information or other resources to client applications that connect to it.

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Solaris	A UNIX-based operating system which runs on computers developed by Sun.
Structured Query Language (SQL)	An industry standard database language used in querying, updating and managing relational databases.
UNIX	A multiuser, multitasking operating system common to workstations and servers developed by Bell Labs in 1969. Much of the Internet relies on UNIX-based servers to power the World Wide Web.
Web browser	Software available on a variety of operating systems which enables users to view pages of electronic information from web sites. The most popular browsers today are Microsoft Internet Explorer and Netscape Navigator.
World Wide Web (Web)	A client/server information and retrieval system based upon HTTP that transfers documents in HTML across a variety of computer platforms.

NeXT SOFTWARE, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
NeXT Software, Inc.:

We have audited the accompanying consolidated balance sheets of NeXT Software, Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' deficit and cash flows for each of the years in the three year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NeXT Software, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

February 2, 1996

NeXT SOFTWARE, INC.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

December 31, 1994, 1995 and September 30, 1996

ASSETS

	December 31, 1994	December 31, 1995	September 30, 1996 (unaudited)	September 30, 1996 Pro Forma
Current assets:				
Cash and cash equivalents	$ 2,310	$ 440	$ 2,088	
Investments	910	411	724	
Trade receivables, net of allowances	8,976	9,848	8,553	
Other receivables	590	192	243	
Inventories, net	310	217	229	
Prepaid expenses	276	360	833	
Total current assets	13,372	11,528	12,670	
Property and equipment, net	1,065	2,272	2,730	
Other assets	39	246	521	
Total assets	$ 14,476	$ 14,046	$ 15,921	
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$ 2,074	$ 1,821	$ 1,216	
Accrued expenses	6,501	5,821	7,343	
Accrued discontinued operations expenses	6,917	5,744	5,796	
Capital lease obligations, short-term	—	146	174	
Deferred revenues, short-term	3,914	5,845	8,328	
Notes payable, short-term	5,000	35,222	47,252	
Interest payable	736	774	355	
Taxes payable	596	413	466	
Total current liabilities	25,738	55,786	70,930	
Capital lease obligations, long-term	—	277	179	
Notes payable, long-term	28,222	—		
Deferred revenues, long-term	7,791	5,499	—	
Other liabilities	67	25	50	
Total liabilities	61,818	61,587	71,159	
Shareholders' equity (deficit):				
Series D preferred stock, no par value 3A	$ —	$ —	$ 2,900	
Series C preferred stock, no par value 3B	179,870	180,120	180,120	
Series C preferred stock warrants	400	—	—	
Series B preferred stock, no par value 3C	26,047	26,047	26,047	
Series A preferred stock, no par value 3D	6,250	6,100	6,100	
Common stock, no par value; 100,000,000 shares authorized; 1,841,524, 1,546,255 and 1,997,000 shares issued and outstanding in 1994, 1995 and 1996, respectively	1,721	2,165	2,610	
Paid in capital — warrants	—	400	400	
Less notes receivable from shareholders	(85)	(28)	(10)	
Accumulated deficit	(261,545)	(262,345)	(273,405)	
Total shareholders' deficit	(47,342)	(47,541)	(55,238)	
Total liabilities and shareholders' deficit	$ 14,476	$ 14,046	$ 15,921	

See accompanying notes to consolidated financial statements.

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NeXT SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

	Year Ended December 31, 1993	1994	1995	Nine Months Ended September 30, 1995 (unaudited)	1996 (unaudited)
Revenues:					
Software licensing	$ 10,076	$25,894	$26,762	$19,295	$ 22,498
Services	2,359	3,759	10,672	7,524	13,190
Technology licensing	38	17,554	7,543	7,500	12
Research and development contracts	1,800	2,390	1,829	1,829	195
Total revenues	14,273	49,597	46,806	36,148	35,895
Cost of revenues:					
Software licensing	4,007	5,136	2,895	1,992	2,271
Services	4,612	4,265	8,011	5,647	10,349
Technology licensing	—	194	208	208	—
Research and development contracts	1,667	1,393	365	365	71
Total cost of revenues	10,286	10,988	11,479	8,212	12,691
Gross margin	3,987	38,609	35,327	27,936	23,204
Operating expenses:					
Research and development	8,944	10,655	12,412	9,074	9,367
Sales and marketing	26,150	20,582	17,158	12,190	18,334
General and administrative	5,240	4,744	5,628	4,142	4,184
Total operating expenses	40,334	35,981	35,198	25,406	31,885
Operating income (loss) from continuing operations	(36,347)	2,628	129	2,530	(8,681)
Other income (expense):					
Interest, net	(3,107)	(1,595)	(2,089)	(1,523)	(2,136)
Foreign exchange gain (loss)	(643)	54	(48)	(43)	(246)
Other, net	(122)	17	467	11	8
Income (loss) from continuing operations before taxes	(40,219)	1,104	(1,541)	975	(11,055)
Provision for income taxes	3	74	9	53	5
Income (loss) from continuing operations	(40,222)	1,030	(1,550)	922	(11,060)
Discontinued operations:					
Gain on disposal of discontinued operations	—	—	750	—	—
Net income (loss)	$(40,222)	$ 1,030	$ (800)	$ 922	$(11,060)
Pro forma net income (loss) per share	—	—	$ (0.10)	$ 0.05	$ (0.72)

See accompanying notes to consolidated financial statements.

NeXT SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(In thousands)

	Series D Preferred		Series C Preferred: Series C Preferred		Series C Preferred: Warrants		Series B Preferred		Series A Preferred		Common Stock		Paid-In Capital	Receivable from Shareholders	Accumulated Deficit	Shareholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, December 31, 1992	—	$ —	3,250	$129,870	200	$ 400	2,500	$26,047	2,000	$7,000	635	$ 635	$ —	$ (131)	$(222,353)	$(58,532)
Issuance of:																
Series C preferred stock	—	—	625	25,000	—	—	—	—	—	—	—	—	—	(5,000)	—	20,000
Common stock, net of purchasers	—	—	—	—	—	—	—	—	—	—	39	91	—	—	—	91
Conversion of Series A preferred stock	—	—	—	—	—	—	—	—	(750)	(750)	750	750	—	—	—	—
Loan repayments	—	—	—	—	—	—	—	—	—	—	—	—	—	78	—	78
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(40,222)	(40,222)
Balances, December 31, 1993	—	—	3,875	154,870	200	400	2,500	26,047	6,250	6,250	1,424	1,476	—	(5,053)	(262,575)	(78,585)
Issuance of:																
Series C preferred stock	—	—	625	25,000	—	—	—	—	—	—	—	—	—	—	—	25,000
Common stock, net of repurchases	—	—	—	—	—	—	—	—	—	—	122	245	—	—	—	245
Loan repayments	—	—	—	—	—	—	—	—	—	—	—	—	—	4,968	—	4,968
Net income	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,030	1,030
Balances, December 31, 1994	—	—	4,500	179,870	200	400	2,500	26,047	6,250	6,250	1,546	1,721	—	(85)	(261,545)	(47,342)
Issuance of:																
Series C preferred stock	—	—	6	250	—	—	—	—	—	—	—	—	—	—	—	250
Warrants	—	—	—	—	(200)	(400)	—	—	—	—	—	—	400	—	—	—
Common stock, net of repurchases	—	—	—	—	—	—	—	—	—	—	145	294	—	—	—	294
Conversion of Series A preferred stock	—	—	—	—	—	—	—	—	(150)	(150)	150	150	—	—	—	—
Loan repayments	—	—	—	—	—	—	—	—	—	—	—	—	—	57	—	57
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(800)	(800)
Balances, December 31, 1995	—	—	4,506	180,120	—	—	2,500	26,047	6,100	6,100	1,841	2,615	400	(28)	(262,345)	(47,541)
Issuance of:																
Series D preferred stock	116	2,900	—	—	—	—	—	—	—	—	—	—	—	—	—	2,900
Common stock, net of repurchases	—	—	—	—	—	—	—	—	—	—	156	445	—	18	—	463
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(5,289)	(11,060)
Balance, September 30, 1996 (unaudited)	116	$2,900	4,506	$180,120	—	$ —	2,500	$26,047	6,100	$6,100	1,997	$2,609	$400	$ (10)	$(273,405)	$(55,238)

See accompanying notes to consolidated financial statements.

NeXT SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in thousands)

	Years Ended December 31,			Nine Months Ended September 30,	
	1993	1994	1995	1995	1996
				(unaudited)	
Cash Flows from operating activities:					
Net income (loss)	$(40,222)	$ 1,030	$ (800)	$ 922	$(11,060)
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization	2,648	994	902	690	837
Changes in operating assets and liabilities					
Trade receivables	24,395	(6,496)	(872)	139	1,295
Other receivables	2,168	1,011	398	465	(51)
Inventories	6,983	194	93	69	(12)
Prepaid expenses and other assets	261	172	(354)	(444)	(811)
Account payable	(17,157)	(1,041)	(253)	(120)	(605)
Accrued expenses and other	(7,095)	727	(684)	55	1,128
Deferred revenues	11,156	82	(361)	(1,123)	(3,016)
Taxes payable	(591)	521	(183)	(113)	53
Accrued discontinued operations	(2,715)	(1,832)	(1,173)	364	52
Net cash provided by (used in) operating activities:	(20,169)	(4,638)	(3,287)	904	(12,190)
Cash flows from investing activities:					
(Purchases) maturities and sales of investments	1,225	(404)	439	437	(253)
Capital expenditures	(1,297)	(857)	(1,570)	(1,162)	(1,232)
Proceeds from the Sale of Assets	3,540	—	—	—	—
Net cash used in investing activities	3,468	(1,261)	(1,131)	(725)	(1,485)
Cash flows from financing activities:					
Principal payments on capital leases	(279)	(77)	(53)	(16)	(70)
Repayments on borrowings	—	(5,000)	—	—	—
Issuance of preferred and common stock, net of repurchases	25,091	245	544	373	3,345
Proceeds of short term notes payable	(21,778)	—	2,000	—	12,030
Receivable from shares, net	(4,922)	4,968	57	57	18
Net cash provided by financing activities	(1,888)	136	2,918	414	1,532
Net decrease in cash and cash equivalents	(18,589)	(5,763)	(1,870)	593	1,648
Cash and cash equivalents at beginning of year	26,662	8,073	2,310	2,310	440
Cash and cash equivalents at end of year	$ 8,073	$ 2,310	$ 440	$ 2,903	$ 2,088
Supplemental disclosure of cash flow information and noncash items:					
Income taxes paid	$ 6	$ 37	$ 52	$ 18	$ 15
Interest paid	4,243	1,095	2,173	2,183	2,326
Noncash activities:					
Conversion of debt to equity	10,000	25,000	—	—	—
Series C Preferred Stock issued for intangible assets	—	—	250	250	—
Series C Preferred Stock issued for common stock	5,000	—	—	—	—
Series A Preferred Stock issued for common stock	750	—	150	—	—
Assets acquired through capital lease	—	—	476	397	524
Reduction of long-term note payable for sale of certain assets and prepayment of certain licensing rights and consulting services	25,000	—	—	—	—
Conversion of accrued interest payable to long-term note payable	3,222	—	—	—	—

See accompanying notes to consolidated financial statements.

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1994 and 1995 and nine months ended September 30, 1995 and 1996 (Information with respect to the nine months ended September 30, 1995 and 1996)

(1) Nature of Business

NeXT Software, Inc. (NeXT) was incorporated in California as NeXT, Inc. on September 19, 1985 to develop, manufacture, and market computer workstations. In 1992, NeXT decided to discontinue the computer workstation business and dedicate its efforts and resources entirely towards developing and marketing software. Since the beginning of 1993, operations have consisted of developing and marketing various object-oriented software products and related services. NeXT delivers an open development environment for building custom applications for both the Internet/World Wide Web and enterprise.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of NeXT and its majority-owned foreign subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Realized and unrealized foreign exchange gains and losses, which have not been material, are included in results of operations.

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 the disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant estimates made in preparing these consolidated financial statements include an accrual for discontinued operations, an allowance for doubtful accounts and reserves for sales tax liabilities.

Interim Financial Information

The financial information for the nine months ended September 30, 1995 and 1996 is unaudited, but includes all adjustments that NeXT considers necessary for a fair presentation of the financial information set forth therein, in accordance with generally accepted accounting principles. The results for the nine months ended September 30, 1996 should not be considered indicative of the results to be expected for any future period or for the entire year.

Cash and Cash Equivalents

NeXT considers all money market instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments consist of certificates of deposit and treasury bills and are purchased for the purpose of collateral for letters of credit and are generally reinvested as they mature. NeXT has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and has classified its investments as available for sale. Such investments are recorded at fair value, which approximate cost, with unrealized gains and losses reported as a separate component of shareholders' deficit. The effect of adopting SFAS No. 115 was not material to the Company's consolidated financial statements.

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain amounts are included in investments that are restricted as to their use. These amounts are related to certain letters of credit on building leases for the Company's office space. Restricted cash for the years ended December 31, 1994 and 1995 and the nine month period ended September 30, 1996 were $404,000, $365,000 and $365,000, respectively.

Concentration of Credit Risk

NeXT sells its products primarily to companies and governmental agencies in North America, Europe and Asia. NeXT performs ongoing credit evaluations on its customers and generally does not require collateral. NeXT has not experienced significant accounting losses related to the receivables from individual customers or groups of customers in any particular industry or geographical area.

Revenue Recognition

NeXT recognizes revenues in accordance with Statement of Position No. 91-1, *Software Revenue Recognition*, which generally requires software revenues to be recognized upon delivery to the customer. Maintenance and support revenues are recognized ratably over the term of the agreement, which in most cases is one year. Revenues from consulting and training services are recognized when services are performed.

Deferred revenues includes deferred maintenance revenues, prepaid consulting, training and future product releases paid for in advance.

Technology licensing revenues consist of fees paid by third parties for the licensing of NeXT technology.

Research and Development Contracts

NeXT earns research and development contract revenues by entering into contracts with original equipment manufacturer (OEM) customers to obtain funding for all or a portion of the efforts required to adapt the Company's software products to the OEM's hardware platform. In return for such funding, NeXT is generally only obligated to apply reasonable efforts to complete the end product, and substantially all amounts funded to NeXT are nonrefundable once funded.

International Operations

NeXT operates in one industry segment (the development and marketing of computer software and related services) and markets its products and services through foreign subsidiaries in Europe and Asia Pacific and through other distributors and resellers on a worldwide basis. International revenues from foreign subsidiaries and distributors and resellers for the years ended December 31, 1994 and 1995 and the nine months ended September 30, 1996 were approximately 15.1%, 19.2% and 20.0%, respectively, of total revenues.

Software Development Costs

All costs incurred related to development of software are expensed as incurred.

Software development costs are considered for capitalization when technological feasibility is established in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for Costs of Computer Software To Be Sold, Leased or Otherwise Marketed. To date, the Company's software development has been completed concurrent with the establishment of technological feasibility, and accordingly, no costs have been capitalized.

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

Inventories consist principally of software media and related documentation, which are stated at the lower of cost (first in, first out) or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, generally three years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Assets under capital leases are amortized over the shorter of the asset life or the remaining lease term.

Income Taxes

NeXT accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years that those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net Income (Loss) Per Share:

Except as noted below, net income per share is computed using the weighted average number of shares of common stock outstanding and dilutive common stock equivalents. Common stock equivalent shares from convertible preferred stock and from options and warrants have been excluded from the computation of net loss per share as the effect is anti-dilutive. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletins, common and common equivalent shares issued by NeXT at prices below the initial public offering price have been included in the calculation as if they were outstanding for all periods presented (using the treasury stock method) at an assumed public offering price of $16.00 per share.

Per share information calculated on the above noted basis is as follows (in thousands, except per share amounts):

	Year ended December 31, 1995	Nine months ended September 30, 1995	Nine months ended September 30, 1996
Net loss per share	(.10)	.05	(.72)
Shares used in computing net loss per share	14,947,775	17,752,618	15,220,185

Proforma Net Income (Loss) Per Share and Unaudited Proforma Shareholder's Equity:

Pro forma net income (loss) per share has been computed as described above and also gives effect, even if antidilutive, to the common equivalent shares from convertible preferred shares that will automatically convert to common shares upon the closing of the Company's initial public offering (using the as-if-converted method). If the offering contemplated by the Prospectus is consummated, all of the convertible preferred stock outstanding as of the closing date will automatically be converted to an aggregate of 13,222,250 shares of common stock based on the number of shares of convertible preferred stock outstanding as of September 30, 1996. Pro forma net income (loss) per share also gives effect to the number of common shares to be issued upon conversion of outstanding debt to Cannon and

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merrill. Such debt may be converted to common stock at the option of either NeXT or the lender respective upon successful completion of a public offering of NeXT securities. Aggregate proceeds of at least 75 million are required to activate NeXT's right to convert Unaudited pro forma stockholders' equity at September 30, 1996, as adjusted for the conversion of preferred stock, it disclosed on the consolidated balance sheet.

Stock-Based Compensation

Prior to January 1, 1996, NeXT accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, NeXT adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. NeXT has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

(3) Property and Equipment (in thousands)

Property and equipment consisted of the following:

	December 31, 1994	December 31, 1995	September 30, 1996
Machinery and equipment	$ 6,115	$ 8,135	$ 8,748
Leasehold improvements	5,431	5,718	6,062
Furniture and fixtures	1,446	1,476	1,751
	12,992	15,329	16,561
Less accumulated depreciation and amortization	(11,927)	(13,057)	(13,831)
	$ 1,065	$ 2,272	$ 2,730

(4) Notes Payable

Short-Term Notes Payable

As of December 31, 1995 and September 30, 1996, NeXT had a line of credit of $8,000,000 with Merrill Lynch Business Financial Services ("MLBFS"). A portion of the borrowings are secured by the personal guaranty of the Company's Chief Executive Officer. Interest is due at the 30-day commercial paper rate plus 2.50% (8.33% and 8.0% as of December 31, 1995 and September 30, 1996, respectively). Borrowings under this line of credit were $500,000 and $8,000,000, as of December 31, 1995 and September 30, 1996, respectively. The maturity date for this line of credit is March 31, 1997. Alternatively, the outstanding amounts may be converted into Common Stock upon the successful completion of an initial public offering of NeXT's Common Stock.

NeXT also has an unsecured promissory note to a bank which is secured by personal guaranty of the Company's Chief Executive Officer and bears interest at prime, which was 8.75% and 8.25% as of December 31, 1995 and September 30, 1996, respectively.

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As of December 31, 1994 and 1995, and September 30, 1996, NeXT had a remaining balance of $28,222,000 outstanding under a Term Loan Agreement with Canon, Inc. (Canon). The remaining balance, of which $20,000,000 carries interest at 6.3% and $8,222,000 carries interest at 6.08%, is due and payable in April and May 1997. Accrued interest aggregated $699,000, $722,000 and $280,000 as of December 31, 1994 and 1995, and September 30, 1996, respectively. The loans are collateralized by certain intangible assets, including patents and patent applications and by certain software assets. Under provisions defined in the agreement, the Company's accounts receivable may also become collateral for the loans.

Either NeXT or Canon may convert any or all of the then outstanding principal into common stock upon a public offering aggregating $75 million or greater of the Company's equity securities at a per share price equal to the Company's initial public offering price, net of underwriting discounts and commissions. The Term Loan Agreement with Canon prohibits NeXT from paying cash dividends on any of its preferred or common stock and also prohibits, *inter alia*, any redemption, purchase, or other acquisition, of the Company's outstanding shares other than repurchases under employee benefit plans.

(5) Commitments and Contingencies *(In thousands)*

Leases

NeXT leases certain facilities and equipment under operating leases, which expire at various dates through 2000. NeXT has certain options to extend such leases. NeXT also leases certain equipment under capital leases which expire in 1998.

The Company's future minimum lease payments under noncancellable operating and capital leases as of September 30, 1996 are as follows:

Year ending	Operating Leases	Capital Leases
1996 (three months)	$ 696	$ 51
1997	2,890	205
1998	2,531	138
1999	1,334	2
2000	551	—
Total	$ 8,002	396
Less amounts representing interest		41
Present value of future minimum lease payments		355
Less short-term portion		174
Capital lease obligations, long-term		$ 179

The gross amount of capitalized leased assets included in property and equipment is approximately $524. Amortization of such assets is included in depreciation expense.

Net rental expense was $2,459, $3,052 and $1,979 in 1994 and 1995, and the nine months ended September 30, 1996, respectively.

Legal Proceedings

NeXT is engaged in certain legal actions arising in the ordinary course of business. NeXT believes that the final outcome of these actions will not have a material adverse effect on the Company's consolidated financial position.

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Income Taxes

Income tax expense consisted of the following:

	State	Foreign	Total
1994:			
Current			
Deferred			
1995:			
Current			
Deferred			

Income tax expense differed from the amounts computed by applying the U.S. federal statutory rate due primarily to the inability to project utilization of net operating losses in 1995, as well as the impact of state taxes.

As of December 31, 1995, NeXT had net operating loss carryforwards of approximately $210 million and $135 million for federal and state income tax purposes, respectively. In addition, NeXT had research and development credit carryforwards of approximately $9 million and $3 million for federal and California income taxes, respectively. If not utilized, these carryforwards will expire beginning in 2001 through 2010. The ability to utilize these net operating loss carryforwards may be limited should NeXT have an "ownership change" as defined by Section 282 of the Internal Revenue Code.

The approximate tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are presented below:

	1994	1995
Net operating loss carryforwards		
Research credit carryforwards		
Reserves, accruals and other		
Valuation allowance		

(7) Shareholder's Equity

The accompanying financial statements and in the following footnote discussion have been revised to reflect a 2:1 reverse stock split of NeXT's capital stock approved by NeXT's Board of Directors in , 1996.

Preferred Stock

NeXT has authorized a total of 100 million shares of preferred stock. As of December 31, 1995, NeXT had outstanding three series of preferred stock: Series A, Series B and Series C. As of September 30, 1996, NeXT had outstanding four series of preferred stock: Series A, Series B, Series C and Series D. Each share of preferred stock is convertible, at the option of the holder, into a fully paid share of common stock. The current conversion ratio for the Series A, Series B and Series D is one-for-one and the current conversion ratio for the Series C preferred stock is 1.003-for-one, in each case subject to adjustments for stock dividends, stock splits and capital reorganizations. The conversion price of the Series B, C and D preferred stock will be adjusted on a weighted average basis for issuances of stock at a price per share less than the respective conversion price (other than issuances under the stock option plan).

The preferred stock will automatically convert to common shares upon the effective date of a registration statement for a public offering. The holders of the preferred stock are entitled to one vote for

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

each share of common stock which would be issuable to the holder upon conversion of all the preferred shares.

Series A Preferred Stock

During 1985 and 1986, NeXT issued 7 million shares of Series A preferred stock to NeXT's Chief Executive Officer. The Series A preferred stock was issued in exchange for consideration of $6.6 million of cash and forgiveness of indebtedness in the amount of $353,000. In 1993, 750,000 of the 7 million shares of Series A preferred stock outstanding were converted to common stock at $1.00 per share. In 1995, 150,000 of the 6.25 million shares of Series A preferred stock outstanding were converted to common stock at $1.00 per share.

The holder of the Series A preferred stock is entitled to receive dividends of $0.10 per share per annum when and as declared by the Board of Directors. The Series A dividend preference and liquidation preference of $1.00 per share, plus all declared and unpaid dividends, are subordinated to the dividend and liquidation preferences of the Series B and C preferred stock.

Series B Preferred Stock

During 1987 and 1988, NeXT issued 2.5 million shares of Series B preferred stock to six investors, including NeXT's Chief Executive Officer. The Series B preferred stock was issued in exchange for consideration of $25.1 million cash and forgiveness of $1.25 million of indebtedness due to NeXT's Chief Executive Officer. The holders of the Series B preferred stock are entitled to receive dividends of $0.80 per share per annum when and as declared by the Board of Directors. The Series B dividend preference and liquidation preference of $10.52 per share, plus all declared and unpaid dividends, are on a parity with those of the Series C preferred stock.

Series C Preferred Stock

In June 1989, NeXT issued 2.5 million shares of Series C preferred stock to Canon. The Series C preferred stock was issued in exchange for consideration of $100 million.

In September 1991, NeXT issued an aggregate of 500,000 shares of Series C preferred stock to Canon and to NeXT's Chief Executive Officer in exchange for total cash consideration of $20 million. In December 1991, NeXT issued an additional 250,000 shares of Series C preferred stock to Canon in exchange for consideration of $10 million.

In 1993, NeXT issued 500,000 shares of Series C preferred stock to two investors, in exchange for consideration of $10 million cash and forgiveness of $10 million of outstanding payables to a vendor. In addition, in 1993, NeXT issued to NeXT's Chief Executive Officer, 125,000 shares of Series C preferred stock in exchange for consideration of a receivable for $5 million.

In January 1994, an additional 25,000 shares of Series C preferred stock were issued to Canon following conversion of $25 million in outstanding debt. The holders of the Series C preferred stock are entitled to receive dividends of $3.20 per share per annum when and as declared by the Board of Directors. The Series C dividend preference and liquidation preference of $40.00 per share, plus all declared and unpaid dividends, are on a parity with those of the Series B preferred stock. In March 1995, 6,250 shares of Series C preferred stock were issued in exchange for certain intangible assets in conjunction with settlement of litigation pertaining to such assets.

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Series D Preferred Stock

In January 1996, NeXT issued 80,000 shares of Series D preferred stock to MLBC, Inc. (MLBC). The Series D preferred stock was issued in exchange for consideration of $2 million. In June 1996, NeXT issued 36,000 shares of Series D preferred stock to Motorola, Inc. (Motorola) in exchange for an outstanding note payable of $900,000.

The holder of the Series D preferred stock are entitled to receive dividends of $3.00 per share per annum when and as declared by the Board of Directors. The Series D dividend preference and liquidation preference of $25.00 per share, plus all declared and unpaid dividends, are subordinated to the dividend and liquidation preferences of the Series B and C preferred stock.

Under the dilution provision of Article 3, Section 5(c) of the Amended and Restated Articles of Incorporation, as amended, holders of Series C preferred stock are entitled to an issuance of approximately 13,500 of common stock upon conversion of their Series C preferred stock as a result of dilutive issuance of these preferred shares to MLBC and Motorola.

Warrants

In January 1992, pursuant to an agreement with Intel Corporation (Intel) and in exchange for consideration of $400,000, NeXT issued a warrant granting Intel the right to purchase up to 200,000 shares of Series C preferred stock at $38 per share. The number of shares purchasable and the exercise price were subject to adjustment, as specified in the agreement. The warrant became exercisable, vested and, expired without being exercised by Intel on October 1, 1995. The $400,000 received as consideration has been reclassified to paid-in capital as of December 31, 1995.

(8) Stock Option Plan

During 1989, NeXT adopted the 1990 Stock Option Plan (the Option Plan) under which the Board of Directors may issue either nonqualified or incentive stock options to employees, officers, directors, advisors or independent contractors of NeXT. NeXT reserved 4 million shares of common stock, less any shares outstanding under the 1986 Stock Purchase Plan (Purchase Plan), for issuance under the Option Plan. The Purchase Plan was an equity incentive plan in effect from 1986 through 1989 that authorized the sales and issuance of common stock to the Company's employees, directors, and consultants. In November 1992, the number of shares reserved for issuance under the Option Plan was increased to a total of 4.2 million. In July 1995, the number of shares reserved for issuances under the Option Plan was increased to a total of 5.0 million. The Option Plan expires 10 years after adoption. The Board of Directors has authority to determine to whom options will be granted, the number of shares subject to the option and the term and exercise price (which cannot be less than fair market value at date of grant for incentive stock options or 85% of fair market value for nonqualified options). The options are exercisable at times and in increments as specified by the Board of Directors. Options generally are exercisable to the extent vested and expire 10 years from date of grant. Generally, options vest over 4 years in annual increments.

At September 30, 1996, there were $XX,XXX additional shares available for grant under the Option Plan. The per share weighted average exercise price of stock options granted during the first nine months of 1996 was $XX,XXX on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions: expected dividend yield of X.X%, risk-free interest rate of X.X% and an expected live of X years (effected stock violatility has not been considered due to NeXT's nonpublic status in previous periods). Had compensation expense for stock options granted in 1995 and the first nine months of 1996 been recorded based on the fair market value at the grant date, NeXT's net income and earnings per share 1995 and the first nine months of 1996 would have been reduced by $XXX and $X.XX per share, and $XXX and $X.XX per share, respectively.

The following table summarized activity for the periods indicated:

	Available for Grant	Outstanding	Weighted Average Exercise Price Per Share
Balance, December 31, 1992			$1.00
Granted			1.00
Exercised			1.00
Canceled			1.00
Balance, December 31, 1993	1,352,367	2,146,596	$2.00
Granted	(1,264,850)	1,264,850	2.00
Exercised	—	(122,719)	2.00
Canceled	393,343	(393,343)	2.00
Balance, December 31, 1994	480,860	2,895,384	2.00
Plan Increase	8,500,000	—	—
Granted	(1,023,850)	1,023,850	
Exercised	—	(155,219)	2.00
Canceled	164,633	(165,633)	
Additional shares	9,950	—	—
Balance, December 31, 1995	482,595	3,598,382	
Options exercisable as of December 31, 1995		1,845,192	
Granted			
Exercised	—		
Canceled			
Balance, September 30, 1996			
Options exercisable as of September 30, 1996			

At September 30, 1996, the range of exercise prices and average remaining contractual life of outstanding options was $XX.XX - $XX.XX and X.XX years, respectively. At September 30, 1996, the number of options exercisable was XXX.

The 9,950 additional shares available for grant in 1995 are the result of common stock repurchased under the Purchase Plan that became available for grant under the Option Plan.

(9) Major customers

Sun Microsystems, Inc. (Sun) accounted for 19% and Merrill lynch Pierce, Fenner & Smith Incorporated ("Merrill") and Canon each accounted for 7% of total revenues in 1995. NeXT had sales to Sun representing 35% and to Canon representing 6% of total revenues in 1994. No other customer accounted for 10% or more of the Company's revenues in 1994. NeXT had sales to Merrill representing 12.9% and Canon representing 8.4% of total revenues through the first nine months of 1996. No other customer accounted for more than 10% of NeXT's total revenues during this period. No other customer accounted for 10% or more of the Company's revenues in 1995. As of December 31, 1995, accounts receivable included approximately $15,000 from Sun, $1,936,000 from Merrill and $510,000 from Canon as of September 30, 1996, accounts receivable included approximately $86,000 from Merrill and $58,000 from Canon.

NeXT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Related Party Transactions

Notes and Interest Receivable — Employees

NeXT has made loans to certain employees and former employees of NeXT, which bear simple interest at rates ranging from 8% to 12.5%. As of December 31, 1994 and 1995, and September 30, 1996 the gross amount outstanding on these notes was $514,000, $379,000 and $282,000, respectively. The loans, which are included in other receivables, matured upon the earlier of termination of employment or various dates throughout 1995. These loans have been fully reserved and are shown net.

Notes Receivable from Shareholders

NeXT has made loans to employees and former employees for purchase of NeXT stock. Accordingly, such loans have been recorded as reductions in shareholders' equity. The loans bear interest at rates ranging from 8.04% to 9.50%. The loans mature upon the earlier of termination of employment or various dates through February 1997. As of December 31, 1994 and 1995 and September 30, 1996, total amounts outstanding on these loans were $85,000, $28,000 and $10,000, respectively. Each loan is secured by the employee's common stock in NeXT.

Notes Payable

NeXT has outstanding debt with Canon, which is discussed in Note 4.

Distribution Agreement

In 1995, NeXT entered into an agreement with Canon (a shareholder and major customer) whereby Canon provides distribution services to NeXT wholly-owned subsidiary in Japan. Sales through Canon to NeXT Japan, which were eliminated from revenues, totaled $750,000 in 1995 and $151,000 for the nine months ended September 30, 1996.

(10) Discontinued Operations

In the fourth quarter of 1992, NeXT's management adopted a plan to exit the workstation business. Accordingly, NeXT provided $20 million for the loss on disposal of the exited business which included charges associated with future lease commitments relating to real estate and equipment no longer used in continued operations, excess of cost over net realizable value for certain materials and the write-down of leasehold improvements and other property and equipment. The remaining accrual as of September 30, 1996 consists primarily of certain contingent liabilities stemming from discontinued operations, as well as costs associated with closing foreign operations.

In 1995, NeXT recorded a gain of $750,000 from discontinued operations in connection with the final resolution of an inventory-related exposure with Canon, which was previously accrued. The final resolution resulted in a net reduction of $750,000 of which was specifically identified for this item.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, NeXT has agreed to sell to each of the U.S. Underwriters named below, and each of such U.S. Underwriters, for whom Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives, has severally agreed to purchase from NeXT, the respective number of shares of Common Stock set forth opposite its name below.

Underwriter	Number of Shares of Common Stock
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Total	4,000,000

Under the terms and conditions of the Underwriting Agreement, the U.S. Underwriters are committed to take and pay for all of the shares offered hereby, if any are taken.

The U.S. Underwriters propose to offer the shares of Common Stock in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus and in part to certain securities dealers at such price less a concession of $ per share. The U.S. Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain brokers and dealers. After the shares of Common Stock are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

NeXT has entered into an underwriting agreement (the "International Underwriting Agreement") with the underwriters of the international offering (the "International Underwriters") providing for the concurrent offer and sale of 1,000,000 shares of Common Stock in an international offering outside the United States (the "International Offering"). The offering price and aggregate underwriting discounts and commissions per share for the two offerings are identical. The closing of the U.S. offering is a condition to the closing of the International Offering, and vice versa. The representatives of the International Underwriters are Goldman Sachs International and Merrill Lynch International Limited.

Pursuant to an Agreement between the U.S. and International Underwriting Syndicates (the "Agreement Between") relating to the two offerings, each of the U.S. Underwriters named herein has agreed that, as part of the distribution of the shares offered hereby and subject to certain exceptions, it will offer, sell or deliver the shares of Common Stock, directly or indirectly, only in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (the "United States") and to U.S. persons, which term shall mean, for purposes of this paragraph: (a) any individual who is a resident of the United States or (b) any corporation, partnership or other entity organized in or under the laws of the United States or any political subdivision thereof and whose office most directly involved with the purchase is located in the United States. Each of the International Underwriters has agreed pursuant to the Agreement Between that, as part of the distribution of the shares offered as a part of the International Offering and subject to certain exceptions, it will (i) not, directly or indirectly, offer, sell or deliver shares of Common Stock (a) in the United States or to an U.S. persons or (b) to any person who it believes intends to reoffer, resell or deliver the shares in the United States or to any U.S. persons and (ii) cause any dealer to whom it may sell such shares at any concession to agree to observe a similar restriction.

Pursuant to the Agreement Between, sales may be made between the U.S. Underwriters and International Underwriters of such number of shares of Common Stock as may be mutually agreed. The price of any shares so sold shall be the initial public offering price, less an amount not greater than the selling concession.

NeXT has granted the U.S. Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 600,000 additional shares of Common Stock solely to cover over-allotments, if any. If the U.S. Underwriters exercise their over-allotment option, the U.S. Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 4,000,000 shares of Common Stock offered hereby. NeXT has granted the International Underwriters a similar option to purchase up to an aggregate of 150,000 additional shares of Common Stock.

NeXT has agreed that, during the period beginning from the date of this Prospectus and continuing to and including the date 180 days after the date of this Prospectus, they will not offer, sell, contract to sell or otherwise dispose of any securities of NeXT (other than pursuant to employee stock option plans existing, or on the conversion or exchange of convertible or exchangeable securities outstanding, on the date of this Prospectus or other limited exceptions) which are substantially similar to the shares of Common Stock or which are convertible or exchangeable into securities which are substantially similar to the shares of Common Stock, without the prior written consent of Goldman, Sachs & Co, except for the shares of Common Stock offered in connection with the offerings.

NeXT's officers, directors and certain shareholders, who will hold in the   aggregate shares of Common Stock after the offerings, have agreed not to offer, sell, contract to sell, pledge or otherwise dispose of or agree to dispose of any shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock or establish a "put equivalent position" with respect to the Common Stock within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended, for a period of 180 days after the date of this Prospectus, without the prior written consent of the representatives of the U.S. Underwriters, except for gifts to, or transfers to trusts for the benefit of, NeXT's officers, directors or certain shareholders or their immediate family members pursuant to which the transferee agrees to be bound by the aforementioned restrictions.

The representatives of the Underwriters have informed NeXT that they do not expect sales to accounts over which the Underwriters exercise discretionary authority to exceed five percent of the total number of shares of Common Stock offered by them.

Prior to the offering, there has been no public market for the shares of Common Stock. The initial public offering price will be negotiated among NeXT and the representatives of the U.S. Underwriters and International Underwriters. Among the factors to be considered in determining the initial public offering price of the Common Stock, in addition to prevailing market conditions, will be NeXT's historical performance, estimates of the business potential and earnings prospects of NeXT, an assessment of NeXT's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

This Prospectus may be used by underwriters and dealers in connection with offers and sales of the Common Stock, including shares initially sold in the International Offering, to persons located in the United States.

Application has been made for quotation of the Common Stock on the Nasdaq National Market under the symbol "NXXT."

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

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such an offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of NeXT since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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Through and including , 1996 (the 25th day after the date of this Prospectus), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

5,000,000 Shares

NeXT Software, Inc.

Common Stock
(no par value per share)

[LOGO]

Goldman, Sachs & Co.

Merrill Lynch & Co.

Representatives of the Underwriters

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 discount, payable by the Registrant in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee, the NASD filing fee and the Nasdaq National Market Application Fee.

	Amount To Be Paid
SEC registration fee	$ 29,622
NASD filing fee	10,272
Nasdaq national market application fee	50,000
Printing and engraving expenses	400,000
Legal fees and expenses	350,000
Accounting fees and expenses	350,000
Blue Sky qualification fees and expenses	10,000
Director and officer insurance premium	853,000
Transfer agent and registrar fees	10,000
Miscellaneous fees	337,106
Total	$2,400,000

Item 14. ***Indemnification of Directors and Officers***

Prior to the effectiveness of this Registration Statement, the Registrant intends to reincorporate in the State of Delaware.

Section 317 of the California Corporations Code authorizes a corporation to indemnify its directors, officers, employees or other agents in terms sufficiently broad to permit such indemnification (including reimbursement for expenses incurred) under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"). The Registrant's Amended and Restated Articles of Incorporation (Exhibits 3.1 and 3.2 hereto), and Amended and Restated Bylaws (Exhibit 3.3 hereto), provide for indemnification of its directors and officers to the maximum extent permitted by the California Corporations Code. In addition, the Registrant has entered into Indemnification Agreements (Exhibit 10.4 hereto) with its directors and officers. Reference is also made to Section 8 of the Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of the Registrant against certain liabilities.

Item 15. ***Recent Sales of Unregistered Securities***

Since November 30, 1993, the Registrant has issued and sold the following unregistered securities:

[TO COME]

The issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of such Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering. In addition, the recipients of securities in each such transaction represented their intentions 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 issued in such transactions. All recipients had adequate access, through their relationships with the Registrant, to information about the Registrant.

Item 16. ***Exhibits and Financial Statement Schedules***

(a) Exhibits

Exhibit No.	Description of Document
1.1*	Form of U.S. Underwriting Agreement.
1.2*	Form of International Underwriting Agreement.
3.1	Amended and Restated Articles of Incorporation, as amended.
3.2*	Form of Restated Articles of Incorporation, to be effective upon the closing of the offerings.
3.3	Amended and Restated Bylaws.
4.1	See Exhibits 3.1 through 3.4
4.2*	Specimen Stock Certificate.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati
10.1	1990 Stock Option Plan, and related forms of agreement.
10.2*	1997 Stock Plan, and related forms of agreement.
10.3*	1997 Employee Stock Purchase Plan, and related forms of agreement.
10.4*	Form of Indemnification Agreement to be entered into between the Registrant and its officers and directors.
10.5	Seaport Centre Standard Lease between the Registrant and Metropolitan Life Insurance Company dated November 9, 1988, as amended.
10.6	Rights Agreement between the Registrant and certain shareholders of Registrant dated July 27, 1992, as amended.
10.7†	Letter Agreement dated October 23, 1995 between the Registrant and Novell, Inc. (formerly AT&T Information Systems) and the related Software Agreement dated September 23, 1986, as amended, and Sublicensing Agreement dated October 31, 1986, as amended.
10.8†	Restated Software License Agreement between the Registrant and Adobe Systems Incorporated dated September 13, 1990, as amended.
10.9	WCMA Note and Loan Agreement between the Registrant and Merrill Lynch Business Financial Services, Inc. dated December 1, 1995, as amended.
10.10	Demand Note by the Registrant in favor of Morgan Guaranty Trust Company of New York dated July 15, 1996.
10.11	Series C Preferred Stock Purchase Agreement between the Registrant and Sun Microsystems, Inc. dated November 19, 1993.
10.12	Series C Preferred Stock Purchase Agreement between the Registrant and Motorola, Inc. dated November 30, 1993.

Exhibit No.	Description of Document
10.13	Series C Preferred Stock Purchase Agreement between the Registrant and Steven P. Jobs dated December 31, 1993.
10.14	Series D Preferred Stock Purchase Agreement between the Registrant and Motorola, Inc. dated May 29, 1996.
10.15	Series D Preferred Stock Agreement between the Registrant and MLBC, Inc. dated January 19, 1996.
10.16	Term Loan Agreement between the Registrant and Canon, Inc. dated July 16, 1992, as amended, including the related Security Agreements dated July 27, 1992.
11.1	Computation of Pro Forma Net Income (Loss) Per Share.
21.1	Subsidiaries of the Registrant.
23.1*	Consent of Wilson Sonsini Goodrich & Rosati (included in Exhibit 5.1).
23.2	Report on Financial Statement Schedules and Consent of Independent Auditors.
24.1	Power of Attorney.

* To be filed by amendment.

† Confidential Treatment has been requested for a portion of this exhibit.

(b) Financial Statement Schedule

[To come — KPMG]

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

Item 17. *Undertakings*

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

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers and controlling persons of the Registrant pursuant to California Corporations Code Law, the Registrant's Amended and Restated Articles of Incorporation, the Registrant's Amended and Restated Bylaws, the Registrant's indemnification agreements 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 hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes 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.

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(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, the Registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Redwood City, State of California, on this day of November 1996.

NeXT Software, Inc.

By: ______________________________
Steven P. Jobs
Chief Executive Officer and
Chairman of the Board

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Dominique Trempont and Nancy R. Heinen, and each of them singly, as true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign the Registration Statement filed herewith and any or all amendments to said Registration Statement (including post-effective amendments and registration statements filed pursuant to Rule 462 and otherwise), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission granting unto said attorneys-in-fact and agents the full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the foregoing, as full to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his substitute, may lawfully do or cause to be done by virtue hereof.

Witness our hands on the date set forth below.

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:

Signatures	Title	Date
______________________________ Steven P. Jobs	Chief Executive Officer and Chairman of the Board	November , 1996
______________________________ Dominique Trempont	Chief Financial Officer and Vice President, General and Administration Group	November , 1996
______________________________ Mikio Akiyama	Director	November , 1996
______________________________ Lawrence S. Ellison	Director	November , 1996

[ALTERNATIVE INTERNATIONAL PAGE]

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED NOVEMBER , 1996

5,000,000 Shares

NeXT Software, Inc.

Common Stock

(no par value per share)

Of the 5,000,000 shares of Common Stock offered, 1,000,000 shares are being offered hereby in an international offering outside the United States and 4,000,000 shares are being offered in a concurrent United States offering. The initial public offering price and the aggregate underwriting discount per share will be identical for both offerings. See "Underwriting".

All of the shares of Common Stock offered hereby are being sold by NeXT Software, Inc. Prior to the offerings, there has been no public market for the Common Stock of NeXT. It is currently estimated that the initial public offering price per share will be between $15.00 and $17.00. For factors to be considered in determining the initial public offering price, see "Underwriting".

See "Risk Factors" beginning on page of this Prospectus for certain considerations relevant to an investment in the Common Stock.

Application has been made for quotation of the Common Stock on the Nasdaq National Market under the symbol "NXXT".

THIS INTERNATIONAL OFFERING CIRCULAR IS INTENDED FOR USE ONLY IN CONNECTION WITH OFFERS AND SALES OF THE COMMON STOCK OUTSIDE THE UNITED STATES AND IS NOT TO BE SENT OR GIVEN TO ANY PERSON WITHIN THE UNITED STATES. THE COMMON STOCK OFFERED HEREBY IS NOT BEING REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 FOR THE PURPOSE OF SALES OUTSIDE THE UNITED STATES.

	Initial Public Offering Price	Underwriting Discount(1)	Proceeds to Company(2)
Per Share	$	$	$
Total(3)	$	$	$

(1) NeXT has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting estimated expenses of $2,400,000 payable by NeXT.

(3) NeXT has granted the International Underwriters an option for 30 days to purchase up to an additional 150,000 shares at the initial public offering price per share, less the underwriting discount, solely to cover over-allotments. Additionally, NeXT has granted the U.S. Underwriters a similar option with respect to an additional 600,000 shares as part of the concurrent U.S. offering. If such options are exercised in full, the total initial public offering price, underwriting discount and proceeds to Company will be $, $ and $, respectively. See "Underwriting".

The shares offered hereby are offered severally by the International Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares will be ready for delivery in New York, New York on or about , 1996, against payment therefor in immediately available funds.

Goldman Sachs International

Merrill Lynch International Limited

SwissBank Warburg Corporation

The date of this Prospectus is , 1996.

[ALTERNATIVE INTERNATIONAL PAGE]

NeXT intends to furnish to its shareholders annual reports containing audited consolidated financial statements and quarterly reports containing unaudited interim financial information for the first three fiscal quarters of each fiscal year of NeXT.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the shares in any jurisdiction in which such offer or solicitation is unlawful. There are restrictions on the offer and sale of the shares in the United Kingdom. All applicable provisions of the Financial Services Act 1986 and the Companies Act 1985 with respect to anything done by any person in relation to the shares, in, from or otherwise involving the United Kingdom must be complied with. Offers and sales of the shares outside the United States have not been registered under the U.S. Securities Act of 1933, as amended. See "Underwriting".

In this Prospectus, references to "dollars", "U.S.$" and "$" are to United States dollars.

IN CONNECTION WITH THE OFFERINGS, THE INTERNATIONAL UNDERWRITERS AND THE U.S. UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET SYSTEM, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

[ALTERNATIVE INTERNATIONAL PAGE]

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, NeXT has agreed to sell to each of the International Underwriters named below, and each of such International Underwriters, for whom Goldman Sachs International, Merrill Lynch International Limited and SwissBank Warburg Corporation are acting as representatives, has severally agreed to purchase from NeXT, the respective number of shares of Common Stock set forth opposite its name below:

Underwriter	Number of Shares of Common Stock
Goldman Sachs International	
Merrill Lynch International Limited	
SwissBank Warburg Corporation	
Total	1,000,000

Under the terms and conditions of the Underwriting Agreement, the International Underwriters are committed to take and pay for all of the shares offered hereby, if any are taken.

The International Underwriters propose to offer the shares of Common Stock in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus and in part to certain securities dealers at such price less a concession of $ per share. The International Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain brokers and dealers. After the shares of Common Stock are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

NeXT has entered into an underwriting agreement (the "U.S. Underwriting Agreement") with the underwriters of the U.S. offering (the "U.S. Underwriters") providing for the concurrent offer and sale of 4,000,000 shares of Common Stock in a U.S. offering in the United States. The offering price and aggregate underwriting discounts and commissions per share for the two offerings are identical. The closing of the International Offering is a condition to the closing of the U.S. offering, and vice versa. The representatives of the U.S. Underwriters are Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Pursuant to an Agreement between the U.S. and International Underwriting Syndicates (the "Agreement Between") relating to the two offerings, each of the U.S. Underwriters has agreed that, as a part of the distribution of the shares offered as a part of the U.S. offering and subject to certain exceptions, it will offer, sell or deliver the shares of Common Stock, directly or indirectly, only in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (the "United States") and to U.S. persons, which term shall mean, for purposes of this paragraph: (a) any individual who is a resident of the United States or (b) any corporation, partnership or other entity organized in or under the laws of the United States or any political subdivision thereof and whose office most directly involved with the purchase is located in the United States. Each of the International Underwriters named herein has agreed pursuant to the Agreement Between that, as a part of the distribution of the shares offered hereby, and subject to certain exceptions, it will (i) not, directly or indirectly, offer, sell or deliver shares of Common Stock (a) in the United States or to any U.S. persons or (b) to any person who it believes intends to reoffer, resell or deliver the shares in the United States or to any U.S. persons and (ii) cause any dealer to whom it may sell such shares at any concession to agree to observe a similar restriction.

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Pursuant to the Agreement between, sales may be made between the U.S. Underwriters and the International Underwriters of such number of shares of Common Stock as may be mutually agreed. The price of any shares so sold shall be the initial public offering price, less an amount not greater than the selling concession.

NeXT has granted the International Underwriters an option, exercisable for 30 days after the date of this Prospectus, to purchase up to an aggregate of 150,000 additional shares of Common Stock solely to cover overallotments, if any. If the International Underwriters exercise their over-allotment option, the International Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 1,000,000 shares of Common Stock offered. NeXT has granted the U.S. Underwriters a similar option to purchase up to an aggregate of 600,000 additional shares of Common Stock.

NeXT and certain of its shareholders have agreed that, during the period beginning from the date of this Prospectus and continuing to and including the date 180 days after the date of this Prospectus, they will not offer, sell, or otherwise dispose of any securities of NeXT (other than pursuant to employee stock option plans existing, or on the conversion or exchange of convertible or exchangeable securities outstanding, on the date of the Prospectus or other limited exceptions) that are substantially similar to the shares of Common Stock or that are convertible or exchangeable into securities that are substantially similar to the shares of Common Stock, without the prior written consent of Goldman, Sachs & Co. See "Shares Eligible for Future Sale."

Each International Underwriter has also agreed that (a) it has not offered or sold, and, prior to the date six months after the date of issue of the shares of Common Stock, will not offer or sell, in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (b) it has complied, and will comply, with all applicable provisions of the Financial Services Act of 1986 of Great Britain with respect to anything done by it in relation to the shares of Common Stock in, from or otherwise involving the United Kingdom, and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issuance of the shares of Common Stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 of Great Britain or is a person to whom the document may otherwise lawfully be issued or passed on.

The shares offered hereby have been offered pursuant to an exemption from registration under the U.S. securities laws afforded by Rule 901 of Regulation S for offers and sales outside the United States. A registration statement under the U.S. securities laws is in effect for any shares initially offered or sold outside the United States that are thereafter sold or resold in the United States.

Buyers of shares of Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the initial public offering price.

The representatives of the Underwriters have informed NeXT that they do not expect sales to accounts over which the Underwriters exercise discretionary authority to exceed five percent of the total number of shares of Common Stock offered by them.

Prior to this offering, there has been no public market for the Common Stock. The initial public offering price will be negotiated between NeXT and the representatives of the U.S. Underwriters and the International Underwriters. Among the factors to be considered in determining the initial public offering price of the Common Stock, in addition to prevailing market conditions, will be NeXT's historical performance, estimates of the business potential and earnings prospects of NeXT, an assessment of

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NeXT's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

Application has been made for quotation of the Common Stock on the Nasdaq National Market under the symbol "NXXT."

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

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No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such an offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of NeXT since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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Through and including , 1996 (the 25th day after the date of this International Offering Circular), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver the U.S. Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver the U.S. Prospectus when acting as Underwriters and with respect to their unsold allotments.

5,000,000 Shares

NeXT Software, Inc.

Common Stock
(no par value per share)

[LOGO]

Goldman Sachs International

Merrill Lynch International Limited

SwissBank Warburg Corporation

Representatives of the Underwriters