

INDEPENDENT AUDITOR'S REPORT

The Shareholders BETA Systems Software AG

We have audited the accompanying consolidated balance sheets of BETA Systems Software AG and subsidiaries („BETA SYSTEMS“) as of December 31, 1996 and 1997 and the related consolidated statements of income, shareholder's equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Germany. 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 BETA Systems as of December 31, 1996 and 1997 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with accounting principles generally accepted in the United States of America.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Joachim Schindler

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Berlin, Germany

March 17, 1998

BETA Systems Software AG
Consolidated Statements of Income
(DM in thousands, except per share amounts)

	Year ended December 31,		
	1995	1996	1997
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Product license	21,988	30,290	36,231
Maintenance	17,395	22,360	26,964
Service	<u>3,837</u>	<u>3,874</u>	<u>4,843</u>
Total revenues	43,220	56,524	68,038
Cost of revenues:			
Product license	1,854	1,193	1,487
Maintenance	6,367	7,671	7,814
Service	<u>2,150</u>	<u>2,883</u>	<u>3,840</u>
	10,371	11,747	13,141
Gross profit	32,849	44,777	54,897
Operating expenses:			
Selling	17,194	23,760	28,568
General and administrative	5,500	7,880	10,902
Research and development	3,858	4,948	6,388
Amortization of intangible assets		693	914
	217		
Write-off of acquired in-process research and development			-
	-	1,896	
Write-off of goodwill	<u>1,600</u>	<u>-</u>	<u>-</u>
	28,369	39,177	46,772
Operating income	<u>4,480</u>	<u>5,600</u>	<u>8,125</u>
Other income (expense)	(338)	9	(221)
Interest income (expense)	<u>13</u>	<u>(453)</u>	<u>356</u>
Income before income taxes and minority interest	4,155	5,156	8,260
Provision for income taxes	1,858	3,999	5,555
Minority interest in earnings (losses) of subsidiary	(27)	10	-
Net income	<u><u>2,324</u></u>	<u><u>1,147</u></u>	<u><u>2,705</u></u>
Net income per ordinary share			
Basic	<u>2.21</u>	<u>1.09</u>	<u>1.88</u>
Diluted	<u>2.21</u>	<u>1.09</u>	<u>1.86</u>

See accompanying notes to consolidated financial statements

BETA Systems Software AG
Consolidated Balance Sheet
(DM in thousands)

	At December 31, 1996	At December 31, 1997
Current assets:		
Cash and cash equivalents	2,256	55,594
Accounts receivable, less allowances: 1996 DM 225; 1997 DM 515	26,604	30,249
Prepaid expenses and deferred charges	368	936
Deferred income taxes	444	1,475
Other current assets	1,344	3,539
Total current assets	31,016	91,793
Property and equipment, at cost less accumulated depreciation	4,874	5,263
Intangible assets, less accumulated amortization	3,923	3,342
Capitalized software development costs, less accumulated amortization	2,741	3,339
Other assets	1,877	1,857
Total assets	44,431	105,594
Current liabilities:		
Short-term debt	7,089	2
Current portion of long-term debt	2,876	661
Accounts payable	3,281	4,423
Deferred revenue	7,254	6,921
Income tax payable	2,547	422
Other current liabilities	8,087	8,020
Total current liabilities	31,134	20,449
Long-term debt	4,426	1,303
Pension obligation	1,594	1,858
Deferred tax liabilities	446	1,742
Minority interest	13	-
Total liabilities	37,613	25,352
Shareholders' equity		
Ordinary shares, DM 5 nominal value, 1996 1,050,000; 1997 1,800,000 shares issued and outstanding	5,250	9,000
Capital in excess of par value	500	67,735
Retained earnings	1,126	3,306
Net unrealized gains on investment securities	19	54
Foreign currency translation adjustment	(77)	147
Total shareholders' equity	6,818	80,242
Total liabilities and shareholders' equity	44,431	105,594

See accompanying notes to consolidated financial statements

BETA Systems Software AG
Consolidated Statements of Shareholders' Equity
(DM in thousands, except per share amounts)

	Number of ordinary shares outstanding	Ordinary shares (nominal amount)	Additional paid-in capital	Retained Earnings	Net unrealized income on investment securities	Foreign currency translation adjustments	Total shareholder's equity
Balance December 31, 1994	700,000	3,500	1,500	2,300	7	(1)	7,306
Net income	-	-	-	2,324	-	-	2,324
Cash dividends	-	-	-	(2,030)	-	-	(2,030)
Unrealized gains on investment securities	-	-	-	-	13	-	13
Currency translation adjustments	-	-	-	-	-	(11)	(11)
Stock dividends	350,000	1,750	(1,000)	(750)	-	-	-
Balance December 31, 1995	1,050,000	5,250	500	1,844	20	(12)	7,602
Net income	-	-	-	1,147	-	-	1,147
Cash dividends	-	-	-	(1,865)	-	-	(1,865)
Unrealized losses on investment securities	-	-	-	-	(1)	-	(1)
Currency translation adjustments	-	-	-	-	-	(65)	(65)
Balance December 31, 1996	1,050,000	5,250	500	1,126	19	(77)	6,818
Net income	-	-	-	2,705	-	-	2,705
Issuance of shares, net of costs	750,000	3,750	67,235	-	-	-	70,985
Cash dividends	-	-	-	(525)	-	-	(525)
Unrealized gains on investment securities	-	-	-	-	35	-	35
Currency translation adjustments	-	-	-	-	-	224	224
Balance December 31, 1997	1,800,000	9,000	67,735	3,306	54	147	80,242

See accompanying notes to consolidated financial statements

BETA Systems Software AG
Statements of Cash Flows
(DM in thousands)

	Year ended December 31,		
	1995	1996	1997
Operating activities			
Net income	2,324		2,705
		1,147	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,338		3,631
		2,588	
Write-off of acquired in-process research and development and goodwill	1,600	1,896	-
Loss on sale of equipment	293	84	142
Deferred taxes			240
	(11)	1,371	
Foreign currency gains and losses	64	(229)	(234)
Changes in assets and liabilities, net of amounts acquired:			
Decrease (increase) in accounts receivable	(4,287)	(7,061)	(3,286)
Increase (decrease) in accounts payable	2,491	(1,736)	1,035
Increase (decrease) in deferred revenue	1,363	1,725	(638)
Change in other assets and liabilities including current tax	(206)		1,171
		3,301	
Net cash provided by operating activities	4,969		4,766
		3,086	
Investing activities			
Purchases of property and equipment	(2,350)	(2,712)	(2,332)
Proceeds from sales of property and equipment	60	15	46
Capitalization of software development costs	(1,246)	(705)	(1,315)
Cash paid for acquisitions and investments	(3,875)	(3,137)	-
			-
Net cash used in investing activities	(7,411)	(6,539)	(3,601)
Financing activities			
Net change in short-term borrowings	1,097	3,509	(7,087)
Proceeds from borrowings of long-term debt	3,000	4,728	-
Proceeds from issuance of convertible bonds	-	-	143
Proceeds from issuance of shares, net of costs	-	-	65,637
Repayment of long-term debt	(237)	(1,871)	(6,107)
Dividends paid	(2,030)	(1,865)	(525)
Net cash provided by financing activities	1,830	4,501	52,061
Increase (decrease) in cash and cash equivalents	(612)	1,048	53,226
Effect of exchange rate changes on cash	(13)	56	112
Cash and cash equivalents at beginning of year	1,777	1,152	2,256
Cash and cash equivalents at end of year	1,152	2,256	55,594

Supplemental cash flow disclosures:

Cash paid for taxes	3,281	898	2,369
Cash paid for interest	120	329	754
Non-cash transactions			
Acquisitions of equipment through capital lease obligation	-	213	64
Issuance of convertible bonds in exchange for employee note receivable	-	-	349
Acquisition of business through note payable	-	1,351	-

See accompanying notes to consolidated financial statements

BETA Systems Software AG
Notes to Consolidated Financial Statements
(DM in thousands, except per share amounts)

1. Summary of Significant Accounting Policies

Description of Business — BETA Systems Software Aktiengesellschaft and subsidiaries ("BETA Systems" or the "Company") develops, markets and supports enterprise automation software solutions for mainframe computers and other hardware managed by information systems departments of large corporations, government agencies and other organizations. The Company's products are designed to increase the productivity of data centers by automating manual tasks and optimizing the use of hardware resources. The Company's products feature a common comprehensive architecture which facilitates the development and integration of the Company's products across applications. The Company's principal offices are located in Berlin, Germany.

Basis of Presentation — The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

Principles of Consolidation— All material companies in which BETA Systems has legal or effective control are fully consolidated. The effects of intercompany transactions have been eliminated.

Foreign Currencies — The balance sheets of foreign subsidiaries have been translated to Deutsche Marks on the basis of period-end exchange rates while the income statements have been translated using average exchange rates during the period.

Revenue Recognition — Under Statement of Position ("SOP") 91-1, *Software Revenue Recognition*, product license revenue, consisting of new product licenses, version upgrades and CPU upgrades, is recognized after both delivery of the product and its acceptance by the customer and when collection is assured. In general BETA System's license contracts entitle the customer to product maintenance at no additional cost for a period of one year. The portion of the license fee associated with providing first-year maintenance is deferred and recognized ratably over the free maintenance period (one year). The Company uses the same percentage (15%) to calculate first-year maintenance included in the product licensing fee as it uses to price maintenance renewals. Maintenance revenue is recognized ratably over the maintenance period. Service revenue consists principally of installation and training and is recognized as the services are performed.

Research and Development and Capitalized Software Development Costs— Research and development costs are charged to expense as incurred. Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time further development costs are capitalized. Capitalization of costs ceases when the product is available for general release to customers.

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Capitalized software development costs are amortized each reporting period by the greater of (i) the straight-line method over the estimated useful life of the software (normally five years) or (ii) the ratio of current gross revenues from sales of the software to the total of current and anticipated future gross revenues from sales of that software.

At each balance sheet date unamortized capitalized software development costs are compared to net realizable values of those products to determine whether an impairment exists. If an impairment has occurred, the amount by which the unamortized capitalized software development costs exceeds the net realizable value (the present value of future estimated sales of the products less costs to sell) of that asset is written off.

Property and Equipment — Property and equipment is valued at acquisition cost and subsequently depreciated using the straight-line method over the assets' useful lives as follows: building improvements — 5 to 10 years; computer equipment — 3 to 5 years; facilities and office equipment — 3 to 10 years.

Intangible Assets — Intangible assets including goodwill are valued at acquisition cost and amortized over their useful lives of 4 to 10 years. At each reporting date, the Company assesses the recoverability of its goodwill based upon projected future cash flows.

Other Assets — Other assets include an investment intended to fund a portion of the Company's pension obligations. The Company accounts for such investment at cost. In addition, in 1997 other assets include long-term receivables from customers and the long-term portion of employee loans granted with respect to the stock option plan.

Cash and Cash Equivalents — Cash and cash equivalents represent cash and highly liquid certificates of deposit and investments with original maturities of three-months or less.

Stock Option Plan — The Company accounts for its stock incentive 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. Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation* 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 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 as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB Opinion No. 25 and provides the pro forma disclosure provisions of SFAS No. 123.

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Notes to Consolidated Financial Statements
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Earnings Per Share — Basic net income per ordinary share has been calculated by dividing net income by the weighted average number of ordinary shares outstanding during each period. Diluted net income per ordinary share has been calculated by assuming that the convertible bonds due in the years 1998 to 2002 had been converted at the date of issuance.

For purposes of the 1997 diluted net income per ordinary share, the assumption that the convertible bonds were converted had the effect of causing the net income to increase by DM 20 and the number of shares assumed to be outstanding to increase by 26,000 as compared to the amounts used in the basic net income per ordinary share calculation.

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

2. Acquisitions

In June 1996, the Company acquired Pecan Software Corporation ("Pecan"), a United States based developer and servicer of system management software, for a purchase price of approximately US \$ 3,000 (DM 4,560). Of the total purchase price US \$ 2,000 (DM 3,040) was paid at closing with the balance being paid in monthly installments, including interest, of US \$ 25 (DM 39). The acquisition has been accounted for using the purchase method of accounting and, accordingly, the assets and liabilities acquired were recorded based upon their fair values at the date of acquisition. Of the purchase price, DM 1,896 was allocated to in-process research and development, DM 2,240 to goodwill and DM 424 to the value of acquired software. The amount of the purchase price allocated to in-process research and development was charged to the Company's operations at the time of the acquisition. Results of operations include Pecan from the date of acquisition. The Pecan goodwill is being amortized over a period of 10 years.

BETA Systems Software AG
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3. Property and Equipment

	At December 31,	
	1996	1997
Acquisition Costs:		
Leasehold improvements	471	648
Computer equipment.....	4,615	6,472
Facilities and office equipment.....	2,788	2,608
	7,874	9,728
Accumulated depreciation.....	3,000	4,465
Property and equipment, net.....	4,874	5,263

Depreciation expense charged to the statements of income was DM 1,069, DM 1,535 and DM 1,933 in 1995, 1996 and 1997, respectively.

4. Intangible Assets

	At December 31,	
	1996	1997
Capitalized amounts:		
License right.....	850	850
Goodwill	3,983	3,983
	4,833	4,833
Accumulated amortization	910	1,824
Effect of exchange rate changes	-	333
Intangible assets, net.....	3,923	3,342

BETA Systems Software AG
Notes to Consolidated Financial Statements
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5. Capitalized Software Development Costs

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Cost</u>
Balance at January 1, 1996	3,921	1,955	1,966
Capitalization of product development costs	705	-	705
Acquired software in Pecan acquisition	424	-	424
Amortization	-	354	354
Balance at December 31, 1996	<u>5,050</u>	<u>2,309</u>	<u>2,741</u>

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Cost</u>
Balance at January 1, 1997	5,050	2,309	2,741
Capitalization of product development costs	1,315	-	1,315
Amortization	-	588	588
Write-off of capitalized research and development	-	196	196
Effect of exchange rate changes	87	20	67
Balance at December 31, 1997	<u>6,452</u>	<u>3,113</u>	<u>3,339</u>

In 1997, the Company decided to cease development of one of its new products. Accordingly, the Company charged a previously capitalized amount of DM 196 to expense.

6. Other Current Liabilities

	<u>At December 31,</u>	
	<u>1996</u>	<u>1997</u>
Other taxes payable and social security	3,715	3,250
Accrued payroll and travel expenses	2,896	3,872
Accrued liabilities.....	<u>1,476</u>	<u>898</u>
	<u>8,087</u>	<u>8,020</u>

BETA Systems Software AG
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7. Income Taxes

Income (loss) before income taxes is attributable to the following geographic locations:

	Year Ended December 31,		
	1995	1996	1997
Germany	4,104	6,142	8,393
Non-German	51	(986)	(133)
	<u>4,155</u>	<u>5,156</u>	<u>8,260</u>

The provision for income taxes (benefit) follows:

	Year Ended December 31,		
	1995	1996	1997
Currently payable (benefit):			
Germany	1,797	1,640	4,632
Non-German.....	72	988	683
	<u>1,869</u>	<u>2,628</u>	<u>5,315</u>
Deferred taxes:			
Germany	(4)	1,755	343
Non-German.....	(7)	(384)	(103)
	<u>(11)</u>	<u>1,371</u>	<u>240</u>
	<u>1,858</u>	<u>3,999</u>	<u>5,555</u>

German corporate tax law applies an imputation system with regard to the taxation of the income of a corporation and its stockholders. In general, corporate income is initially subject to a federal corporation tax of 45 % plus a surcharge of 7.5 % on the federal corporate tax rate. After giving effect to the surcharge, the effective federal corporate tax rate is 48.375 %. Upon distribution of retained earnings to stockholders, the income tax rate to the corporation on the distributed earnings is adjusted to 30 % by the corporation receiving a refund for taxes previously paid in excess of 30 %. This refund is passed on to the stockholders through a gross up of the dividend from the corporation.

A reconciliation of income taxes determined using the German federal statutory rate of 48.375 % plus the after federal tax benefit rate for trade taxes of 8.745% for a combined statutory rate of 57.12 % is as follows:

	Year Ended December 31,		
	1995	1996	1997
Expected provision for income taxes	2,327	2,910	4,725
Foreign tax rate differential.....	(14)	111	(343)
Non-deductible expenses.....	72	161	348
Credit for dividend distributions.....	(424)	(121)	-
Acquired in process research & development for which no tax benefit was recognized	-	747	-
Valuation allowance	-	217	613
Other.....	(103)	(26)	212
Actual provision for income taxes	<u>1,858</u>	<u>3,999</u>	<u>5,555</u>
Effective rate.....	<u>44.7%</u>	<u>77.6%</u>	<u>67.2%</u>

BETA Systems Software AG
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BETA Systems Software AG
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Deferred income tax assets and liabilities are summarized as follows:

	At December 31,	
	1996	1997
Deferred tax assets relating to:		
Intangible assets	1,216	-
Deferred revenue	1,400	1,282
Net operating loss carry forward.....	23	1,151
Current liabilities.....	41	151
Pension provisions.....	33	-
	2,713	2,584
Valuation allowance	(225)	(408)
	2,488	2,176
Deferred tax liabilities relating to:		
Capitalized software development costs.....	1,334	1,590
Intangible assets	-	135
Property and equipment	350	283
Current assets.....	490	90
Pension provisions.....	-	29
Current liabilities.....	192	36
Unrealized foreign currency gains	144	275
	2,510	2,438
Net deferred tax (liability) asset per balance sheet	(22)	(262)

At December 31, 1997, the Company had net operating losses carryforwards ("NOLs") principally relating to the costs of the initial public offering in Germany and its operations in France and Belgium.

A deferred tax valuation allowance of DM 365 relating to the deferred tax assets of the Company's operations in the United States had been established at December 31, 1997. The ultimate realization of these deferred tax assets is dependent upon the generation of taxable income in the United States. Management believes it more likely than not that in the near future such operations will not realize the benefit of such deferred tax asset. Additionally, a deferred tax valuation allowance of DM 43 has been established at December 31, 1997 for the NOLs relating to the Company's operations in Belgium.

Deferred tax liabilities have not been recognized on unremitted earnings of non-German subsidiaries intended to be indefinitely reinvested (DM 68 and DM 91 at December 31, 1996 and 1997, respectively). Determination of the amount of unrecognized deferred tax liabilities is not practicable.

The costs of the initial public offering are deductible for German income tax purposes. The income tax benefit of DM 5,348 of these costs were charged to capital in excess of par value as an offset to the issuance costs.

BETA Systems Software AG
Notes to Consolidated Financial Statements
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8. Pension Obligation

The Company provides limited defined benefit pension benefits to certain of its key employees. The benefits are based upon years of service and salary earned.

A reconciliation of the Company's actuarial projected benefit obligation in comparison to its recorded pension obligation follows:

	<u>1996</u>	<u>1997</u>
Actuarial present value of benefits:		
Vested	1,160	1,678
Nonvested	<u>209</u>	<u>176</u>
Accumulated benefit obligation	1,369	1,854
Effect of projected future salary increase.....	<u>312</u>	<u>255</u>
Projected benefit obligation.....	1,681	2,109
Transition obligation.....	(53)	(48)
Unrecognized net gains (losses).....	209	20
Prior service cost not yet recognized.....	<u>(243)</u>	<u>(223)</u>
Recorded pension obligation	<u><u>1,594</u></u>	<u><u>1,858</u></u>

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations follow:

	<u>1995</u>	<u>1996</u>	<u>1997</u>
Discount rate	7%	7%	6.5%
Long-term rate of increase in remuneration.....	8.48%	7.69%	6.12%

The net periodic pension cost included in the statement of operations is comprised of:

	<u>1995</u>	<u>1996</u>	<u>1997</u>
Service cost: present value of benefits earned during the year	113	147	128
Interest cost on projected benefit obligation	89	109	114
Amortization of transition obligation and prior service cost.....	<u>14</u>	<u>25</u>	<u>22</u>
Net periodic pension cost	<u><u>216</u></u>	<u><u>281</u></u>	<u><u>264</u></u>

BETA Systems Software AG
Notes to Consolidated Financial Statements
(DM in thousands, except per share amounts)

9. Short and Long-Term Borrowings

At December 31, 1996 the Company's short-term debt consisted of unsecured borrowings with financial institutions with terms of up to one year. Such amounts were repaid during 1997. At December 31, 1997, the Company had unused short-term credit lines of DM 1,663.

Long-term borrowings, including current portion, of DM 7,302 at December 31, 1996 consisted principally of borrowings from financial institutions with interest rates ranging from 5.4% to 7.6% and varying maturities to 2000. In addition, at December 31, 1996 long-term borrowings included a note payable to the seller of Pecan in the amount of DM 1,351.

Long-term borrowings, including current portion, of DM 1,964 at December 31, 1997 consist of the note payable to the seller of Pecan in the amount of DM 1,144, and several leasing obligations. The note is payable in monthly installments of US \$ 25 (DM 45) through May 2000 and carries an interest rate of 9.0 %.

Maturities of long-term borrowings over each of the five years subsequent to December 31, 1997 follow: 1998 - DM 661, 1999 - DM 705, 2000 - DM 378, 2001 - DM 122 and 2002 - DM 98.

10. Stock option plan

On February 10, 1997, the Company adopted a stock incentive plan for its employees and members of its Management Board (the "Plan"). A grant under the Plan consists of a convertible bond and, for employees, a corresponding nonrecourse loan secured solely by the bond with respect to which it was made. Bonds convertible into a total of 200,000 Common Shares are authorized for issuance under the Plan. The grant recipients and the terms of the awards under the Plan are determined by the Management board of the Company and, for awards to members of the Management board, by the Supervisory Board of the Company.

On February 10, 1997, the Supervisory Board of the Company authorized the grant of bonds under the Plan which if converted would result in the issuance of 98,320 Common Shares at a weighted average exercise price of DM 85 per share. The Bonds were granted on June 25, 1997. At December 31, 1997, the Company had classified under long-term debt an amount of DM 492, including current portion, corresponding to 98,320 convertible bonds at a nominal amount of DM 5 per share awarded to 168 employees and members of the Management Board. Awards granted to date generally vest and become exercisable over a 5 year period beginning in 1998.

The per share fair value of stock options granted during 1997 was DM 40.00 on the date of grant using the Black Scholes options-pricing model (excluding a volatility assumption) with the following weighted average assumptions: expected dividend yield 0%, risk-free interest rate 5.0% and expected life 5 years.

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The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have been reduced in 1997 to the pro forma amount indicated below:

		<u>1997</u>
Net income	As reported	2,705
	Pro forma	1,807
Net income per share - Basic	As reported	1.88
	Pro forma	1.26
Net income per share - Diluted	As reported	1.86
	Pro forma	1.25

11. Shareholders' Equity

On May 28, 1997 the Company's shareholders approved an increase of DM 2,250 in the share capital of the Company through the issuance of 450,000 new Ordinary Shares under exclusion of the preemptive rights of the Company's shareholders. In addition, the Company's shareholders authorized the Management Board to decide further increases in the authorized share capital up to DM 2,500 upon approval of the Supervisory Board. On June 2, 1997 and June 19, 1997, the Management Board decided upon approval of the Supervisory Board further increases in the share capital of DM 500 and DM 1,000, respectively.

On June 24, 1997, the Company issued 750,000 Ordinary Shares in the aggregate nominal value of DM 3,750 (DM 5 per share). On June 26, 1997 the 750,000 new Ordinary Shares fully participated in a public offering at an offering price of DM 100 per share. Costs for participating in the initial public offering less applicable tax benefits have been capitalized amounting to DM 4,015 and deducted from the issuance proceeds.

Under German commercial law, the amount of dividends of BETA Systems Software AG available for distribution to its shareholders is based upon the retained earnings of BETA Systems Software AG (the German parent company) as reported in its balance sheet determined in accordance with the German commercial code (*Handelsgesetzbuch*). At December 31, 1997, BETA Systems Software AG had retained earnings of DM 1,303, available for distribution as dividends. Such amount, however, only represents the permissible dividend distributions under German law and is not intended to be distributed by the Company. A further DM 68 of retained earnings at December 31, 1997 is restricted by law.

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12. Operating Lease Commitments

The total rentals under operating leases, principally for office facilities, data processing and other equipment, charged as an expense in the statements of income amounted to DM 4,171, DM 5,088 and DM 4,325 in the years ended December 31, 1995, 1996 and 1997, respectively. The future minimum lease payments under operating leases that have initial or remaining terms in excess of one year at December 31, 1997 are as follows: 1998 - DM 4,033; 1999 - DM 3,289; 2000 - DM 2,885; 2001 - DM 870; 2002 - DM 238.

13. Geographic Area Information

Geographic information with respect to BETA Systems' revenues, net income and identifiable assets follows:

	Germany	Other European Countries	USA	Adjustments and eliminations	Consolidated
1995					
Revenues (by operation):					
To unaffiliated customers.....	34,862	8,358	-	-	43,220
Between geographic areas (a) ..	<u>2,917</u>	<u>164</u>	<u>-</u>	<u>(3,081)</u>	<u>-</u>
Total revenues	37,779	8,522	-	(3,081)	43,220
Net income (loss).....	2,286	14	-	24	2,324
Identifiable assets	26,272	8,888	-	(4,364)	30,796
1996					
Revenues (by operation):					
To unaffiliated customers.....	34,920	17,641	3,963	-	56,524
Between geographic areas (a) ..	<u>8,117</u>	<u>273</u>	<u>499</u>	<u>(8,889)</u>	<u>-</u>
Total revenues	43,037	17,914	4,462	(8,889)	56,524
Net income (loss).....	2,787	996	(2,595)	(41)	1,147
Identifiable assets	28,044	13,749	6,338	(3,700)	44,431
1997					
Revenues (by operation):					
To unaffiliated customers.....	38,877	20,329	8,832	-	68,038
Between geographic areas (a) ..	<u>10,021</u>	<u>-</u>	<u>2,954</u>	<u>(12,975)</u>	<u>-</u>
Total revenues	48,898	20,329	11,786	(12,975)	68,038
Net income (loss).....	3,418	748	(1,481)	20	2,705
Identifiable assets	100,189	16,193	11,516	(22,304)	105,594

(a) Revenues between geographic regions represent intercompany royalties which are determined as a percentage of amounts invoiced to customers.

Export revenues of BETA Systems Software AG (Germany) in 1995, 1996 and 1997 amounted to DM 5,180, DM 3,477 and DM 2,684, respectively.

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14. Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 130, *Reporting Comprehensive Income*, was issued in June 1997 and is effective for fiscal years beginning after December 15, 1997. In the initial year of application, financial statements for earlier periods are to be reclassified for comparative purposes. It requires that all items that are to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as the other financial statements. It requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement, (b) display the accumulated balance of the other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company is currently reviewing the impact this pronouncement will have on the classification of items included in shareholders' equity.

SFAS No. 131, *Disclosures about Segments of an Enterprise and the Related Information*, was issued in June 1997 and is effective for fiscal years beginning after December 15, 1997. In the initial year of application comparative information for earlier years is to be restated. It requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about products and services an entity provides, material countries in which it holds assets and reports revenue, and its major customers. The Company is currently reviewing the impact this pronouncement will have on the level of disclosure currently provided in its financial statements.

In October 1997, the AICPA issued Statement of Position (SOP) 97-2, *Software Revenue Recognition*, which supersedes SOP 91-1. The Company will be required to adopt SOP 97-2 for software transactions entered into beginning January 1, 1998, and retroactive application to years prior to adoption is prohibited. SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements (i.e., software products, upgrades/enhancements, postcontract customer support, installation, training, etc.) to be allocated to each element based on the relative fair values of these elements. The fair value of an element must be based on evidence which is specific to the vendor. The revenue allocated to software products (including specified upgrades/enhancements) generally is recognized upon delivery of the products. The revenue allocated to postcontract customer support generally is recognized ratably over the term of the support and revenue allocated to service elements (such as training and installation) generally is recognized as the services are performed. If a vendor does not have evidence of the fair value for all elements in a multiple-element arrangement, all revenue from the arrangement is deferred until such evidence exists or until all elements are delivered. The Company is currently evaluating the effect that the implementation of this pronouncement will have on its results of operations and financial position.