



QUARTERLY REPORT

BETA SYSTEMS SOFTWARE AG ANNOUNCES RESULTS FOR THE THIRD QUARTER 2003

Berlin, November 7, 2003 - Beta Systems Software AG (Deutsche Boerse Prime Standard: BSS) today announces continued profitable growth in the third quarter and the first nine months ended September 30, 2003, reporting a significant year-on-year increase in revenues.

Operational Highlights

- Beta Systems wins significant new customer FinanzIT for Data Center and Document/Output Management solutions licenses
- Upgrade projects secured with both Commerzbank and Hypovereinsbank from existing SAM Version 2.4 to SAM Jupiter
- New SAM product line generates Euro 6.4 million, contributing to significant revenue growth in the first nine months of 2003

Financial Highlights Third Quarter 2003

- Revenue increased by 43.3% to Euro 13.5 million (Q3 2002: Euro 9.4 million)
- Operating income of Euro 1.7 million (Q3 2002: operating loss of Euro 0.5 million)
- Pre-tax profits of Euro 2.0 million (Q3 2002: Euro 0.3 million)
- Net income of Euro 0.9 million or Euro 0.22 per share (Q3 2002: net loss of Euro 0.2 million or Euro 0.05 per share)

Financial Highlights First Nine Months 2003

- Revenues increased by 16.2% to Euro 35.6 million (9M 2002: Euro 30.6 million)
- Operating income of Euro 0.6 million (9M 2002: operating loss of Euro 2.1 million)
- Pre-tax profits of Euro 1.4 million (9M 2002: loss before taxes of Euro 0.1 million)
- Beta Systems in profit after first nine months: Net income of Euro 0.5 million or Euro 0.13 per share (9M 2002: net loss of Euro 0.4 million or Euro 0.10 per share)
- Cash and cash equivalents position of Euro 14.1 million

Comments of the Management Board

"Our strong third quarter results demonstrate that our 'Go Ahead Beta' program, a strategy implemented with the express purpose of generating sustainable growth and enhancing profitability, is starting to bear fruit," said Karl-Joachim Veigel, CEO of Beta Systems, commenting on the results. "We are already operating profitably after the first nine months of 2003, and are very well positioned to achieve our

objectives for the full fiscal year. The new SAM product line has been fully integrated into our portfolio and is currently contributing significantly to revenues, without adversely impacting earnings.”

“We believe that the slowdown in IT expenditure amongst our customer base, prompted mainly by the general economic environment over the last 2 years, is gradually being reversed. A number of large-scale incoming orders within the financial sector in Germany, particularly in the fields of Document/Output Management and Security Management, underline the forward momentum we are starting to see, as Beta Systems evolves into a strategic partner to our customers.”

Mr. Veigel concluded: “Against this backdrop, we look forward with growing confidence to the fourth quarter, a period which has historically been very buoyant. We would also like to reaffirm our revenue and earnings forecast for fiscal 2003.”

Operational Highlights Third Quarter 2003

During the third quarter, Beta Systems successfully negotiated a long-term business relationship with FinanzIT GmbH, an IT service provider and systems integrator for Germany's banking and savings bank sector: FinanzIT was created through the merger of dvg Hannover Datenverarbeitungsgesellschaft mbH, Datenverarbeitungsgesellschaft Sparkassenorganisation mbH (dvs), Netzbetriebsgesellschaft mbH (nbg), and Sparkassen Informations- und Kommunikationsservice GmbH (SIK) in 2003. The agreement has a total value of over Euro 4 million and encompasses license rights for Data Center Management and Document/Output Management solutions and related maintenance and service until 2007. The data center network administrated by the FinanzIT in eleven German states is considered to be one of the most modern in Europe.

Also in the third quarter, another two long-standing SAM customers, Commerzbank and Hypovereinsbank, decided to migrate from SAM 2.4 to SAM Jupiter, Beta Systems' next-generation Identity Management and Provisioning software solution. Following implementation of the migration projects to be executed for these two banks, SAM Jupiter will provide state-of-the-art security management for the core applications and systems deployed throughout Commerzbank and Hypovereinsbank. Both agreements, which will generate significant revenues, cover usage rights for the software licenses, the provision of long-term maintenance services, as well as professional consulting, design, implementation, and customization of the Security Management software. These components of the agreement are to be implemented over the course of the project.

In the first nine months of 2003, the newly introduced SAM product line generated revenues in the region of Euro 6.4 million. This figure included license revenues amounting to more than Euro 3.1 million. Overall, this covered total operating expenses associated with this line of business, which was acquired at the beginning of 2003.

The assets of Systor Security Solutions GmbH (SSSG), which were acquired at the beginning of 2003 also include a 100% shareholding in Systor Security Solutions Inc. (SSSI). The process of valuing this new subsidiary and including it in Beta Systems Group's consolidated results will take place in the fourth quarter of 2003, as soon as insolvency proceedings have been concluded. Accordingly, the results attributable to this subsidiary are not included in the consolidated figures for the third quarter of 2003. Consolidation is unlikely to have a material effect on Beta Systems' results.

General Business and Revenue Performance

The Company's revenues are generated through software licenses, maintenance agreements, and services. Revenues increased by 43.3% to Euro 13.5 million in the third quarter of 2003, up from Euro 9.4 million in the third quarter of 2002. Major orders from customers in Germany, in particular, contributed to this buoyant trend. In Germany, the Company secured major orders within the insurance sector, e.g. from Informationsverarbeitung für Versicherungen (IVV) GmbH and Concordia Versicherungsgruppe, alongside the agreements signed in the banking sector, as outlined above. In Switzerland, an agreement was negotiated with Credit Suisse, covering the area of Data Center Management.

Revenues from licenses increased by 83.8% to Euro 5.4 million in the third quarter of fiscal 2003, up from Euro 2.9 million in the third quarter of fiscal 2002. This growth is mainly attributable to higher sales of new licenses (30.5% of total revenue). Revenues from new licenses amounted to Euro 4.1 million in the third quarter of 2003, in contrast to Euro 1.2 million in the third quarter of 2002. This corresponds to an increase of 237.7%. At the same time, revenues from license upgrades (9.3% of total revenue) decreased by Euro 0.3 million to Euro 1.2 million in the third quarter of 2003. Maintenance revenues (47.8% of total revenue) increased by 8.8%, up from Euro 5.9 million in Q3 2002 to Euro 6.4 million in the period under review. Revenues generated by Services (12.4% of total revenue) increased by 194.8%, up from Euro 0.6 million in the third quarter of 2002 to Euro 1.7 million in 2003.

Performance of Business Units

All business units generate revenues from product licenses, maintenance contracts and services. The Company's Data Center Management and Document Management business units mainly operate within the German and European markets, while the Storage Management business unit has its main focus on North America.

In the third quarter of 2003, revenues generated by Document Management, Storage Management and Data Center Management amounted to 30.1%, 6.4%, and 63.5% of revenues respectively, in contrast to 37.7%, 11.5%, and 50.8% respectively in the same period last year. Compared with the third quarter of 2002, revenues generated by the Data Center Management business unit increased by 79.1%, particularly as a result of additional license, maintenance, and service revenues achieved with the SAM product line. Revenues from Document/Output Management rose by 14.5%. Revenues generated by the restructured Storage Management division fell from Euro 1.1 million to Euro 0.9 million. The decline was

attributable principally to the stronger euro-dollar exchange rate, which had a detrimental effect on sales in US dollars. At constant exchange rates, revenues were comparable to the level recorded in the same period a year ago.

Operating income for the Data Center Management business unit increased from Euro 0.4 million in the third quarter of 2002 to Euro 1.4 million in the period under review. As in the third quarter 2002, the Document Management business unit recorded a slightly above-par result in the third quarter of 2003. The turnaround plan for Storage Management was implemented and completed at the end of 2002 and as a result, this division achieved operating profit of Euro 0.3 million in the third quarter, compared to an operating loss of Euro 1.0 million a year ago.

Gross Profit

Gross profit increased by 38.6% to Euro 9.9 million in the third quarter of 2003, compared with Euro 7.1 million in the third quarter of 2002, mainly as a result of higher license revenues.

The Company's gross margin declined to 73.3% in the third quarter of 2003, down from 75.8% in the same period a year ago. This was attributable chiefly to an increase in the cost of sales for licenses and maintenance. Within this context, expenses for royalties payable to third-party suppliers of licensed technology, associated in particular with SAM-related sales, proved to be the main cost driver; these cost components did not occur to the same extent in 2002.

Recording a figure of Euro 0.3 million, gross profit contributed by Services was above par for the first time since taking over the business operations of Systor Security Solutions in February. This was mainly due to the increased level of capacity utilization of service staff for SAM project business, directly connected with the execution of product-related orders completed in the first and second quarters. Previously, capacity utilization had been adversely affected by insolvency proceedings still pending at the time.

Costs and Expenses Development

Operating expenses increased by 7.0% to Euro 8.2 million in the third quarter of 2003, compared to Euro 7.6 million in the third quarter of 2002. While administration expenses were lower in the third quarter, this was offset by increased selling expenses and research and development costs.

General and administrative expenses decreased by 13.0% year on year, mainly as a result of restructuring measures implemented in the Storage Management business unit – including Tantia subsidiaries in North America – in the previous fiscal year. This was complemented by a general cost-reduction drive seen throughout the Company.

Research and development costs increased by 7.7% to Euro 1.9 million in the third quarter of 2003 (Q3 2002: Euro 1.8 million). The main focus was on developing products for Job, Security, and Output

Management to be deployed in Unix and Linux environments. The Company recorded additional research and development costs following the takeover of SAM product development activities in Cologne, Germany, as well as the development of new modules and extensions within the VIDI DOC® suite for Document/Output Management. Within this area, too, incisive restructuring of development activities in the Storage Management business unit, as implemented in fiscal 2002, had a positive effect on cost structures. As a result, aggregate research and development costs increased only slightly in the period under review.

As a result of the increase in overall revenues and the reduction in costs, operating expenses as a percentage of revenues fell from 81.3% in Q3 2002 to 60.7% in the third quarter of 2003.

Income

Operating income for the third quarter of 2003 amounted to Euro 1.7 million, in contrast to an operating loss of Euro 0.5 million posted in the same quarter a year ago. The Company generated other income amounting to Euro 0.3 million in Q3 2003 (Q3 2002: Euro 0.6 million). This figure includes royalties earned in connection with the sale of product lines, partially offset by foreign exchange transaction losses. Earnings before interest and taxes (EBIT) amounted to Euro 2.0 million in the third quarter of 2003, compared to EBIT of Euro 0.1 million in the third quarter of 2002. Earnings before taxes (EBT) increased by Euro 1.7 million year on year, taking the figure to Euro 2.0 million for the third quarter of 2003 (Q3 2002: Euro 0.3 million). This equates to an EBT margin of 14.8% in the third quarter of 2003 (Q3 2002: 3.3%).

Tax Expenses and Net Income

Total tax expenses in the third quarter of 2003 amounted to Euro 1.1 million. Net income for the same period stood at Euro 0.9 million, or Euro 0.22 per share, in contrast to a net loss of Euro 0.2 million, or Euro -0.05 per share, in the third quarter of 2002. In the third quarter of 2003, the weighted average number of shares outstanding remained unchanged at 3,914,626.

Financial Position

As at September 30, 2003, the Company had cash and cash equivalents of Euro 14.1 million, and shareholders' equity of Euro 28.3 million, compared with cash and cash equivalents of Euro 15.7 million and shareholders' equity of Euro 27.9 million at the end of fiscal 2002. Due to substantial incoming orders, particularly toward the end of the third quarter, accounts receivable as of September 30, 2003, increased to Euro 24.6 million, compared with Euro 20.4 million as at December 31, 2002, and Euro 15.5 million at the end of the third quarter 2002.

The decrease in cash and cash equivalents is attributable primarily to the acquisition of Systor Security Solutions, effected at the beginning of the year. As part of the integration of the SAM product line, along with purchase-related cash expenses amounting to Euro 2.5 million, the Company required additional working



capital of Euro 2.5 million to bridge the gap created by lower orders – connected with insolvency proceedings – in the first three quarters of 2003. Positive cashflow from significant SAM orders secured in the second and third quarters of 2003 will not start to flow through until 2004 and beyond. This is due to the fact that customer payments for the range of services negotiated in connection with consulting, customizing, integration, and implementation will be received over the course of the contractual period, particularly those related to Service activities. By the end of the year 2003, cash and cash equivalents are expected to have reached a comparable level to that achieved in fiscal year 2002.

Personnel

As a result of the integration of approximately 80 Systor Security Solutions employees working in the areas of Development, Sales, and Services at locations in Cologne and Washington D.C., the overall number of staff employed by Beta Systems Software AG rose from 293 at the end of fiscal 2002 to 368 as of September 30, 2003.

Conference Call

The results for the third quarter of 2003 will be commented on by the Management Board on November 7, 2003, via a telephone conference. The conference call will take place at **11:00 CET** and can be accessed by calling **+44 (0)207 784 1004 (Access Code: “betasystems”)**. A tape recording of the telephone conference will be available for twenty-four hours. This recording can be accessed by calling **+44 (0)207 784 1024 (Access Code: 289567#)**. If there are any questions prior to the conference call, please do not hesitate to contact Mr. Arne Baßler, Director of Investor Relations, on **+49 (0)30 726 118 170**.

Berlin, November 7, 2003

The Management Board



Disclosure of Director's Holdings of Beta Systems Software AG (unaudited)

At September 30, 2003	Number of shares	Number of options
Management Board		
Karl-Joachim Veigel	61,720	29,600
Ralf Männlein	4,100	24,600
Dr. Oskar von Dungern	2,020	24,600
Supervisory Board		
Harald J. Joos	1,000	5,000
Alfred H. Tauchnitz (to 6.4.2003)	589,250	5,000
William P. Schmidt (from 7.7.2003)	534,034	
Dr. Karl Kauermann	-	5,000
Bernhard Auer	-	5,000
Stefan Hillenbach **	1,144	5,616
Martina Dymala **	170	5,820
Beta Systems Software AG		
Treasury stock	60,305	-

Beta Systems Software AG, Berlin, Germany

Beta Systems Software AG (Deutsche Börse - Prime Standard: BSS) is a leading provider of intelligent, high-performance solutions for the administration of bulk data. Beta Systems supplies software which enables companies to streamline and simplify their data center, backup, and document management processes. The company specializes in the automation and optimization of its customers' high volume data processing systems, focusing on handling, storing, and distributing data and documents in the most cost effective and intelligent way. Beta Systems' customers are typically large organizations in the industrial, finance, telecommunications, energy, service, and public sectors whose previous methods of data management involved cumbersome procedures consuming a great deal of time, money, and other resources. The solutions developed by Beta Systems have an open architecture and create an information infrastructure which considerably reduces the previous complexity of the customer's information management. Beta Systems' products are distributed worldwide by its own subsidiaries as well as partner organizations. The company has been publicly traded since 1997 and has 368 employees worldwide (as of September 2003). For further information, please visit the company website at www.betasystems.com.

Contacts:

Investor Relations

Arne Bassler
Beta Systems Software AG
Tel.: +49 (0)30 726 118 -170
Fax: +49 (0)30 726 118 -881
e-mail: arne.bassler@betasystems.com

Public Relations

Stefanie Katrin Fehse
Beta Systems Software AG
Tel.: +49 (0)30 726 118 -674
Fax: +49 (0)30 726 118 -852
e-mail: stefanie.fehse@betasystems.com

Except for the historical information herein, the matters discussed in the news release include forward-looking statements within the meaning of the 'safe harbor' provisions of the US Private Securities Litigation Reform Act of 1995, that may involve a number of risks and uncertainties. Actual results may vary significantly based on a number of factors, including, but not limited to, risks in product and technology development, market acceptance of new products and continuing product demand, the impact of competitive products and pricing, changing economic conditions both here and abroad, timely development and release of new products by strategic suppliers and other risk factors detailed in the Company's most recent annual report and other filings with the Securities and Exchange Commission, as well as the effect of the Company's accounting policies.

All trademarks, trade names, service marks, and logos referenced herein belong to their respective companies.



Beta Systems Software AG and Subsidiaries
Consolidated Statements of Operations
(In US GAAP, Euro in thousands, except share data)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues:				
Product licenses	2,920	5,369	11,478	14,400
Maintenance	5,906	6,427	17,189	17,366
Service	564	1,663	1,959	3,822
Total revenues	9,390	13,459	30,626	35,588
Cost of revenues:				
Product licenses	337	444	1,075	1,594
Maintenance	1,298	1,792	4,076	4,876
Service	634	1,356	1,839	3,828
Total cost of revenues	2,269	3,592	6,990	10,298
Gross profit	7,121	9,867	23,636	25,290
Operating expenses:				
Selling	3,645	4,257	12,340	11,651
General and administrative	2,204	1,919	7,248	6,416
Research and development	1,786	1,923	6,119	6,498
Amortization of intangible assets	0	15	0	32
Severance payments	0	56	0	76
Total operating expenses	7,635	8,170	25,707	24,673
Operating income (loss)	(514)	1,697	(2,071)	617
Other income, net	633	342	1,450	591
Interest income (expense), net	189	(43)	510	175
Income (loss) before income taxes and minority interest	308	1,996	(111)	1,383
Income tax expense	521	1,140	278	864
Minority interest in earnings of subsidiaries	(4)	0	(17)	0
Net income (loss)	(209)	856	(372)	519
Weighted average number of shares used to compute net income (loss) per ordinary share				
Basic	3,914,626	3,914,626	3,914,626	3,914,626
Diluted	3,914,626	3,973,913	3,914,626	3,972,912
Net income (loss) per ordinary share				
Basic and diluted	(0.05)	0.22	(0.10)	0.13
Number of employees	323	368	323	368

See accompanying Notes to the Consolidated Financial Statements



Beta Systems Software AG and Subsidiaries
Condensed Consolidated Balance Sheets
(In US GAAP, Euro in thousands)

	At December 31, 2002 (audited)	At September 30, 2003 (unaudited)
Current assets:		
Cash and cash equivalents	15,740	14,108
Short-term bank deposits	2,500	0
Marketable securities available for sale, at fair value	842	851
Accounts receivable, net	20,384	24,593
Other current assets	2,503	3,586
Total current assets	<u>41,969</u>	<u>43,138</u>
Property and equipment, net	3,252	2,863
Capitalized software development costs, net	2,888	4,359
Goodwill and other intangible assets, net	0	1,228
Other assets	6,570	7,760
Total assets	<u><u>54,679</u></u>	<u><u>59,348</u></u>
Current liabilities:		
Current installments of obligations under capital leases	384	431
Accounts payable	1,052	1,068
Deferred revenue	11,766	15,898
Other current liabilities	8,780	8,991
Total current liabilities	<u>21,982</u>	<u>26,388</u>
Long-term debt and capital lease obligations, excluding current installments	430	102
Other liabilities	4,391	4,579
Total liabilities	<u>26,803</u>	<u>31,069</u>
Shareholders' equity	<u>27,876</u>	<u>28,279</u>
Total liabilities and shareholders' equity	<u><u>54,679</u></u>	<u><u>59,348</u></u>

See accompanying Notes to the Consolidated Financial Statements



Beta Systems Software AG and Subsidiaries
Condensed Consolidated Statements of Cash Flow
(In US GAAP, Euro in thousands)

	Nine months ended September 30,	
	2002	2003
	(unaudited)	(unaudited)
Operating activities		
Net income (loss)	(372)	519
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,908	1,931
Change in working capital and other adjustments	6,784	(1,985)
Net cash provided by operating activities	<u>8,320</u>	<u>465</u>
Investing activities		
Investment in short-term bank deposits	(2,500)	0
Proceeds from sale of short-term investment	0	2,500
Purchases of property and equipment, net of disposals	(762)	(741)
Proceeds from sales of property and equipment	657	13
Capitalization of software development costs	(930)	(900)
Cash paid for business acquisitions, net	0	(2,420)
Net cash used in investing activities	<u>(3,535)</u>	<u>(1,548)</u>
Financing activities		
Net change in short-term borrowings and long-term debt	7	5
Payment of long-term debt and capital leases	(277)	(286)
Net cash used in financing activities	<u>(270)</u>	<u>(281)</u>
Effect of exchange rate changes on cash	(419)	(268)
Increase (Decrease) in cash and cash equivalents	<u>4,096</u>	<u>(1,632)</u>
Cash and cash equivalents at beginning of period	<u>13,658</u>	<u>15,740</u>
Cash and cash equivalents at end of period	<u><u>17,754</u></u>	<u><u>14,108</u></u>
Supplementary cash flow disclosures:		
Non-cash investing activities		
Acquisition of equipment through capital lease obligation	1,119	0

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)
(In US GAAP, Euro in thousands, except share data)
Nine months ended September 30, 2003 (unaudited)

	Ordinary shares		Capital	Unearned	Accumulated	Accumu-	Compre-	Treasury Stock		Total
	Number of	Nominal	in excess	deferred	other com-	lated	hensive	Number	Amount,	Shareholders'
	shares issued	amount	of par value	compensation	prehensive income	deficit	income (loss)	of shares	at cost	equity
Balance December 31, 2001	<u>3,974,931</u>	<u>10,162</u>	<u>38,716</u>	<u>(871)</u>	<u>2,360</u>	<u>(21,445)</u>		<u>(60,305)</u>	<u>(419)</u>	<u>28,503</u>
Issuance of ordinary shares	-	-	(89)	-	-	-		-	-	(89)
Net income	-	-	-	-	-	316	316	-	-	316
Comprehensive loss, net of tax effect										
Unrealized loss on investment securities	-	-	-	-	-	-	(201)	-	-	-
Currency translation adjustments	-	-	-	-	-	-	(927)	-	-	-
Comprehensive loss	-	-	-	-	(1,128)	-	<u>(1,128)</u>	-	-	(1,128)
Net loss, including comprehensive loss	-	-	-	-	-	-	<u>(812)</u>	-	-	-
Compensation related to stock options vesting	-	-	-	274	-	-		-	-	274
Balance at December 31, 2002	<u>3,974,931</u>	<u>10,162</u>	<u>38,627</u>	<u>(597)</u>	<u>1,232</u>	<u>(21,129)</u>		<u>(60,305)</u>	<u>(419)</u>	<u>27,876</u>
Issuance of ordinary shares	-	-	-	-	-	-		-	-	-
Net income	-	-	-	-	-	519	519	-	-	519
Comprehensive loss, net of tax effect										
Unrealized gain on investment securities	-	-	-	-	-	-	9	-	-	-
Currency translation adjustments	-	-	-	-	-	-	<u>(209)</u>	-	-	-
Comprehensive loss	-	-	-	-	(200)	-	<u>(200)</u>	-	-	(200)
Net income, including comprehensive loss	-	-	-	-	-	-	<u>319</u>	-	-	-
Compensation related to stock options vesting	-	-	-	84	-	-	-	-	-	84
Balance at September 30, 2003	<u>3,974,931</u>	<u>10,162</u>	<u>38,627</u>	<u>(513)</u>	<u>1,032</u>	<u>(20,610)</u>		<u>(60,305)</u>	<u>(419)</u>	<u>28,279</u>

See accompanying Notes to the Consolidated Financial Statements



Beta Systems Software AG and Subsidiaries
Notes to the Consolidated Financial Statements
(Euro in thousands, except share data)

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, and subsidiaries are located throughout Europe, North America and Australia.

Basis of Presentation — The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year 2003. For further information, refer to the Company's financial statements and footnotes thereto for the fiscal year ended December 31, 2002.

Principles of Consolidation — All companies in which Beta Systems has legal control are fully consolidated. The effects of intercompany transactions have been eliminated. The assets of Systor Security Solutions GmbH (SSSG), which were acquired at the beginning of 2003 also include a 100% shareholding in Systor Security Solutions Inc. (SSSI). The process of valuing this new subsidiary and including it in the scope of consolidation of the Beta Systems Group is to be performed in the fourth quarter of 2003, as soon as insolvency proceedings have been concluded. Accordingly, the results attributable to this subsidiary are not included in the consolidated figures for the third quarter of 2003.

Foreign Currencies — The balance sheets of foreign subsidiaries have been translated to EURO on the basis of period-end exchange rates, while the income statements have been translated using average exchange rates during the period. Cumulative translation adjustments are reported as a separate component of accumulated other comprehensive income.

Revenue Recognition — Product license revenue, consisting of new product licenses, version upgrades and CPU upgrades, is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. If a licensing agreement includes multiple elements, revenues are allocated to those elements based on vendor specific objective evidence of fair value. 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. In addition to the existing standard software product range the Company also offers to meet the demand for individually customized software solutions. Revenues from these construction contracts are recognized according to the efforts-expended-method, a percentage-of-completion method requiring the following criteria be satisfied for revenue recognition: rights and responsibilities must be clearly defined in the contract, pre-project calculation of costs and revenues must be possible, the final profitability of the project must be able to be determined reliably and objectively, i.e. further projected costs and revenues must equally be able to be estimated accurately, risks may not hinder the ability to deliver the contract (e.g. credit risks, legal considerations), and payment by the customer must be probable.

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.

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.



Beta Systems Software AG and Subsidiaries
Notes to the Consolidated Financial Statements
(Euro in thousands, except share data)

Advertising Costs — Advertising costs are charged to expense as incurred.

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.

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.

Goodwill and Other Intangible Assets — Intangible assets including goodwill are valued at acquisition cost. At each reporting date the Company assesses the recoverability in accordance with FAS 142.

Other Non-Current Assets — Other assets include an investment intended to fund a portion of the Company's pension obligations. The Company accounts for such investment at cash surrender value. In addition, other assets include long-term receivables from unbilled invoices.

Marketable Equity Securities— In accordance with SFAS No. 115 the Company has classified these securities as "available-for-sale" and reports them at fair value based on market quotations. Unrealized holding gains and losses are accounted for as other comprehensive income and accumulated as a separate component of shareholders' equity until realized. A decline below cost in the market value of any available-for-sale security that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings, and a new cost basis is established.

Fair Value of Financial Instruments— Financial instruments of the Company consist primarily of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued liabilities and long-term debt. The fair value of long-term debt does not vary materially from its carrying value. The carrying value of other financial instruments approximates their fair value because of the short maturity of such instruments.

Stock Option Plans — The Company accounts for its stock incentive plans 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 provide the pro forma disclosure provisions of SFAS No. 123.

Net Income (Loss) Per Share — Basic net income (loss) per ordinary share has been calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during each period. Diluted net income (loss) per ordinary share has been calculated in accordance with SFAS No. 128 to reflect the effect of dilutive securities.

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
Net Income (Loss)	<u>(209)</u>	<u>856</u>	<u>(372)</u>	<u>519</u>
Weighted Average Number of Shares				
– Basic.....	3,914,626	3,914,626	3,914,626	3,914,626
– Diluted	<u>3,914,626</u>	<u>3,973,913</u>	<u>3,914,626</u>	<u>3,972,912</u>
Net Income(Loss) Per Share				
– Basic.....	(0.05)	0.22	(0.10)	0.13
– Diluted	<u>(0.05)</u>	<u>0.22</u>	<u>(0.10)</u>	<u>0.13</u>



Beta Systems Software AG and Subsidiaries
Notes to the Consolidated Financial Statements
(Euro in thousands, except share data)

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.

Reclassifications — Certain reclassifications were made to the consolidated financial statements for 2002 to conform to the 2003 presentation.

2. Segment Information

All segments derive revenues from sales of product licenses as well as maintenance and consulting services. The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies. Segment amounts disclosed are prior to any elimination entries made in consolidation. Additionally, entities in Germany and Canada engage in research and development activities.

Three months ended September 30, 2002

	Storage Management	Data Center Management	Document Management	Total
Revenues from Customers.....	1,078	4,771	3,541	9,390
Intersegment Revenues	240	1,051	783	2,074
	<u>1,318</u>	<u>5,822</u>	<u>4,324</u>	<u>11,464</u>
Operating Income (Loss)	<u>(1,016)</u>	<u>384</u>	<u>118</u>	<u>(514)</u>

Three months ended September 30, 2003

	Storage Management	Data Center Management	Document Management	Total
Revenues from Customers.....	863	8,541	4,055	13,459
Intersegment Revenues	162	1,721	809	2,692
	<u>1,025</u>	<u>10,262</u>	<u>4,864</u>	<u>16,151</u>
Operating Income	<u>338</u>	<u>1,398</u>	<u>32</u>	<u>1,768</u>

Nine months ended September 30, 2002

	Storage Management	Data Center Management	Document Management	Total
Revenues from Customers.....	3,761	15,145	11,720	30,626
Intersegment Revenues	768	3,095	2,394	6,257
	<u>4,529</u>	<u>18,240</u>	<u>14,114</u>	<u>36,883</u>
Operating Income (Loss)	<u>(5,293)</u>	<u>2,136</u>	<u>1,086</u>	<u>(2,071)</u>



Beta Systems Software AG and Subsidiaries
Notes to the Consolidated Financial Statements
(Euro in thousands, except share data)

Nine months ended September 30, 2003	Storage Management	Data Center Management	Document Management	Total
Revenues from Customers	2,883	21,831	10,874	35,588
Intersegment Revenues	650	4,924	2,453	8,027
	<u>3,533</u>	<u>26,755</u>	<u>13,327</u>	<u>43,615</u>
Operating Income (Loss)	<u>165</u>	<u>1,592</u>	<u>(1,032)</u>	<u>725</u>

A reconciliation of the reportable segments' income (loss) before income taxes to the Company's consolidated totals is as follows:

	Three months ended September 30, 2002 2003		Nine months ended September 30, 2002 2003	
Income (Loss) before Income Taxes				
Total Operating Income (Loss) for Reportable Segments.....	(514)	1,768	(2,071)	725
Amortization of Intangible Assets.....	0	(15)	0	(32)
Severance Payments.....	0	(56)	0	(76)
Other Income, net	633	342	1,450	591
Interest Income (Expense)	<u>189</u>	<u>(43)</u>	<u>510</u>	<u>175</u>
Income (Loss) before Income Taxes and Minority Interest, as reported.....	<u>308</u>	<u>1,996</u>	<u>(111)</u>	<u>1,383</u>

An analysis of revenues and net operating income (loss) for the regions Germany, Europe, and America for the periods ended 30 September, 2003 is as follows:

Three months ended September 30, 2003	Germany	Europe	America	Total
Group Revenues, as reported	<u>9,171</u>	<u>3,171</u>	<u>1,117</u>	<u>13,459</u>
Operating Income	<u>1,518</u>	<u>18</u>	<u>232</u>	<u>1,768</u>
 Nine months ended September 30, 2003	 Germany	 Europe	 America	 Total
Group Revenues, as reported	<u>19,181</u>	<u>11,150</u>	<u>5,257</u>	<u>35,588</u>
Operating Income (Loss)	<u>(408)</u>	<u>498</u>	<u>635</u>	<u>725</u>

Beta Systems Software AG and Subsidiaries
Notes to the Consolidated Financial Statements
(Euro in thousands, except share data)

3. Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
Net Income (Loss)	(209)	856	(372)	519
Other Comprehensive Income (Loss)				
Foreign Currency Translation Adjustments	(332)	(22)	(624)	(209)
Unrealized Gain (Loss) on Investment Securities	(39)	(60)	(424)	9
Comprehensive Income (Loss)	<u>(580)</u>	<u>774</u>	<u>(1,420)</u>	<u>319</u>

4. Acquisitions

On February 10, 2003, the Company assumed legal control over the operative business of SYSTOR Security Solutions GmbH, Cologne (Germany) in the form of an "Asset Deal". The acquisition agreement provides for the transfer of all product rights of the Security Administration Manager (SAM) product line to the Company, the acquisition of the current customer base and all rights and obligations emanating from the existing customer and service contracts, and the commitment to continue in employment approximately 80 employees currently employed in development, sales, and services at SYSTOR's present locations in Cologne and Washington D.C.

SAM is an integrative and integrated software for quick and comprehensive control of enterprise-wide security management.

SAM is used by many large-scale enterprises in Germany, Europe, and North America for central and cross-system administration of user rights, and is therefore extremely well suited to enhance and add value to the Company's security suite of products.

The purchase became effective on February 01, 2003. The allocation of the purchase price is, due to ongoing negotiations, provisional. Currently the purchase price of EUR 2,215 for the acquired enterprise comprises the following:

Acquisition Costs:

Operative business of Systor Security Solutions GmbH	2003
Software Development Costs: SAM	1,369
Fixed Assets	112
Accrued Liabilities	(226)
Goodwill	960
Cash Paid for Business Acquisition	<u>2,215</u>

The purchase price has already been paid in full.

Results of operations of the acquired business for the eight months ended September 30, 2003 are included in the Company's financial results here reported. The following supplementary information discloses the pro forma results for the periods ended September 30, 2003:

	Three months ended September 30, 2003		Nine months ended September 30, 2003	
	Reported	Pro Forma	Reported	Pro Forma
Group Revenues	<u>13,459</u>	<u>10,769</u>	<u>35,588</u>	<u>29,183</u>
Net Income	<u>856</u>	<u>682</u>	<u>519</u>	<u>90</u>
Net Income per Share	<u>0.22</u>	<u>0.17</u>	<u>0.13</u>	<u>0.02</u>

No material, nonrecurring items are included in the reported pro forma results of operations.