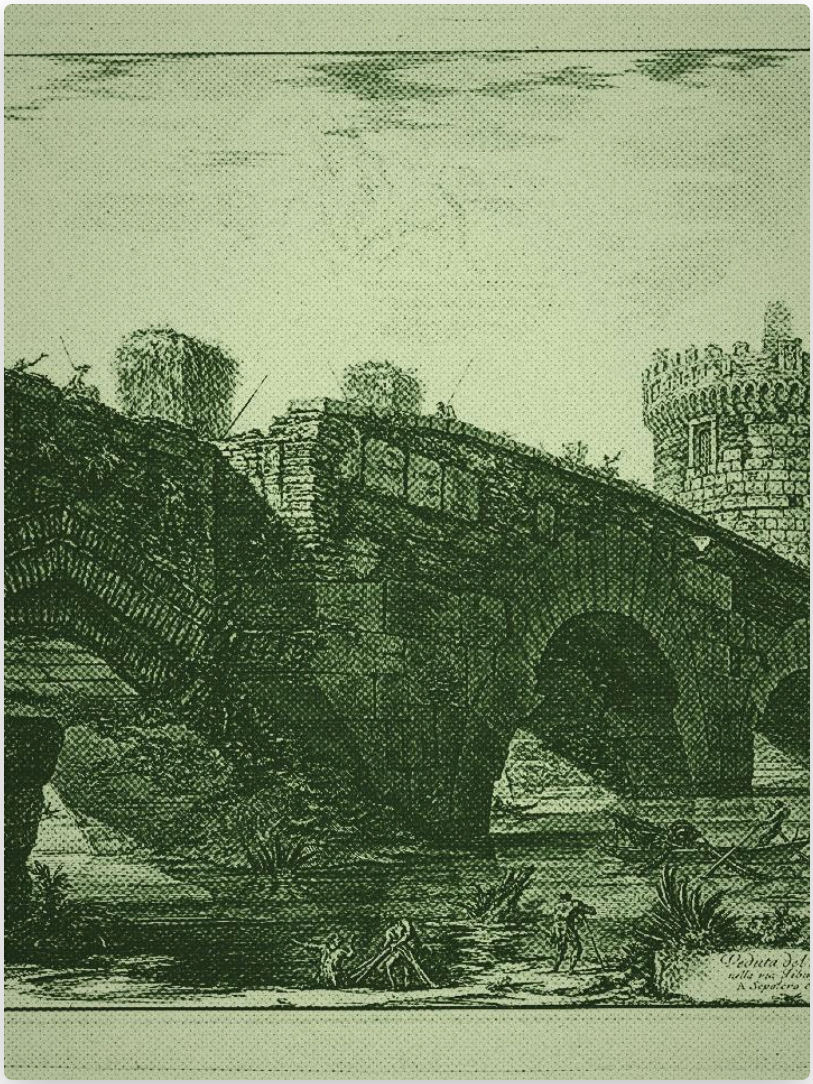
FORM S-1 · REGISTRATION STATEMENT

BEA Systems Inc

IPO priced 1997-04-14 · $6.00 a share · BEAS



From S1 Directory · www.s1directory.com/s1/bea-systems-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1031798/000091205797002518/0000912057-97-002518.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 31, 1997 REGISTRATION NO. 333- U.S. SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM SB-2 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 BEA SYSTEMS, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE	7372-9907	77-0394711
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

385 MOFFETT PARK DRIVE, SUITE 105 SUNNYVALE, CALIFORNIA 94089-1208 (408) 743-4000 (ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES AND PRINCIPAL PLACE OF BUSINESS) WILLIAM T. COLEMAN III CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER 385 MOFFETT PARK DRIVE, SUITE 105 SUNNYVALE, CALIFORNIA 94089-1208 (408) 743-4000 (NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

COPIES TO:

MICHAEL C. PHILLIPS, ESQ. KEVIN A. FAULKNER, ESQ. CORI M. ALLEN, ESQ. Morrison & Foerster LLP 755 Page Mill Road Palo Alto, CA 94304-1018	BARRY E. TAYLOR, ESQ. ROBERT G. O'CONNOR, ESQ. J. RANDALL LEWIS, ESQ. Wilson Sonsini Goodrich & Rosati Professional Corporation 650 Page Mill Road Palo Alto, CA 94304-1050

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

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	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
COMMON STOCK, $.001 PAR VALUE	$40,250,000	$12,197

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT OF 1933.

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.

EXPLANATORY NOTE

THE PROSPECTUS RELATING TO THE SHARES BEING REGISTERED HEREBY TO BE USED IN CONNECTION WITH A UNITED STATES OFFERING (THE "U.S. PROSPECTUS") IS SET FORTH FOLLOWING THIS PAGE. THE PROSPECTUS TO BE USED IN A CONCURRENT INTERNATIONAL OFFERING (THE "INTERNATIONAL PROSPECTUS") WILL CONSIST OF ALTERNATE PAGES SET FORTH FOLLOWING THE U.S. PROSPECTUS AND THE BALANCE OF THE PAGES INCLUDED IN THE U.S. PROSPECTUS FOR WHICH NO ALTERNATE IS

PROVIDED. THE U.S. PROSPECTUS AND THE INTERNATIONAL PROSPECTUS ARE IDENTICAL EXCEPT THAT THEY CONTAIN DIFFERENT OUTSIDE FRONT COVER, INSIDE FRONT COVER AND OUTSIDE BACK COVER PAGES AND DIFFERENT DESCRIPTIONS OF THE PLAN OF DISTRIBUTION (CONTAINED UNDER THE CAPTION "UNDERWRITING" IN BOTH THE U.S. PROSPECTUS AND THE INTERNATIONAL PROSPECTUS). ALTERNATE PAGES FOR THE INTERNATIONAL PROSPECTUS WILL BE FILED BY AMENDMENT AND WILL BE SEPARATELY DESIGNATED.

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 JANUARY 31, 1997

SHARES

[LOGO] BEA SYSTEMS, INC. COMMON STOCK (PAR VALUE $0.001) OF THE SHARES OF COMMON STOCK OFFERED, SHARES ARE BEING OFFERED HEREBY IN THE UNITED STATES AND 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. ALL OF THE SHARES OF COMMON STOCK OFFERED HEREBY ARE BEING ISSUED AND SOLD BY THE COMPANY. SEE "UNDERWRITING".

PRIOR TO THE OFFERINGS, THERE HAS BEEN NO PUBLIC MARKET FOR THE COMMON STOCK OF THE COMPANY. IT IS CURRENTLY ESTIMATED THAT THE INITIAL PUBLIC OFFERING PRICE PER SHARE WILL BE BETWEEN $ AND $. FOR FACTORS TO BE CONSIDERED IN DETERMINING THE INITIAL PUBLIC OFFERING PRICE, SEE "UNDERWRITING".

SEE "RISK FACTORS" ON PAGE 6 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 "BEAS".

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) THE COMPANY HAS AGREED TO INDEMNIFY THE UNDERWRITERS AGAINST CERTAIN LIABILITIES, INCLUDING LIABILITIES UNDER THE SECURITIES ACT OF 1933.

(2) BEFORE DEDUCTING ESTIMATED EXPENSES OF $1,700,000 PAYABLE BY THE COMPANY.

(3) THE COMPANY HAS GRANTED THE U.S. UNDERWRITERS AN OPTION FOR 30 DAYS TO PURCHASE UP TO AN ADDITIONAL SHARES AT THE INITIAL PUBLIC OFFERING PRICE PER SHARE, LESS THE UNDERWRITING DISCOUNT, SOLELY TO COVER OVER-ALLOTMENTS. ADDITIONALLY, THE COMPANY HAS GRANTED THE INTERNATIONAL UNDERWRITERS A SIMILAR OPTION WITH RESPECT TO AN ADDITIONAL 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 , 1997 AGAINST PAYMENT THEREFOR IN IMMEDIATELY AVAILABLE FUNDS.

GOLDMAN, SACHS & CO.

ALEX. BROWN & SONS INCORPORATED

ROBERTSON, STEPHENS & COMPANY

SOUNDVIEW FINANCIAL GROUP, INC.

THE DATE OF THIS PROSPECTUS IS , 1997 SET FORTH ON THE LEFT HAND SIDE OF THE INSIDE FRONT COVER PAGE ARE THREE SQUARE BOXES, SIDE BY SIDE, EACH BEARING THE INSCRIPTION "SERVER." SET FORTH ON TOP OF THESE SQUARES ARE TWELVE OTHER SQUARES OF EQUAL SIZE, PARTIALLY OVERLAPPING EACH OTHER AND CONNECTED TO THE THREE OTHER BOXES BY FOUR LINES EMANATING FROM EACH SQUARE. THREE OF THE TWELVE SQUARES BEAR THE INSCRIPTION "SERVER." UNDERNEATH THE GRAPHIC IS SET FORTH THE CAPTION "BEFORE BEA."

SET FORTH ON THE RIGHT HAND SIDE OF THE INSIDE FRONT COVER IS AN IDENTICAL GRAPHIC, WITH THE EXCEPTION OF A HORIZONTAL RECTANGULAR BOX BEARING THE CAPTION "BEA ENTERPRISE TRANSACTION FRAMEWORK" INSERTED BETWEEN THE LOWER THREE SQUARES AND THE OTHER TWELVE SQUARES. THE THREE LOWER SQUARES ARE CONNECTED TO THE RECTANGULAR BOX BY THREE LINES, ONE EMANATING FROM EACH SQUARE. THE TWELVE OTHER SQUARES ARE CONNECTED TO THE RECTANGULAR BOX BY TWELVE LINES, ONE EMANATING FROM EACH SQUARE. UNDERNEATH THE GRAPHIC IS SET FORTH A CAPTION WHICH READS "AFTER BEA."

ABOVE THE TWO GRAPHICS ACROSS THE LENGTH OF THE PAGE IS SET FORTH THE CAPTION "THE BEA ENTERPRISE MIDDLEWARE SOLUTION:." UNDERNEATH THE TWO GRAPHICS, ACROSS THE LENGTH OF THE PAGE IS SET FORTH THE CAPTION "SIMPLIFYING AND PROVIDING RELIABILITY TO THE PROCESSING OF COMPLEX BUSINESS TRANSACTIONS." BELOW THIS CAPTION IS SET FORTH THE FOLLOWING TEXT: "BUILDING, DEPLOYING, MANAGING AND EXPANDING DISTRIBUTED MISSION-CRITICAL COMPUTER SOFTWARE APPLICATIONS ACROSS LARGE ENTERPRISES IS AN INCREASINGLY IMPORTANT BUSINESS REQUIREMENT FOR LARGE ORGANIZATIONS. BY COORDINATING THESE APPLICATIONS AMONG THE MANY DISTRIBUTED CLIENTS AND SERVERS SUPPORTING ENTERPRISE APPLICATIONS, THE BEA ENTERPRISE TRANSACTION FRAMEWORK PROVIDES AN INTEGRATED MIDDLEWARE PLATFORM THAT IS SCALABLE, RELIABLE, AND FLEXIBLE."

THE COMPANY INTENDS TO FURNISH TO ITS STOCKHOLDERS ANNUAL REPORTS CONTAINING AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND QUARTERLY REPORTS CONTAINING UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE FIRST THREE FISCAL QUARTERS OF EACH FISCAL YEAR OF THE COMPANY.

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

BEA, BEA BUILDER, BEA CONNECT, BEA JOLT, BEA MANAGER, ENTERPRISE MIDDLEWARE SOLUTIONS AND JOLT ARE TRADEMARKS OF THE COMPANY. THE COMPANY HAS LICENSED WORLDWIDE RIGHTS TO TUXEDO, WHICH IS A REGISTERED TRADEMARK OF NOVELL, INC. IN THE UNITED STATES AND OTHER COUNTRIES. THIS PROSPECTUS CONTAINS OTHER PRODUCT NAMES, TRADE NAMES AND TRADEMARKS OF THE COMPANY AND OF OTHER ORGANIZATIONS.

THE INSIDE COVER GATEFOLD IS DIVIDED INTO TWO EQUAL HALVES BY A HORIZONTAL BAR CONTAINING THE CAPTION "BEA ENTERPRISE TRANSACTION FRAMEWORK." ABOVE THE BAR ARE SET FORTH FOUR CLUSTERS OF PICTURES, CONNECTED TO THE DIVIDING BAR BY FOUR LINES, ONE EMANATING FROM EACH CLUSTER. THE CLUSTER ON THE LEFT CONSISTS OF THREE IDENTICAL PICTURES, PARTIALLY SUPERIMPOSED, DEPICTING A MAN WORKING ON A LAPTOP COMPUTER. THE CLUSTER BEARS THE CAPTIONS "ELECTRONIC COMMERCE," "INTERNET BROWSER" AND "BEA JOLT." A CLOUD SUPERIMPOSED BY A LIGHTNING SYMBOL INTERSECTS THE LINE CONNECTING THE CLUSTER TO

THE DIVIDING BAR. TO THE RIGHT OF THIS CLUSTER IS SET FORTH A SECOND CLUSTER CONSISTING OF TWO PICTURES, ONE OF WHICH DEPICTS A DESKTOP COMPUTER AND ONE OF WHICH DEPICTS THE INTERIOR OF A WAREHOUSE. THIS CLUSTER BEARS THE CAPTION "MANUFACTURING," "PC CLIENT" AND "BEA TUXEDO." TO THE RIGHT OF THIS CLUSTER IS SET FORTH A THIRD CLUSTER CONSISTING OF A PICTURE OF TWO PERSONS SITTING AT A DESK AND TALKING, AND A CAPTION READING "HUMAN RESOURCES," "PC CLIENT" AND "BEA TUXEDO." THE CLUSTER ON THE RIGHT CONTAINS THREE IDENTICAL, PARTIALLY SUPERIMPOSED PICTURES REPRESENTING A MAINFRAME COMPUTER. THE CLUSTER BEARS THE CAPTIONS "MAINFRAME" AND "DATABASES."

BELOW THE DIVIDING BAR ARE SET FORTH FIVE CLUSTERS OF PICTURES, CONNECTED TO THE DIVIDING BAR BY FIVE LINES, ONE EMANATING FROM EACH CLUSTER. THE CLUSTER ON THE LEFT CONSISTS OF THREE IDENTICAL, PARTIALLY SUPERIMPOSED PICTURES OF AN AUTOMATED CHECK-OUT COUNTER AND A HAND SLIDING A CREDIT CARD. THIS CLUSTER BEARS THE CAPTIONS "POINT OF SALE" AND "PC CLIENT." TO THE RIGHT OF THIS CLUSTER IS SET FORTH A SECOND CLUSTER CONSISTING OF A PICTURE OF A PERSON WORKING ON A LAPTOP COMPUTER AND THE CAPTIONS "THIRD PARTY SALES" AND "PC CLIENT." TO THE RIGHT OF THIS CLUSTER IS SET FORTH A THIRD CLUSTER DEPICTING A CD SUPERIMPOSED ON A HUNDRED DOLLAR BILL, AN ELECTRONIC TICKER AND A NUMBER OF DOCUMENTS. THE CLUSTER CONTAINS THE CAPTIONS "FINANCE," "PC CLIENT" AND "BEA TUXEDO." TO THE RIGHT OF THIS CLUSTER IS SET FORTH A CLUSTER CONSISTING OF TWO PICTURES, ONE DEPICTING A PERSON WEARING A HEAD-SET AND MICROPHONE AND ONE DEPICTING A LAPTOP COMPUTER. THE CLUSTER CONTAINS A CAPTION READING "THIRD PARTY SALES" AND "PC CLIENT." THE CLUSTER ON THE RIGHT CONSISTS OF THREE IDENTICAL, PARTIALLY SUPERIMPOSED PICTURES OF A COMPUTER ROOM CONTAINING A NUMBER OF SERVERS. THE CLUSTER CONTAINS THE CAPTION "UNIX, NT SERVERS" AND "DATABASES."

SET FORTH IN THE UPPER LEFT-HAND CORNER OF THE GATEFOLD IS A CAPTION READING "LARGE ORGANIZATIONS USE BEA'S MIDDLEWARE AS THE PLATFORM TO RUN THEIR MOST CRITICAL APPLICATIONS."

IN THE UPPER RIGHT-HAND CORNER OF THE GATEFOLD IS SET FORTH THE FOLLOWING TEXT: "BEA'S PRODUCTS AND SERVICES ARE USED AS THE SOFTWARE INFRASTRUCTURE TO SUPPORT AND INTEGRATE A COMPANY'S MOST IMPORTANT BUSINESS APPLICATIONS. USING THE BEA ENTERPRISE TRANSACTION FRAMEWORK AS THE INFRASTRUCTURE FOR ITS APPLICATIONS, A COMPANY PROVIDES ITS BUSINESS APPLICATIONS WITH TRANSACTION INTEGRITY AND SECURITY, AND INTEGRATION WITH WIDELY DISPARATE DATABASE, CLIENT, AND SERVER TECHNOLOGIES. THIS INFRASTRUCTURE CAN BE USED IN A WIDE VARIETY OF DISTRIBUTED COMPUTING ENVIRONMENTS FROM LEGACY MAINFRAMES TO INTERNET CLIENTS. THE BEA SOLUTION ALSO PROVIDES HIGHLY SCALABLE TECHNOLOGY TO HANDLE THOUSANDS OF USERS SIMULTANEOUSLY, AND INTEGRATION WITH PACKAGED SOFTWARE INCLUDING THOSE THAT USE BEA'S MIDDLEWARE."

Prospectus Summary

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, THE INFORMATION IN THIS PROSPECTUS (I) REFLECTS THE CONVERSION OF ALL OUTSTANDING SHARES OF PREFERRED STOCK AND A CONVERTIBLE NOTE INTO SHARES OF COMMON STOCK EFFECTIVE AUTOMATICALLY UPON THE CLOSING OF THE OFFERINGS AND (II) ASSUMES NO EXERCISE OF THE U.S. UNDERWRITERS' OR INTERNATIONAL UNDERWRITERS' OVER-ALLOTMENT OPTIONS. SEE "UNDERWRITING."

The Company

BEA Systems, Inc. ("BEA" or the "Company") designs, develops, markets and supports software used by large organizations to enable and support their most critical business processes. The Company's Enterprise Transaction Framework is an integrated middleware software platform for developing, deploying and managing distributed mission-critical computer software applications. The core of the BEA Enterprise Transaction Framework is BEA TUXEDO, a software engine that manages transactions and communications for enterprise-wide applications, enabling organizations to realize the benefits offered by distributed computing environments while preserving the traditional advantages of mainframe-based systems. BEA products provide a middleware software infrastructure that supports thousands of simultaneous users distributed worldwide. In addition to its software products, BEA provides its customers with complete solutions through a range of professional services offerings.

BEA's products are marketed and sold worldwide, principally through the Company's direct sales force and also indirectly through third parties. BEA's products have been adopted in a wide variety of industries, including banking and finance, manufacturing, retail, technology, telecommunications and transportation. For the nine months ended October 31, 1996, BEA sold new product licenses to over 170 customers, including over 50 new customers. The total number of customers using products that have been acquired and developed by BEA is greater than 600 worldwide. These customers include: The AT&T Corp., Bell Communications Research, Inc., Damark International Inc., Discover Card Trust, Federal Express Corp., Fidelity Investments, Gap Inc., J.J. Kenney, McKesson Corp., Motorola Inc., Nippon Telephone & Telegraph, Northwest Airlines Corp., U.K. Employment Services, Union Bank of Switzerland and Walgreens Co. In addition, independent software vendors ("ISVs"), such as PeopleSoft Inc. and Clarify, Inc., embed BEA TUXEDO into their own product offerings in order to improve the scalability, portability and interoperability of their products.

Over the past decade, the information systems of many organizations have been evolving from traditional mainframe systems to distributed computing environments. This evolution has been driven by the benefits offered by distributed computing, including lower incremental technology costs, faster application development and deployment, increased flexibility and improved access to business information. However, the inherent technical and business limitations of distributed computing have generally precluded its use for complex, large-scale, mission-critical applications, such as airline reservations, credit card processing and customer billing and support systems, that enable and support fundamental business processes. These shortcomings include the limited scalability, reliability and interoperability of distributed computing environments. In addition, it has been difficult to integrate distributed computing technologies with existing mission-critical applications, limiting organizations' ability to leverage their substantial investments in legacy systems and existing personnel and skills.

BEA's products and services enable companies to overcome the limitations of distributed computing for mission-critical applications. BEA's Enterprise Transaction Framework, based upon time-tested and market-proven BEA TUXEDO technology, provides a middleware solution that addresses the scalability, manageability, platform independence, interoperability, integrity, reliability and security

requirements of complex, large-scale, distributed computing in the heterogeneous environments present in most major organizations. The BEA solution allows companies to leverage their substantial investments in legacy systems, significantly extending the useful lives of mainframe and programmer assets while exploiting the benefits offered by distributed computing.

The Company's objective is to establish its middleware solutions as the industry standard for developing, deploying and managing distributed mission-critical applications. To this end, BEA intends to enhance its technological leadership by adding new functionality to its products; expand its global distribution facilities to complement its direct sales, services, training and support capabilities; promote the embedding of BEA TUXEDO into the product offerings of ISVs to accelerate the acceptance of its products; leverage strategic partnerships to augment the efforts of its direct sales force; and provide the software and services necessary to conduct safe, reliable transactions over the Internet.

The Company acquired worldwide exclusive rights to TUXEDO from Novell, Inc. in February 1996, acquired Information Management Company and Independence Technologies, Inc., two leading distributors of TUXEDO, in September 1995 and November 1995, respectively, and acquired a number of other TUXEDO distribution, sales and support organizations between May 1996 and December 1996. Such acquisitions are referred to herein as the "Acquisitions." See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Company Background" and Consolidated Financial Statements. References herein to "BEA" or the "Company" refer to BEA Systems, Inc., its subsidiaries and predecessor entities acquired in the Acquisitions.

The Company was incorporated in Delaware in January 1995 under the name BEA Enterprises, Inc. and changed its name to BEA Systems, Inc. in September 1995. The Company's headquarters are located at 385 Moffett Park Drive, Sunnyvale, California 94089-1208, and its telephone number is (408) 743-4000.

Risk Factors

For a discussion of considerations relevant to an investment in the Common Stock, see "Risk Factors."

The Offerings

Common Stock offered by the Company..... shares Common Stock to be outstanding after the shares(1) Offerings..... Use of proceeds..... For repayment of certain borrowings under a credit line and payment of certain obligations incurred in connection with the Acquisitions, and for working capital and general corporate purposes and possible acquisitions. See "Use of Proceeds." Proposed Nasdaq National Market symbol..... BEAS (1) Based on the number of shares of Common Stock outstanding as of October 31, 1996, as calculated on a pro forma basis to give effect to the conversion of all shares of Preferred Stock and a convertible note upon completion of the Offerings based on an assumed initial public offering price of $. Excludes (i) 6,343,000 shares issuable

upon exercise of options outstanding as of October 31, 1996, having a weighted average exercise price of $0.382 per share, under the Company's 1995 Flexible Stock Incentive Plan and (ii) 917,450 shares issuable upon exercise of options granted from November 1, 1996 to January 15, 1997, (having a weighted average exercise price of $5.35 per share, and (iii) 5,985,800 additional shares authorized for issuance under the Company's 1995 Flexible Stock Incentive Plan, 1997 Stock Incentive Plan and 1997 Employee Stock Purchase Plan (collectively, the "Stock Plans"). See "Management--Stock Plans" and Note 11 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

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

	HISTORICAL YEAR ENDED JANUARY 31, 1996(1)	PRO FORMA YEAR ENDED JANUARY 31, 1996(1)(2)	HISTORICAL NINE MONTHS ENDED OCTOBER 31, 1995(1)	HISTORICAL NINE MONTHS ENDED OCTOBER 31, 1996	PRO FORMA NINE MONTHS ENDED OCTOBER 31, 1996(2)
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues:					
License Revenues	$ 3,569		$ 524	$ 26,855	
Service Revenues	1,564		230	9,494	
Total Revenues	5,133	$ 33,561	754	36,349	$ 37,366
Total Cost of Revenues(3)	2,704	15,712	487	12,498	13,379
Gross Margin	2,429	17,849	267	23,851	23,987
Operating Expenses:					
Research and Development	3,244	10,059	531	12,781	12,781
Sales and Marketing	2,572	15,102	973	20,814	21,171
General and Administrative	3,058	6,519	796	9,019	9,084
Write-Off of In-Process Research and Development	11,194	--	6,060	62,248	--
Total Operating Expenses	20,068	31,681	8,360	104,862	43,036
Income (Loss) from Operations	(17,639)	(13,832)	(8,093)	(81,011)	(19,049)
Other Income (Expense)	48	61	5	95	95
Interest Expense	89	6,795	21	4,941	4,951
Income (Loss) before Income Taxes	(17,680)	(20,566)	(8,109)	(85,857)	(23,905)
Provision for Income Taxes	60	60	--	300	326
Net Income (Loss)	$ (17,740)	$ (20,626)	$ (8,109)	$ (86,157)	$ (24,231)
Pro Forma Net Income (Loss) Per Share(4)	$ (0.58)	$ (0.68)		$ (1.72)	

```
$   (0.48)
  Pro Forma Shares Used in Computing Net Income
    (Loss) Per Share(4).....................       30,385        30,385                  50,107
50,107
```

October 31, 1996 Actual as Adjusted(5)

```
CONSOLIDATED BALANCE SHEET DATA:
  Cash and Cash Equivalents.....................                                    $   1,628
$  32,478
  Working Capital...............................                                      (30,018)
832
  Total Assets..................................                                       48,463
79,313
  Long-Term Obligations (Less Current Portion)....                                    52,361
47,859
  Stockholders' Equity (Deficit).................                                    (73,715)
(25,900)
```

(1) Also includes results of operations from incorporation (January 20, 1995) through January 31, 1995.

(2) Pro forma to give effect to the acquisitions of IMC, ITI, TUXEDO Systems Group and USL France as if they occurred on February 1, 1995 for the pro forma as adjusted results for the year ended January 31, 1996, and February 1, 1996 for the pro forma nine months ended October 31, 1996. The pro forma adjustments include (i) the elimination of revenues and expenses which occurred between the entities prior to their acquisition by BEA, (ii) amortization of intangible assets acquired for the full period, (iii) an increase in interest expense resulting from debt issued to acquire IMC and TUXEDO Systems Group, (iv) exclusion of material non-recurring charges relating to write-offs of in-process research and development and an extraordinary gain resulting from the forgiveness of debt. Additionally, the pro forma as adjusted results for the year ended January 31, 1996 include Company management's adjustments to reflect estimated expenses in excess of direct salaries and benefits for TUXEDO Systems Group. See "Selected Unaudited Pro Forma Operating Results" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Consolidated Results of Operations."

```
(3) Includes expenses attributable to amortization of intangible assets
    resulting from prior acquisitions in the amounts of $1.1 million, $      ,
    $116,000, $5.3 million and $   million, respectively.
```

(4) See Note 1 of Notes to BEA Systems, Inc. Consolidated Financial Statements for an explanation of the method used to determine the number of shares used in computing net income (loss) per share.

```
(5) Adjusted to reflect the sale of       shares offered by the Company hereby,
    based on an assumed initial public offering price of $   per share and the
    application of the estimated net proceeds therefrom.
```

Risk Factors

IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS IN EVALUATING AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY. THIS

PROSPECTUS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN OF THE RISK FACTORS SET FORTH BELOW AND ELSEWHERE IN THIS PROSPECTUS.

Limited Operating History; No Assurance of Profitability

The Company was incorporated in January 1995 and, accordingly, has a limited operating history upon which an evaluation of the Company and its prospects can be based. Revenues generated by the Company to date have been derived primarily from sales of BEA TUXEDO, a product to which the Company acquired worldwide rights in February 1996, and from fees for related services. Since its inception, the Company has acquired a number of businesses and other products in addition to BEA TUXEDO. Prior to the consummation of these acquisitions, the Company had no revenues and limited business activities. Accordingly, the Company is subject to the risks inherent both in the operation of a new business enterprise and the integration of a number of previously separate and independent business operations, and there can be no assurance that the Company will be able to address these risks successfully. Although the Company has experienced recent substantial revenue growth, the Company has incurred significant net losses since its inception, including losses of approximately $17.7 million and $86.2 million during the fiscal year ended January 31, 1996 and the nine months ended October 31, 1996, respectively. At October 31, 1996, the Company had an accumulated deficit of approximately $104.5 million. In addition, in connection with certain acquisitions, the Company recorded approximately $99 million as intangible assets, approximately $80 million of which has already been amortized and expensed and approximately $19 million of which is expected to be amortized and expensed in future periods through the Company's fiscal year ending January 31, 2001. The amounts of such intangible assets to be expensed in future periods, which will not be separately reported but will be included primarily in cost of sales, are expected to be $2.3 million per fiscal quarter in 1997 and are expected to average $1.3 million per fiscal quarter in 1998. To the extent the Company makes acquisitions of businesses, products and technologies in the future, the Company may report additional, potentially significant, amortization expenses related thereto. There can be no assurance that the Company will be profitable in any future period, and recent operating results should not be considered indicative of future financial performance. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Potential Fluctuations in Quarterly Operating Results

The Company expects that it will experience significant fluctuations in future quarterly operating results as a result of many factors, including, among others: the size and timing of orders; introduction or enhancement of products by the Company or its competitors; market acceptance of middleware products; the lengthy sales and implementation cycle for the Company's products and the potential for significant delays; market acceptance of new products and product enhancements; technological

changes in computer systems and environments; the structure and timing of future acquisitions of businesses, products and technologies, if any; increased competition; the ability of the Company to develop, introduce and market new products on a timely basis; changes in the Company's or its competitors' pricing policies; customer order deferrals in anticipation of future new products and product enhancements, if any; the Company's success in expanding its sales and marketing programs; mix of products and services sold; mix of distribution channels; ability to meet the service requirements of its customers; costs associated with acquisitions; loss of key personnel; fluctuations in foreign currency exchange rates; and general economic conditions. As a result of all of these factors, the Company believes that quarterly revenues and operating results are difficult to forecast and period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

Because the Company generally ships software products within a short period after receipt of an order, it will not at any given time have a material backlog of unfilled orders, and revenues in any quarter will be substantially dependent on orders booked and shipped in that quarter. In addition, the Company historically has recognized, and expects to continue to recognize, a significant portion of license revenue in the last month of each fiscal quarter. The Company anticipates that it will derive a substantial portion of its revenues from increasingly large orders, as customers deploy BEA products throughout their organizations. Any inability of the Company to generate large orders, or any delay or loss of such orders in a particular quarter, will materially adversely affect the Company's revenues and, more significantly on a percentage basis, its net income or loss in that quarter. The Company's expense levels are based, in part, on its expectations of future revenues. The Company expects to increase expense levels in each of the next several quarters, primarily to support increased sales, services and customer support efforts and research and development efforts, and to build greater infrastructure in its international offices, particularly in finance and administration functions. The Company is generally unable to reduce expenses significantly in the short term to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall of revenues in relation to the Company's expectations or any material delay of large orders would have a material adverse effect on the Company's business, operating results and financial condition. Due to all the foregoing factors, it is likely that in some future quarters the Company's operating results will not meet the expectations of public stock market analysts and investors. As a result, the market price of the Company's Common Stock would be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Product Concentration; Dependence on Growth of Market for Middleware; Novell Relationship

Revenues generated by the Company to date have been derived primarily from sales of BEA TUXEDO, a product to which the Company acquired worldwide rights in February 1996, and from fees for related services. These products and services are expected to continue to account for a substantial majority of the Company's revenues for the foreseeable future. As a result, factors adversely affecting the pricing of

or demand for BEA TUXEDO, such as competition or technological change, could have a material adverse effect on the Company's business, operating results and financial condition. The Company's success is dependent in significant part on the Company's middleware software products achieving market acceptance by large organizations with substantial legacy mainframe systems. All of the Company's business is in the market for middleware and related services, which is still an emerging market that is characterized by continuing technological developments, evolving industry standards and changing customer requirements. The Company's future financial performance will depend in large part on continued growth in the number of companies extending their mainframe-based, mission-critical applications to an enterprise-wide distributed computing environment through the use of middleware technology. There can be no assurance that the market for middleware technology and related services will continue to grow. If the middleware market fails to grow or grows more slowly than the Company currently anticipates, or if the Company experiences increased competition in this market, the Company's business, operating results and financial condition will be materially adversely affected.

Under the terms of the Company's license agreement with Novell, Inc. ("Novell") for the BEA TUXEDO product (the "Novell Agreement"), the Company is required to make aggregate annual payments to Novell of $32 million and $33 million during the calendar years 1997 and 1998, respectively, and, to acquire perpetual rights to TUXEDO, a final payment of $12 million in January 1999. In connection with the Novell Agreement, Warburg, Pincus Ventures, L.P., the Company's principal stockholder has guaranteed payment obligations to Novell. See Note 6 of Notes to BEA Systems, Inc. Consolidated Financial Statements. In addition, the Novell Agreement requires BEA to employ at least 47 developers devoted to BEA TUXEDO product development at December 31, 1997 and 62 such developers at December 31, 1998. There can be no assurance that the Company will employ the required minimum number of BEA TUXEDO developers. Any failure to make the required payments or any failure by the Company to achieve minimum contractual employment levels under the Novell Agreement would result in a loss of the Company's rights to BEA TUXEDO, which would have a material adverse effect on the Company's business, operating results and financial condition. See "--Substantial Future Capital Needs," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Products."

Lengthy Sales and Implementation Cycle

The Company's products are typically used to integrate applications that are critical to a customer's business, and the purchase of the Company's products is often part of a customer's implementation of a distributed computing environment. In such cases, the sales and implementation of the Company's middleware software products are included in a larger decision-making process within a customer's organization which can cause orders of the Company's products to be delayed or be subject to numerous factors beyond the Company's control. During the nine months ended October 31, 1996, license fees per customer for BEA products generally ranged from $95,000 to $1.7 million and averaged $395,000. The Company expects that licenses for BEA TUXEDO will increase in size and the

implementation of the Company's products will become more complex as customers use BEA TUXEDO for larger and more sophisticated installations. For these and other reasons, the sales and implementation cycle associated with the licensing of the Company's products is very lengthy and is subject to a number of significant delays over which the Company has little or no control. Following the signing of a license contract for BEA products, a customer's implementation consists of a pre-deployment and a deployment phase. Approximately 10 to 30 percent of the revenues from most customers is realized during the pre-deployment phase and is usually weighted toward professional services and training. The remaining portion of revenues is realized during the deployment stage and predominantly consists of license fees. While the sales and implementation cycle varies substantially from customer to customer, for initial sales it has ranged from 18 to 24 months from the initial contact to the completion of the deployment phase. Any significant or ongoing failure by the Company to achieve such sales or any delays in the implementation process could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Sales, Marketing and Services."

Competition

The market for middleware software and related services is highly competitive. The Company's competitors are diverse and offer a variety of solutions directed at various segments of the middleware software marketplace. These competitors include database vendors such as Oracle Corporation ("Oracle"), IBM Corporation ("IBM") and others, which offer their own development tools for use with their proprietary databases, as well as companies offering and developing middleware software products and related services or application development tools that compete with products offered by the Company. In addition, internal development groups within prospective customers' organizations may develop software and hardware systems that may substitute for those offered by the Company. A number of the Company's competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than the Company.

The Company's principal competitors currently are database vendors that advocate client/server networks driven by the database server and software tool vendors that offer development tools designed to enable customers to create distributed mission-critical applications. Oracle is the primary relational database vendor offering products that are intended to serve as alternatives to the Company's enterprise middleware solutions. Currently, the software development tool vendors typically emphasize the broad versatility of their toolsets and, in some cases, offer complementary middleware software that supports these tools and performs messaging and other basic middleware functions. There can be no assurance that the Company will compete successfully with database vendors and software tool vendors, or that the products offered by such vendors will not achieve greater market acceptance than the Company's products.

Microsoft has announced that it will provide middleware functionality in future versions of its Windows NT operating system and has recently announced the release of a product that includes certain middleware functionality. The bundling of middleware functionality in Windows NT will require the Company to compete with Microsoft in the Windows NT marketplace, where Microsoft will have certain inherent advantages due to its significantly greater financial, technical, marketing and other resources, greater name recognition, its substantial installed base and the integration of its enterprise middleware functionality with Windows NT. If Microsoft successfully incorporates middleware functionality into Windows NT or separately offers middleware applications, the Company will need to differentiate its products based on functionality, interoperability with non-Microsoft platforms, performance and reliability and establish its products as more effective solutions to customers' needs. There can be no assurance that the Company will be able to successfully differentiate its products from those offered by Microsoft, or that Microsoft's entry into the middleware market will not materially adversely affect the Company's business, operating results 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 the Company's current and prospective customers. 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 the Company's ability to sell additional licenses and maintenance and support renewals on terms favorable to the Company. Further, competitive pressures could require the Company to reduce the price of its products and related services, which could materially adversely affect the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current and future competitors, and the failure to do so would have a material adverse effect upon the Company's business, operating results and financial condition. See "Business-- Competition."

Dependence on Key Personnel and Need to Hire Additional Personnel

The Company's future performance depends to a significant degree upon the continued service of its key members of management, as well as marketing, sales, consulting and product development personnel. The loss of any of William T. Coleman III, the Company's President, Chairman and Chief Executive Officer, Edward W. Scott, Jr., the Company's Executive Vice President of Worldwide Field Operations, or Alfred S. Chuang, the Company's Chief Technical Officer and Executive Vice President of Product Development, or one or more of the Company's other key personnel, would have a material adverse effect on the Company's business, operating results and financial condition. The Company believes its future success will also depend in large part upon its ability to attract and retain highly skilled management, marketing, sales, consulting and product development personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be able to retain its key employees or that it will be successful in attracting, assimilating and retaining them in the future. As the Company seeks to expand its worldwide support organization, hiring of qualified technical

personnel in foreign countries will be difficult due to the limited number of qualified professionals. Failure to attract, assimilate and retain key personnel would have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Novell Agreement requires the Company to employ a minimum number of research and development personnel. See "--Product Concentration; Dependence on Growth of Market for Middleware; Novell Relationship" and "Business--Employees."

Expanding Distribution Channels and Reliance on Third Parties

To date, the Company has sold its products principally through its direct sales force, as well as through indirect sales channels, such as independent software vendors ("ISVs"), hardware OEMs, systems integrators, independent consultants and distributors. The Company's ability to achieve significant revenue growth in the future will depend in large part on its success in expanding its direct sales force and in further establishing and maintaining relationships with distributors, OEMs and ISVs. In particular, a significant element of the Company's strategy is to embed its technology in products offered by the Company's ISV customers. The Company intends to seek distribution arrangements with other ISVs to embed the Company's technology in their products and expects that these arrangements will account for a significant portion of the Company's revenues in future periods.

Although the Company is currently investing, and plans to continue to invest, significant resources to expand its direct sales force and to develop relationships with distributors and ISVs, the Company has at times experienced and continues to experience difficulty in recruiting qualified sales personnel and in establishing necessary third-party relationships. There can be no assurance that the Company will be able to successfully expand its direct sales force or other distribution channels, secure license agreements with additional ISVs on commercially reasonable terms or at all, or otherwise further develop its relationships with distributors and ISVs, or that any such expansion or additional license agreements would result in an increase in revenues. Although the Company believes that its investments in the expansion of its direct sales force and in the establishment of other distribution channels through third parties ultimately will improve the Company's operating results, to the extent that such investments are made and revenues do not correspondingly increase, the Company's business, operating results and financial condition will be materially and adversely affected. See "Business--Sales, Marketing and Services."

International Operations

International revenues accounted for 11% and 31% of total revenues in the fiscal year ended January 31, 1996 and the nine months ended October 31, 1996, respectively. The Company believes that its success depends upon continued expansion of its international operations. As of December 31, 1996, the Company had sales and service offices in Brisbane, Capetown, Espoo (Finland), Hong Kong, Johannesburg, London, Munich, Paris, Sao Paulo, Sydney, Toronto, Yokohama and Zaventem

(Belgium). At December 31, 1996, the Company also had 13 resellers in 11 locations outside the United States. The Company's international business involves a number of risks, including lack of acceptance of localized products; cultural differences in the conduct of business; longer accounts receivable payment cycles; greater difficulty in accounts receivable collection; seasonality due to the slow-down in European business activity during the summer months; unexpected changes in regulatory requirements; royalties and withholding taxes that restrict the repatriation of earnings; tariffs and other trade barriers; difficulty hiring qualified personnel; economic and political conditions in each country; management of an enterprise spread over various countries; and the burden of complying with a wide variety of foreign laws. In addition, the Company has acquired or otherwise established 13 foreign offices since inception and is seeking to integrate each of these offices into the Company's overall administrative and financial reporting structure, which is anticipated to result in the hiring of additional personnel in many of these international offices. The Company's international sales are generated primarily through its international sales subsidiaries, and most are currently denominated in local currency, creating a risk of foreign currency translation gains and losses. To the extent profit is generated or losses are incurred in foreign countries, the Company's effective income tax rate may be materially and adversely affected. In future periods, the Company may determine to increase the percentage of international sales of its products at prices denominated in U.S. dollars. In such event, fluctuations in currency exchange rates may render the price of the Company's products unaffordable or uncompetitive. Such an event could have a material adverse effect on the Company's business, financial condition and results of operations. In some markets, localization of the Company's products is essential to achieve market penetration. The Company may incur substantial costs and experience delays in localizing its products, and there can be no assurance that any localized product will generate significant revenues. There can be no assurance that any of the factors described herein will not have a material adverse effect on the Company's future international sales and, consequently, its business, operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business--Sales, Marketing and Services" and Note 12 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

Past and Future Acquisitions

From its inception in January 1995 through October 1996, the Company has concluded the acquisition of eight companies, divisions or products. Although the Company anticipates that the integration of these companies, divisions or products will not adversely affect the Company's operating results, this integration will involve the assimilation of conflicting operations and products, which will divert the attention of the Company's management team and may have a material adverse effect on the Company's operating results in future quarters. In addition, in connection with the acquisition of certain companies, divisions or products, the Company is required to make certain future payments, including aggregate annual payments to Novell of $32 million and $33 million during the calendar years 1997 and 1998 and a final payment of $12 million in January 1999 in connection with the Company's acquisition of TUXEDO. Any failure to make such payments or otherwise perform the Company's other continuing obligations relative to these acquisitions would result in the Company's

loss of certain of its rights in the acquired businesses or products and would have a material adverse effect on the Company's business, operating results and financial condition. The Company intends to make additional acquisitions in the future, although there can be no assurance that suitable companies, divisions or products will be available for acquisition. Such acquisitions entail numerous risks, including an inability to successfully assimilate acquired operations and products, diversion of management's attention, difficulties and uncertainties in transitioning the business relationships from the acquired entity to the Company and loss of key employees of acquired companies. In addition, future acquisitions by the Company may result in dilutive issuances of equity securities, the incurrence of debt, large one-time expenses, and the creation of goodwill or other intangible assets that could result in significant amortization expense. These factors could have a material adverse effect on the Company's business, operating results and financial condition. See "--Product Concentration; Dependence on Growth of Market for Middleware; Novell Relationship," "--Substantial Future Capital Needs," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

Management of Growth

The Company currently is experiencing a period of rapid and substantial growth that has placed, and is expected to continue to place, a strain on the Company's administrative, financial and operational resources. The Company's revenues have increased from $5.1 million for the year ended January 31, 1996 to $36.3 million for the nine months ended October 31, 1996, and the number of Company employees has increased from 120 employees in three offices in the United States at January 31, 1996 to 371 employees in 22 offices in 12 countries at October 31, 1996. The Company's ability to manage its staff and growth effectively will require it to continue to improve its operational, financial and management controls, reporting systems and procedures, to train, motivate and manage its employees and, as required, to install new management information and control systems. In that regard, the Company is currently installing and implementing a new management information system that is designed to integrate financial and other reporting among the Company's multiple domestic and foreign offices. In addition, the Company intends to significantly increase its administrative staff in its foreign offices, particularly in the area of finance, and to improve financial reporting and controls for the Company's international operations. There can be no assurance that the Company will be able to implement improvements to its management information and control systems in an efficient or timely manner or that, during the course of this implementation, deficiencies in existing systems and controls will not be discovered. If management of the Company is unable to manage growth effectively, the Company's business, operating results and financial condition will be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Substantial Future Capital Needs

The Company will require substantial additional funds to satisfy its payment obligations to Novell related to its acquisition of TUXEDO. Under the Novell Agreement, the Company is required to make aggregate payments of $32 million and $33 million during the years ended December 31, 1997 and 1998, respectively, and, to acquire perpetual rights to TUXEDO, a final payment of $12 million in January 1999. Payment obligations have been guaranteed by the Company's principal stockholder, Warburg, Pincus Ventures LLC ("Warburg"). See Note 6 of Notes to BEA Systems, Inc. Consolidated Financial Statements. As of October 31, 1996, the Company had $1.6 million in cash, cash equivalents and short-term investments. The Company believes that the net proceeds of the Offerings, together with its cash, cash equivalents and short-term investments, the Warburg guaranty, available borrowings under its lines of credit and cash from operations, will be sufficient to meet its working capital requirements, including the payment obligations under the Novell Agreement, through at least January 31, 1998. Thereafter, the Company expects that it will require substantial additional capital to meet its $33 million and $12 million payment obligations to Novell in 1998 and January 1999, respectively. Depending upon the Company's success in achieving continued revenue growth from sales of BEA TUXEDO and services related thereto, the Company may require additional equity or debt financing earlier than currently anticipated in order to fund its working capital and other requirements. There can be no assurance that additional financing will be available or, if available, that it will be on terms satisfactory to the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Technological Change; Dependence on New Products and Product Enhancements

The market for the Company's products is highly fragmented, competitive with alternative computing architectures, and characterized by continuing technological development, evolving industry standards and changing customer requirements. The introduction of products embodying new technologies, the emergence of new industry standards or changes in customer requirements could render the Company's existing products obsolete and unmarketable. As a result, the Company's success depends upon its ability to enhance existing products, respond to changing customer requirements, and develop and introduce in a timely manner new products that keep pace with technological developments and emerging industry standards. Customer requirements include, but are not limited to, operability across distributed and changing heterogeneous hardware platforms, operating systems, relational databases and networks. For example, although BEA TUXEDO interoperates with applications on over 40 operating platforms, as certain of the Company's customers start to utilize emerging platforms, it will be necessary for the Company to further enhance its products to interoperate with applications on these emerging platforms. There can be no assurance that the Company's products will adequately address the changing needs of the marketplace or that the Company will be successful in developing and marketing enhancements to its existing products or new products incorporating new technology

on a timely basis. Failure to develop and introduce new products, or enhancements to existing products, in a timely manner in response to changing market conditions or customer requirements, will materially and adversely affect the Company's business, operating results and financial condition.

The Company's BEA Jolt product is designed to enable the extension of enterprise-wide, mission-critical applications to Internet and intranet environments. Although BEA Jolt has not accounted for a significant portion of the Company's revenues to date, the Company intends to release enhanced versions of BEA Jolt with greater functionality during the fiscal year ended January 31, 1998, and the Company's objective is to increase license revenues from the BEA Jolt product, both in absolute dollars and as a percentage of the Company's revenues in future periods, although there can be no assurance of such increase. The success of BEA Jolt depends upon, among other things, the future growth of the Internet for commercial transactions. There can be no assurance that communication or commerce over the Internet will become widespread, or that the Internet will prove to be a viable commercial marketplace. If BEA Jolt fails to adequately address customer concerns regarding the use of the Internet for commerce, or if the Internet otherwise does not prove to be a viable commercial marketplace, the success of the BEA Jolt product will be materially and adversely affected. In addition, the current version of BEA Jolt operates through Java-based applets, and the Company anticipates that future versions of BEA Jolt will similarly operate through Java. Accordingly, the success of BEA Jolt depends upon the continued widespread demand for Java-enabled World Wide Web browsers. See "Business--Products and --Research and Development."

Software Defects

Software products as complex as those offered by the Company frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Despite product testing, the Company's recently introduced products or any products may contain defects or software errors and, as a result, the Company may experience delayed or lost revenues during the period required to correct any defects or errors. Any such defects or errors could result in adverse customer reactions, negative publicity regarding the Company and its products, harm to the Company's reputation, or loss of or delay in market acceptance, or could require expensive product changes, any of which could have a material adverse effect upon the Company's business, operating results and financial condition. See "Business--Products and --Research and Development."

Product Liability

The Company markets its products to customers for developing, building, deploying and managing distributed mission-critical computer software applications. The Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in the Company's license agreements may not be effective as a result of existing or future federal, state or local laws or ordinances or unfavorable judicial decisions. Although the Company has not experienced

any product liability claims to date, the sale and support of its products by the Company may entail the risk of such claims, which could be substantial in light of the use of such products in mission-critical applications. A successful product liability claim brought against the Company could have a material adverse effect upon the Company's business, operating results and financial condition.

Dependence on Proprietary Technology; Risk of Infringement

The Company's success depends upon its proprietary technology. The Company relies on a combination of copyright, trademark and trade secret rights, confidentiality procedures and licensing arrangements to establish and protect its proprietary rights. The Company presently has three issued patents and two pending patent applications, as well as an exclusive license to one patent and one pending patent application. No assurance can be given that competitors will not successfully challenge the validity or scope of the Company's patents and that such patents will provide a competitive advantage to the Company. As part of its confidentiality procedures, the Company generally enters into non-disclosure agreements with its employees, distributors and corporate partners, and license agreements with respect to its software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization, or to develop similar technology independently. In particular, the Company has, in the past, provided certain hardware OEMs with access to its source code, and any unauthorized publication or proliferation of this source code could materially adversely affect the Company's business, operating results and financial condition. Policing unauthorized use of the Company's products is difficult and, although the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. Effective protection of intellectual property rights is unavailable or limited in certain foreign countries. There can be no assurance that the Company's protection of its proprietary rights will be adequate or that the Company's competitors will not independently develop similar technology, duplicate the Company's products or design around any patents issued to the Company or other intellectual property rights of the Company.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in the industry segment overlaps. Any such claims, with or without merit, could result in costly litigation that could absorb significant management time, which could have a material adverse effect on the Company's business, operating results and financial condition. Such claims might require the Company to enter into royalty or license agreements. Such royalty or license agreements, if required, may not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition. See "Business--Intellectual Property."

NO PRIOR PUBLIC MARKET; DETERMINATION OF PUBLIC OFFERING PRICE; POSSIBLE VOLATILITY OF STOCK PRICE Prior to the Offerings, there has been no public market for shares of the Common Stock, and there can be no assurance that an active public trading market will develop following completion of the Offerings or, if developed, that such market will be sustained. The initial public offering price of the shares of Common Stock will be determined by negotiation between the Company and representatives of the Underwriters and will not necessarily reflect the market price of the Common Stock following this offering. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price.

The market price for the Common Stock following the Offerings will be affected by a number of factors, including the announcement of new products or product enhancements by the Company or its competitors, quarterly variations in the Company's or its competitors' results of operations, changes in earnings estimates or recommendations by securities analysts, developments in the Company's industry, general market conditions and other factors, including factors unrelated to the operating performance of the Company or its competitors. In addition, stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to the operating performance of such companies. Such factors and fluctuations, as well as general economic, political and market conditions, such as recessions, may materially adversely affect the market price of the Company's Common Stock.

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 Company's Common Stock. The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act of 1933, as amended (the "Securities Act") and lock-up agreements under which the holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the effective date of the Offerings without the prior written consent of Goldman Sachs. However, Goldman Sachs may, in its sole discretion and at any time, without notice, release all or any portion of the securities subject to lock-up agreements. As a result of these restrictions, based on shares outstanding and options granted as of October 31, 1996, the shares offered hereby will be eligible for sale on the date of this Prospectus, shares will be eligible for sale 180 days after the date of this Prospectus and shares will be eligible for sale pursuant to Rule 144 upon the expiration of their respective two-year holding periods. In addition, the Commission has proposed revisions to Rule 144 and Rule 144(k), the effect of which would be to shorten the holding period under Rule 144 from two years to one year and to shorten the holding period under Rule 144(k) from three years to two years. If enacted, these proposed revisions would increase, potentially substantially, the number of shares that would be available for sale in the public market 180 days after the date of this Prospectus. In addition, the Company intends to register on a registration statement on Form S-8 shares of Common Stock subject to outstanding options or reserved for issuance under the Company's 1995 Flexible Stock Incentive Plan, 1997 Stock Incentive Plan and 1997 Employee Stock Purchase Plan and shares

previously issued pursuant to the 1995 Stock Plan, which shares will be eligible for sale upon expiration of the lock-up agreements referred to above, subject to vesting and exercisability restrictions. Furthermore, upon expiration of the lock-up agreements referred to above, holders of approximately shares of Common Stock will be entitled to certain registration rights with respect to such shares. If such holders, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, the sale of such shares could have a material adverse effect on the market price for the Company's Common Stock and could materially adversely affect the Company's ability to raise additional capital when or if required. See "Shares Eligible for Future Sale."

Antitakeover Effects of Certificate of Incorporation, Bylaws and Delaware Law

The Company's Board of Directors has the authority to issue up to 40,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting and conversion rights, of those shares without any further vote or action by the stockholders. 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. In addition, the Board of Directors has the authority to issue undesignated Preferred Stock and, subject to certain limitations, to determine the rights, preferences, privileges and restrictions, including voting rights, of such shares without any further vote or action by the stockholders. The issuance of Preferred Stock could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. In addition, the Company is subject to the antitakeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit the Company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change of control of the Company. Further, certain provisions of the Company's Certificate of Incorporation and Bylaws and of Delaware law could delay or make more difficult a merger, tender offer or proxy contest involving the Company, which could adversely affect the market price of the Company's Common Stock. See "Description of Capital Stock--Preferred Stock and --Antitakeover Effects of Provisions of the Certificate of Incorporation, Bylaws and Delaware Law."

Control by Management and Current Stockholders

After the Offerings, the Company's officers and directors, and their affiliates, in the aggregate, will control % of the Company's Common Stock with full voting rights and will beneficially own % of the Company's Common Stock. In particular, Warburg will control % of the Company's Common Stock with full voting rights and will beneficially own % of the Company's Common Stock. As a result, these stockholders will be able to control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. The voting power of Warburg and the

Company's officers and directors under certain circumstances could have the effect of delaying or preventing a change in control of the Company. See "Principal Stockholders" and "Description of Capital Stock."

Dilution

The initial public offering price will be substantially higher than the book value per share of Common Stock. Investors purchasing shares of Common Stock in this offering will experience immediate and substantial dilution in net tangible book value of $ per share. The Company has issued options at prices significantly below the public offering price. To the extent outstanding options to purchase shares of Common Stock are exercised, there will be further dilution in net tangible book value. See "Dilution."

Use of Proceeds

The net proceeds to the Company from the sale of the shares of Common Stock being offered hereby are estimated to be approximately $30,850,000 ($35,732,500 if the Underwriters' over-allotment options are exercised in full).

The net proceeds of the Offerings are expected to be used for repayment of amounts borrowed by the Company under its revolving credit line and for the payment of certain obligations incurred in connection with acquisitions. Depending upon the level of the Company's borrowings thereunder, up to $10 million will be used to repay the revolving credit line. Approximately $4.5 million will be used to repay the entire amount due at the Offerings under a note issued by the Company in September 1995 and subsequently increased in the principal amount of $4.2 million with interest at 8% to the founder of an operating subsidiary acquired by the Company. The $16.3 million balance of the net proceeds is expected to be used to make payments toward the $32 million due to Novell in calendar year 1997. Any remaining proceeds will be added to working capital and used for general corporate purposes. The Company may also use a portion of the net proceeds to fund acquisitions of complementary businesses, products or technologies. Pending such uses, the net proceeds of the Offerings will be invested in investment grade, interest-bearing instruments.

The Company believes the net proceeds of the Offerings together with its current cash balances, borrowings available under its lines of credit and cash flow from operations will be sufficient to meet its working capital requirements, including the payment obligations related to acquisitions through at least January 31, 1998. Thereafter, the Company expects that it will require substantial additional capital to meet payment obligations to Novell of $33 million during the calendar year 1998 and a final payment of $12 million in January 1999 to acquire perpetual rights to TUXEDO. See "Risk Factors--Past and Future Acquisitions and --Substantial Future Capital Needs" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Dividend Policy

The Company has never declared or paid any cash dividends on its capital stock. The Company currently intends to retain earnings, if any, to support the development of its business and does not anticipate paying cash dividends for the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results and current and anticipated cash needs. In addition, an existing loan agreement prohibits the Company from paying cash dividends without the lender's consent. See Note 6 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

Capitalization

The following table sets forth the capitalization of the Company (i) as of October 31, 1996, (ii) on a pro forma basis to give effect to the conversion into Common Stock upon completion of the Offerings of all outstanding Preferred Stock and a convertible note in the principal amount of $, based on an assumed initial public offering price of and the filing of the Company's Amended and Restated Certificate of Incorporation to increase the authorized shares of Common Stock and to adjust the authorized shares of Preferred Stock prior to the Closing of the Offerings and (iii) as further adjusted to give effect to the sale by the Company of shares of Common Stock offered by the Company hereby at an assumed initial public offering price of per share and the receipt of estimated net proceeds therefrom. This table should be read in conjunction with the Consolidated Financial Statements and notes thereto and "Selected Consolidated Financial Data" included elsewhere in this Prospectus.

OCTOBER 31, 1996 ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS)

```
Notes Payable and Capital Lease Obligations.....................  $     52,361  $     52,361  $
47,859
Series B Redeemable Convertible Preferred Stock, $0.001 par value:
  Authorized shares--20,000,000
  Issued and outstanding shares--6,060,000 at January 31, 1996 and
    16,347,800 at October 31, 1996, respectively, none pro forma; and
    as adjusted.....................................................        16,965            --
--
Stockholders' Equity:
  Series A Preferred Stock, $.001 par value; 20,000,000 shares
    authorized, 17,166,000 shares issued and outstanding, actual;
    20,000,000 shares authorized, no shares issued and outstanding,
    pro forma and as adjusted.......................................            17            --
--
  Common Stock, $.001 par value; 80,000,000 shares authorized,
    10,347,750 shares issued and outstanding, actual; 80,000,000
    shares authorized,          shares issued and outstanding pro
    forma;       shares authorized,       shares issued and
    outstanding, as adjusted(1).....................................            10            47
51
Additional Paid-in Capital......................................           32,223        49,168
79,924
Notes Receivable from Stockholders..............................             (544)         (544)
(544)
Cumulative Translation Adjustment...............................              (1)           (1)
(1)
Deferred Compensation related to Stock Options..................             (906)         (906)
```

```
(906)
Accumulated Deficit.....................................................      (104,514)     (104,514)
(104,514)
  Total Stockholders' Equity (Deficit)...................................       (73,715)      (56,750)
(25,900)
    Total Capitalization.................................................  $     (4,389) $     (4,389) $
21,869
```

(1) Excludes (i) 6,343,000 shares issuable upon exercise of options outstanding as of October 31, 1996 having a weighted average exercise price of $0.382 per share under the Company's 1995 Flexible Stock Incentive Plan, (ii) 917,450 shares issuable upon exercise of options granted from November 1, 1996 to January 15, 1997, having a weighted average exercise price of $5.35 per share, and (iii) 5,985,800 additional shares authorized for issuance under the Stock Plans. See "Management--Stock Plans and --Executive Compensation" and Note 11 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

Dilution

At October 31, 1996, the Company's net tangible book value was $ or approximately $ per share. Pro forma net tangible book value per share represents the amount of the Company's total assets less net intangibles (less total liabilities) divided by shares of Common Stock (on a pro forma basis to give effect to the conversion upon completion of the Offerings of all shares of Preferred Stock and a convertible note in the principal amount of $ based on an assumed initial public offering price of $ per share) outstanding at October 31, 1996. Net tangible book value dilution per share represents the difference between the amount per share paid by purchasers of shares of Common Stock in the Offerings made hereby and the pro forma net tangible book value per share of Common Stock immediately after completion of the Offerings. After giving effect to the sale by the Company of shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $ per share, and the application of the estimated net proceeds therefrom, the pro forma net tangible book value of the Company as of October 31, 1996 would have been $ or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to the purchasers of Common Stock in the Offerings, as illustrated in the following table:

```
Assumed initial public offering price per share.......              $
  Pro forma net tangible book value per share as of
    October 31, 1996.................................  $
  Increase attributable to new investors..............
Pro forma net tangible book value per share after the
 Offerings............................................              $
Dilution per share to new investors...................              $
```

The following table sets forth, on a pro forma basis as of October 31, 1996, the differences between the existing stockholders and the purchasers of shares in the Offerings (at an assumed initial public offering price of $ per share and before deducting the estimated underwriting discount and offering expenses) with respect to the number of shares purchased from the Company, the total consideration paid and the average price per share paid:

	SHARES PURCHASED		TOTAL CONSIDERATION		
	NUMBER	PERCENT	AMOUNT	PERCENT	AVERAGE PRICE PER SHARE
Existing stockholders		%	$	%	$
New investors(1)					
Total		100.0%	$	100.0%	

The above computations assume no exercise of options after October 31, 1996. Excludes (i) 6,343,000 shares issuable upon exercise of options outstanding as of October 31, 1996 having a weighted average exercise price of $0.382 per share under the Company's 1995 Flexible Stock Incentive Plan, (ii) 917,450 shares issuable upon exercise of options granted from November 1, 1996 to January 15, 1997, having a weighted average exercise price of $5.35 per share, and (iii) 5,985,800 additional shares authorized for issuance under the Stock Plans. To the extent that outstanding options are exercised, there will be further dilution to new investors. See "Capitalization," "Management--Stock Plans and - -- Executive Compensation" and Note 11 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

Selected Consolidated Financial Data

The following selected consolidated financial data of the Company should be read in conjunction with the consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The consolidated statement of operations data of the Company for the year ended January 31, 1996 and the nine months ended October 31, 1996, and the consolidated balance sheet data of the Company at January 31, 1996 and October 31, 1996 are derived from, and qualified by reference to, the Company's consolidated financial statements which have been audited by Ernst & Young LLP, independent auditors, included elsewhere in this Prospectus. The statement of operations data for the nine months ended October 31, 1995 have been derived from, and qualified by reference to, the unaudited consolidated financial statements included elsewhere in this Prospectus. The unaudited consolidated financial statements include, in the opinion of management, all normal recurring adjustments that the Company considers necessary for a fair presentation of its results of operations for such period. The unaudited pro forma statement of operations data for the year ended January 31, 1996 and the nine months ended October 31, 1996 has been derived from audited and unaudited financial data of the Company and companies and a product it acquired, some of which are included elsewhere in this Prospectus, and gives unaudited pro forma effect to the Company's acquisition of the acquired businesses as if such acquisitions occurred at the beginning of the periods presented. The historical results of operations for the nine months ended October 31, 1996 are not necessarily indicative of the results that may be expected for the year ending January 31, 1997 or any future periods.

	HISTORICAL YEAR ENDED JANUARY 31,	PRO FORMA YEAR ENDED JANUARY 31,	HISTORICAL NINE MONTHS ENDED OCTOBER 31,	PRO FORMA NINE MONTHS ENDED

OCTOBER 31,	1996(1)	1996(1)(2)	1995(1)	1996	1996(2)
		(IN THOUSANDS, EXCEPT PER SHARE DATA)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues:					
License Revenues	$ 3,569		$ 524	$ 26,855	
Service Revenues	1,564		230	9,494	
Total Revenues	5,133	$ 33,561	754	36,349	$ 37,366
Total Cost of Revenues(3)	2,704	15,712	487	12,498	13,379
Gross Margin	2,429	17,849	267	23,851	23,987
Operating Expenses:					
Research and Development	3,244	10,059	531	12,781	12,781
Sales and Marketing	2,572	15,102	973	20,814	21,171
General and Administrative	3,058	6,519	796	9,019	9,084
Write-Off of In-Process Research and Development	11,194	--	6,060	62,248	--
Total Operating Expenses	20,068	31,681	8,360	104,862	43,036
Income (Loss) from Operations	(17,639)	(13,832)	(8,093)	(81,011)	(19,049)
Other Income (Expense)	48	61	5	95	95
Interest Expense	89	6,795	21	4,941	4,951
Income (Loss) before Income Taxes	(17,680)	(20,566)	(8,109)	(85,857)	(23,905)
Provision for Income Taxes	60	60	--	300	326
Net Income (Loss)	$ (17,740)	$ (20,626)	$ (8,109)	$ (86,157)	$ (24,231)
Pro Forma Net Income (Loss) Per Share(4)	$ (0.58)	$ (0.68)		$ (1.72)	$ (0.48)
Pro Forma Shares Used in Computing Net Income (Loss) Per Share(4)	30,385	30,385		50,107	50,107
CONSOLIDATED BALANCE SHEET DATA (AT PERIOD END):					
Cash and Cash Equivalents	$ 4,549			$ 1,628	
Working Capital	2,510			(30,018)	
Total Assets	18,953			48,463	
Long-Term Obligations (Less Current Portion)	4,287			52,361	
Stockholders' Equity (Deficit)	2,038			(73,715)	

(1) Also includes results of operations from incorporation (January 20, 1995) through January 31, 1995.

(2) Pro forma to give effect to the acquisitions of IMC, ITI, TUXEDO Systems Group and USL France as if they occurred on February 1, 1995 for the pro forma as adjusted results for the year ended January 31, 1996, and February 1, 1996 for the pro forma nine months ended October 31, 1996. The pro forma adjustments include (i) the elimination of revenues and expenses which occurred between the entities prior to their acquisition by BEA, (ii) amortization of intangible assets acquired for the full period, (iii) an increase in interest expense resulting from debt issued to acquire IMC and TUXEDO Systems

Group, (iv) exclusion of material non-recurring charges relating to write-offs of in-process research and development and an extraordinary gain resulting from the forgiveness of debt. Additionally, the pro forma as adjusted results for the year ended January 31, 1996 include Company management's adjustments to reflect estimated expenses in excess of direct salaries and benefits for TUXEDO Systems Group. See "Selected Unaudited Pro Forma Operating Results" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Consolidated Results of Operations."

```
(3) Includes expenses attributable to amortization of intangible assets
    resulting from prior acquisitions in the amounts of $1.1 million, $        ,
    $116,000, $5.3 million and $   million, respectively.
```

(4) See Note 1 of Notes to BEA Systems, Inc. Consolidated Financial Statements for an explanation of the method used to determine the number of shares used in computing net income (loss) per share.

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

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS WHICH INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING BUT NOT LIMITED TO THOSE DISCUSSED IN "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS.

Company Background

The Company was founded in January 1995 to address the growing need of large organizations to extend mission-critical applications beyond legacy mainframe systems to distributed computing environments. To address this problem, the Company evaluated the growing market for middleware solutions in an effort to identify a robust, scalable software product that would enable interoperable, seamless processing of applications between the mainframe and distributed environments within an organization. The Company identified the TUXEDO product, all rights to which were owned by Novell, as a middleware infrastructure solution capable of meeting this need and serving as a standard for extending the functionality of mainframes to distributed computing environments. To implement its strategy, the Company first acquired two leading United States resellers of TUXEDO and then acquired a worldwide exclusive license to TUXEDO from Novell. Through these and a number of subsequent acquisitions, the Company has built a worldwide organization that now owns or controls substantially all of the development, distribution and marketing rights to TUXEDO as well as several other products that comprise the BEA Enterprise Transaction Framework.

From January 1995 to September 1995, the Company pursued the acquisition of two leading resellers of Novell's TUXEDO product, which culminated in the acquisition of Information Management Company ("IMC") in September 1995 and Independence Technologies, Inc. ("ITI") in November 1995. Both IMC and ITI were authorized resellers of Novell's TUXEDO product line and had established sales and support organizations that enabled BEA to provide direct sales and support throughout all of North America. In September 1995, the Company also acquired TP Blue from VI Systems, Inc. TP Blue complements BEA TUXEDO in that it enables the integration of legacy mainframe applications into distributed computing environments.

In February 1996, BEA acquired exclusive worldwide rights to TUXEDO from Novell. Novell had originally obtained TUXEDO through its acquisition in 1993 of UNIX Systems Laboratories from AT&T, which originally developed TUXEDO in its Bell Labs division. Under the terms of the Novell Agreement, the Company obtained worldwide exclusive rights to TUXEDO in exchange for a series of fixed payments totaling $90 million over the original three-year term of the agreement and was granted an option, exercisable in January 1999, to acquire perpetual rights to the TUXEDO product line. Under the terms of the Novell Agreement, Novell retains the right to market TUXEDO in combination with its Netware product. The Company is obligated to make payments of $32 million and $33 million in calendar years 1997 and 1998, respectively, and will be required to pay an additional $12 million on exercise of its January 1999 option. For financial reporting purposes, the purchase price allocation to assets acquired in the acquisition of TUXEDO has been determined based on the assumed exercise by the Company of its option in January 1999 to acquire the perpetual worldwide rights to TUXEDO. As part of the Company's original licensing of TUXEDO, Novell transferred to the Company approximately 53 employees engaged in the development, marketing and support of the TUXEDO product line, as well as all of Novell's rights and obligations under its agreements with worldwide distributors and resellers for TUXEDO. At October 31, 1996, the Company had a development staff of 89, which included the original four architects, as well as many of the original developers, of TUXEDO. See "Risk Factors--Product Concentration; Dependence on Growth of Market for Middleware; Novell Relationship."

As part of its strategy to rapidly build an international sales and support organization, BEA further acquired, between May 1996 and December 1996, a number of sales and support organizations located in France, South Africa, Finland and Australia. See "Risk Factors--Limited Operating History; No Assurance of Profitability and --Past and Future Acquisitions."

Overview

The Company's total revenues consist of license revenues and service revenues. License revenues are derived primarily from sales of BEA TUXEDO and accounted for 74% of total revenues in the nine months ended October 31, 1996. Service revenues are derived primarily from a full range of services complementing the Company's products, including software maintenance and support, training and consulting projects, and accounted for 26% of total revenues in the nine months ended October 31,

1996. Sales of BEA TUXEDO and related services are expected to continue to account for a substantial majority of the Company's revenues for the forseeable future. See "Risk Factors--Product Concentration; Dependence on Growth of Market for Middleware; Novell Relationship."

Because the Company generally ships software products within a short period after receipt of an order, it will not at any given time have a material backlog of unfilled orders, and revenues in any quarter are substantially dependent on orders booked and shipped in that quarter. In addition, the Company historically has recognized, and expects to continue to recognize, a significant portion of license revenues in the last month of each fiscal quarter. The Company anticipates that it will derive a substantial portion of its revenues from increasingly large orders, as customers deploy BEA products throughout their organizations. Any inability of the Company to generate large orders, or any delay or loss of large orders in a particular quarter, will materially adversely affect the Company's revenues and, more significantly on a percentage basis, its net income or loss in that quarter. See "Risk Factors--Potential Fluctuations in Quarterly Operating Results."

Historically, the Company's revenues have been generated primarily through its direct sales force. The Company has also developed strategic relationships with a number of organizations, including hardware manufacturers, packaged application software developers, systems integrators and independent consultants, independent software tool vendors and distributors. For their sales and marketing efforts, these organizations are typically granted a discount from the Company's standard list price or are paid a commission on sales. Revenues and operating margins may fluctuate in any period due to the mix of license revenues derived from sales for which a discount is granted or for which commissions are paid. See "Risk Factors--Expanding Distribution Channel and Reliance on Third Parties."

The Company recognizes license revenues in accordance with American Institute of Certified Public Accountants Statement of Position 91-1, SOFTWARE REVENUE RECOGNITION. Revenues from software license agreements are recognized at the time of product shipment, provided there are no vendor obligations remaining to be fulfilled and collectibility is probable. Typically, the Company's software licenses do not include significant ongoing vendor obligations. Therefore, the Company generally recognizes all revenues from software licenses in the period in which the product is shipped.

Service revenues from customer maintenance fees for ongoing customer support and product updates are recognized ratably over the maintenance term, which is typically twelve months. Payments for maintenance fees are generally received in advance and recognized ratably. Service revenues from training and consulting are recognized when the services are performed. Revenues from development agreements are recognized upon achievement of contractual milestones or on a percentage of completion basis.

International revenues, which the Company defines as revenues derived from sales outside of North America, accounted for 11% and 31% of total revenues in the fiscal year ended January 31, 1996 and the nine months ended October 31, 1996, respectively. The Company's international sales are generated primarily through its international sales subsidiaries and most are currently denominated in local currency, creating a risk of foreign currency translation gains and losses. In future periods, the

Company may determine to make more sales of its products in international markets at prices denominated in U.S. dollars. In such event, fluctuations in currency exchange rates may render the price of the Company's products unaffordable or uncompetitive. Such an event could have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors--International Operations."

Consolidated Results of Operations

The following table sets forth, as a percentage of total revenues, historical and pro forma consolidated statement of operations for the periods indicated:

	HISTORICAL YEAR ENDED JANUARY 31, 1996	PRO FORMA YEAR ENDED JANUARY 31, 1996	HISTORICAL NINE MONTHS ENDED OCTOBER 31, 1995	HISTORICAL NINE MONTHS ENDED OCTOBER 31, 1996	PRO FORMA NINE MONTHS ENDED OCTOBER 31, 1996
Revenues:					
License Revenues	70%		70%	74%	
Service Revenues	30		30	26	
Total Revenues	100	100%	100	100	100%
Total Cost of Revenues(1)	53	47	64	34	36
Gross Margin	47	53	36	66	64
Operating Expenses:					
Research and Development	63	30	70	35	34
Sales and Marketing	50	45	129	58	57
General and Administrative	60	19	106	25	24
Write-Off of In-Process Research and Development	218	--	804	171	--
Total Operating Expenses	391	94	1,109	289	115
Income (Loss) from Operations	(344)	(41)	(1,073)	(223)	(51)
Other Income (Expense)	1	--	1	--	--
Interest Expense	2	20	3	13	13
Income (Loss) before Income Taxes	(345)	(61)	(1,075)	(236)	(64)
Provision for Income Taxes	1	--	1	1	1
Net Income (Loss)	(346)%	(61)%	(1,075)%	(237)%	(65)%

(1) Includes amortization of intangibles of 17%, 3%, 15%, 14% and 14% of total revenues, respectively, as a result of the Acquisitions.

Historical Consolidated Results of Operations

Nine Months Ended October 31, 1995 and 1996

Revenues

The Company's revenues are derived primarily from fees for software licenses and to a lesser extent from services. The Company's revenues were $754,000 and $36.3 million for the nine months ended October 31, 1995 and 1996, respectively.

LICENSE REVENUES. License revenues were $524,000 and $26.9 million for the nine months ended October 31, 1995 and 1996, respectively, representing 69% and 74% of total revenues in the respective periods. The increase in dollar amount was primarily due to the Company's inclusion of IMC for a full year of operations, and its subsequent acquisitions of ITI, TUXEDO, USL Finance, S.A. (France) ("USL France") and Client Server Technologies OY (Finland) ("CST"), as well as market acceptance of BEA TUXEDO and related products.

SERVICE REVENUES. Service revenues were $230,000 and $9.5 million for the nine months ended October 31, 1995 and 1996, respectively, representing 31% and 26% of total revenues in the respective periods. The increase in dollar amount was primarily due to the Company's inclusion of IMC for a full year of operations, and its subsequent acquisitions, and to the increase in consulting, training and maintenance fees associated with the increased sales of the Company's software licenses. The Company expects that service revenues will increase as a percentage of total revenues in future periods, as the Company continues to leverage its existing customer base by providing additional services to assist customers in enhancing their uses of the Company's products.

Cost of Revenues

Cost of revenues is comprised of cost of licenses and cost of services.

COST OF LICENSES. Cost of licenses consists primarily of amortization of intangible assets related to acquisitions and license fees and royalties paid to third party software providers as well as product media, product duplication and shipping. Amortization of intangible assets resulted from the acquisition of IMC, in the nine months ended October 31, 1995 and 1996, as well as to the acquisitions of ITI, TUXEDO, USL France and CST in the nine months ended October 31, 1996. Amortization of intangible assets totaled $1.1 million in the twelve months ended January 31, 1996 and is expected to total $8.4 million for the twelve months ending January 31, 1997, $9.2 million for the twelve months ending January 31, 1998, $4.9 million for the twelve months ending January 31, 1999 and $1.4 million for the remaining balance of intangible assets through the year ending January 31, 2002.

COST OF SERVICES. Cost of services consists primarily of personnel-related costs incurred in providing consulting services, training and maintenance to its customers. Cost of services were $163,000 and $4.8 million for the nine months ended October 31, 1995 and 1996, respectively, representing 71% and 51% of total service revenues for each period, respectively. The decrease in absolute dollars was due primarily to the Company's acquisitions and increased operating activity resulting, in part, from such acquisitions. The decrease in costs as a percentage of related service revenues for the nine months ended October 31, 1996 over the same period in 1995 is the result of a significant increase in total revenues offset by a relatively smaller increase in cost of services related to the hiring of additional consulting and support personnel in response to an anticipated increase in the number of customers. The Company has also invested substantial resources in a worldwide 7x24x365 Customer Support organization to provide a high level of maintenance service to the Company's customers. The Company expects service margins to improve to the extent service revenues continue to increase.

Operating Expenses

SALES AND MARKETING. Sales and marketing expenses include salaries, commissions, advertising, direct mail, seminars, public relations, trade shows, travel and other related selling and marketing expenses. Sales and marketing expenses were $973,000 and $20.8 million for the nine months ended October 31, 1995 and 1996, respectively, representing 129% and 58% of total revenues for each period, respectively. The increase in absolute dollars was due primarily to the Company's acquisitions, expansion of the Company's direct sales force and an increase in marketing personnel and activities. The decrease in sales and marketing expenses as a percentage of total revenues was primarily due to the substantial increase in revenues during the period. The Company believes that the dollar amount of sales and marketing expenses will continue to increase as the Company expands its sales and marketing organization.

RESEARCH AND DEVELOPMENT. Research and development expenses include engineering personnel and related expenses as well as consulting costs associated with new product development and enhancement of existing products. In accordance with Statement of Financial Accounting Standards No. 86, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED OR OTHERWISE MARKETED, software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of the Company's products and general release of such software have substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant, and therefore, the Company has not capitalized any software development costs. Research and development expenses were $531,000 and $12.8 million for the nine months ended October 31, 1995 and 1996, respectively, representing 70% and 35% of total revenues in each period, respectively. The increase in dollar amount was attributed to an increase in personnel and related expenses. The decrease in research and development expenses as a percentage of total revenues was primarily due to the substantial increase

in revenues. The Company expects that that dollar amount of research and development expenses will continue to increase as the Company continues to commit substantial resources to product development and engineering in future periods.

GENERAL AND ADMINISTRATIVE. General and administrative expenses include personnel costs for administration, finance, human resources, information technology and general management, as well as amortization of goodwill related to the purchase of IMC. General and administrative expenses were $796,000 and $9.0 million for the nine months ended October 31, 1995 and 1996, respectively, representing 106% and 25% of total revenues for each period, respectively. The increase in dollar amount was attributed to the expansion of the Company's general and administrative staff and associated expenses necessary to manage and support the Company's growth. Amortization of goodwill totaled $47,000 in the nine months ended October 31, 1995 and will total $187,000 per year through September 30, 2000. The decrease in general and administrative expenses as a percentage of total revenues was primarily due to the substantial increase in revenues. The Company expects that the dollar amount of general and administrative expenses will continue to increase in the future as the Company expands its staffing and incurs higher costs associated with being a public company.

WRITE-OFF OF IN-PROCESS RESEARCH AND DEVELOPMENT. Write-off of in-process research and development is related to the Acquisitions and totaled $6.1 million for the nine months ended October 31, 1995, consisting of IMC ($5.2 million) and certain technology acquired from VI Systems ($860,000). The total of $62.2 million for the nine months ended October 31, 1996 included the acquisitions of TUXEDO ($60.9 million) and CST ($1.3 million). See Note 2 of Notes to BEA Systems, Inc. Consolidated Financial Statements.

Provision for Income Taxes

The Company has experienced operating losses to date and incurred tax expense of $0 and $300,000 for the nine months ended October 31, 1995 and 1996, respectively. The tax expense is comprised primarily of foreign income tax withholding.

Years Ended January 31, 1996 and December 31, 1994

As discussed under "--Company Background," the Company was incorporated in January 1995, acquired exclusive rights to BEA TUXEDO in February 1996, and has concluded a number of other acquisitions of businesses, products and technologies since its incorporation. Accordingly, the Company believes that a comparison of its operating results for the year ended January 31, 1996 and those of IMC for the year ended December 31, 1994 is not meaningful and that the results for such periods should not be relied upon as any indication of the Company's future performance. Prospective investors in this offering are referred to the information under the caption "--Selected Quarterly Financial Data" and "--Selected Pro Forma Operating Results" in this "Management's Discussion and

Analysis of Financial Condition and Results of Operations" as well as "Selected Consolidated Financial Data" and the consolidated financial statements and notes thereto included elsewhere herein for a discussion of the Company's operating results in recent periods.

Selected Quarterly Financial Data

The following tables set forth certain unaudited quarterly financial data for the five most recent quarters and the percentage of total revenues represented by each line item. The Company believes that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the selected quarterly information when read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere herein. In view of the Acquisitions and other factors, the Company believes that quarterly total revenues and operating results should not be relied upon as indications of future performance or results for the entire fiscal year.

	QUARTER ENDED				
	OCT. 31, 1995	JAN. 31, 1996	APR. 30, 1996	JUL. 31, 1996	OCT. 31, 1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues:					
License Revenues	$ 524	$ 3,071	$ 5,484	$ 9,678	$ 11,693
Service Revenues	230	1,309	1,367	3,804	4,323
Total Revenues	754	4,380	6,851	13,482	16,016
Total Cost of Revenues	487	2,217	2,494	4,243	5,761
Gross Margin	267	2,163	4,357	9,239	10,255
Operating Expenses:					
Research and Development	366	2,713	3,097	4,673	5,011
Sales and Marketing	892	1,598	3,912	6,450	10,452
General and Administrative	642	2,122	2,579	2,778	3,662
Write-off of In-Process Research and Development	6,060	5,274	60,948	1,300	--
Total Operating Expenses	7,960	11,707	70,536	15,201	19,125
Income (Loss) from Operations	(7,693)	(9,544)	(66,179)	(5,962)	(8,870)
Other Income (Expense)	4	42	(117)	1	211
Interest Expense	21	68	1,117	1,765	2,059
Income (Loss) before Income Taxes	(7,710)	(9,570)	(67,413)	(7,726)	(10,718)

Provision for Income Taxes..... -- 60 38 116 146

Net Income (Loss).....	$ (7,710)	$ (9,630)	$ (67,451)	$ (7,842)	$ (10,864)
Pro Forma Net Income (Loss) Per Share.....	$ (0.26)	$ (0.20)	$ (1.37)	$ (0.16)	$ (0.21)
Pro Forma Shares Used In Computing Net Income (Loss) Per Share.....	29,278	49,231	49,303	49,666	51,351

	QUARTER ENDED				
	OCT. 31, 1995	JAN. 31, 1996	APR. 30, 1996	JUL. 31, 1996	OCT. 31, 1996
AS A PERCENTAGE OF TOTAL REVENUES:					
Revenues:					
License Revenues.....	69%	70%	80%	72%	73%
Service Revenues.....	31	30	20	28	27
Total Revenues.....	100	100	100	100	100
Total Cost of Revenues.....	65	51	36	31	36
Gross Margin.....	35	49	64	69	64
Operating Expenses:					
Research and Development.....	48	62	45	35	31
Sales and Marketing.....	118	37	57	48	65
General and Administrative.....	85	48	38	20	23
Write-off of In-Process Research and Development.....	804	120	890	10	--
Total Operating Expenses.....	1,055	267	1030	113	119
Income (Loss) from Operations.....	(1,020)	(218)	(966)	(44)	(55)
Other Income (Expense).....	-- 1	(2)	-- 1		
Interest Expense.....	3	2	16	13	13
Income (Loss) before Income Taxes.....	(1,023)	(219)	(984)	(57)	(67)

Provision for Income Taxes..... -- 1 1 1 1 Net Income (Loss)..... (1,023)% (220)% (985)% (58)% (68)% Total revenues have increased each quarter over the past five quarters from $754,000 in the quarter ended October 31, 1995 to $16.0 million in the quarter ended October 31, 1996. These increases were primarily attributable to the acquisition of BEA TUXEDO in February 1996 and other Acquisitions during the period, increasing market acceptance of BEA TUXEDO and related services, the expansion of the Company's direct and indirect sales organizations and growth in order sizes for the Company's products.

Gross margin increased from 35% in the quarter ended October 31, 1995 to 64% in the quarter ended October 31, 1996. This increase resulted primarily from the increase in total revenues during the period as compared to the relatively fixed level of amortization charges included in cost of revenues during this period. However, gross margin decreased in the quarter ended October 31, 1996 to 64% as the Company accelerated its hiring of consulting and support personnel in this period to support the Company's anticipated revenue growth.

Total operating expenses have varied substantially both in absolute dollars and as a percentage of total revenues during the period, due primarily to large one time write-offs of in-process research and development. These write-offs occurred in the quarters ended October 31, 1995, January 31, 1996, April 30, 1996 and July 31, 1996. Excluding one-time write-offs for in-process research and

development, the dollar amounts of operating expenses have increased in each successive quarter during the period. However, such expenses decreased as a percentage of total revenues during the four quarters ended July 31, 1996. During the quarter ended October 31, 1996, total operating expenses (excluding write-offs) increased to 19% of total revenues from 103% of total revenues, due to expenses associated with increased hiring of sales personnel in anticipation of increased demand for the Company's products and costs related to acquisition of distributors in France and Finland. While the Company expects operating expenses to increase in absolute dollars over the next several quarters, to the extent that revenues increase, management believes that operating expenses as a percentage of sales will decline.

The Company expects that it will experience significant fluctuations in future quarterly operating results as a result of many factors, including, among others: the size and timing of orders; introduction or enhancement of products by the Company or its competitors; market acceptance of middleware products; the lengthy sales and implementation cycle for the Company's products and the potential for significant delays; market acceptance of new products and product enhancements; technological changes in computer systems and environments; the structure and timing of future acquisitions of businesses, products and technologies, if any; increased competition; the ability of the Company to develop, introduce and market new products on a timely basis; changes in the Company's or its competitors' pricing policies; customer order deferrals in anticipation of future new products and product enhancements, if any; the Company's success in expanding its sales and marketing programs; mix of products and services sold; mix of distribution channels; ability to meet the service requirements of its customers; costs associated with acquisitions; loss of key personnel; fluctuations in foreign currency exchange rates; and general economic conditions. As a result of all of these factors, the Company believes that quarterly revenues and operating results are difficult to forecast and period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

Selected Unaudited Pro Forma Operating Results

The selected unaudited pro forma condensed consolidated financial information for the Company set forth below gives effect to the acquisition of IMC, ITI, TUXEDO Systems Group and USL France. The historical and unaudited pro forma financial information set forth below has been derived from, and is qualified by reference to, the consolidated financial statements of the Company, IMC, ITI, TUXEDO Systems Group and USL France and should be read in conjunction with those consolidated financial statements and the notes thereto. The unaudited pro forma condensed consolidated statements of operations data for the year ended January 31, 1996 set forth below gives effect to such acquisitions as if they had occurred on February 1, 1995. The unaudited pro forma condensed consolidated statements of operations data for the nine months ended October 31, 1996 gives effect to the acquisitions as if they had occurred on February 1, 1996. The unaudited pro forma condensed consolidated financial information set forth below reflects certain adjustments, including, among others, adjustments (i) to eliminate revenues and expenses which occurred between the entities prior to

their acquisition by BEA, (ii) to reflect the amortization of purchased intangible assets as though the business had been combined for the full period, (iii) exclude write-offs of in-process research and development and extraordinary gain, which are considered material, non-recurring items and (iv) reflect increased interest expense resulting from debt to acquire IMC and TUXEDO Systems Group. The information set forth below should be read in conjunction with the other information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements of BEA, IMC, ITI, TUXEDO Systems Group and USL. The unaudited pro forma condensed consolidated financial information set forth below does not purport to represent what the consolidated results of operations or financial condition of the Company would have been if BEA had acquired IMC, ITI, TUXEDO Systems Group and USL France on such dates or to project the future consolidated results of operations or financial condition of the Company. See "Risk Factors--Past and Future Acquisitions."

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATION FOR THE YEAR ENDED JANUARY 31, 1996 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	BEA COMPANY FOR THE YEAR ENDED JANUARY 31, 1996	IMC FOR THE PERIOD FROM FEBRUARY 1, 1995 TO SEPTEMBER 29, 1995	ITI FOR THE PERIOD FROM FEBRUARY 1, 1995 TO NOVEMBER 1, 1995	TUXEDO FOR THE YEAR ENDED OCTOBER 28, 1995(E)	COMBINATION ADJUSTMENTS	PRO FORMA BUSINESS COMBINATION PRO FORMA
Total Revenues.....	$ 5,133	$ 4,172	$ 5,346	$ 20,371	$ (1,461)(a)	$ 33,561
Total Cost of Revenues.....	2,704	1,891	2,324			5,627
(a)(b						12,546
Gross Margin.....	2,429	2,281	3,022	20,371		(7,088)
						21,015
Operating Expenses:						
Research and Development...	3,244	665	1,350	3,017		
						8,276
Sales and Marketing.....	2,572	1,153	1,663	1,055		
						6,443
General and Administrative.....	3,058	1,410	1,138			128(c)
						5,734
Write-off of In-Process Research and Development.....	11,194					(11,194)
						(d)
Total Operating Expenses.....	20,068	3,228	4,151	4,072		(11,066)
						20,453
Income (Loss) from Operations.....	(17,639)	(947)	(1,129)	16,299		3,978
						562
Other Income (Expense).....	48	(2)	1,050			(1,035)
(d)						61
Interest Income (Expense)....	(89)	(13)	(23)			(6,670)
(f)						(6,795)
Income (Loss) before Income Taxes.....	(17,680)	(962)	(102)	16,299		(3,727)
						(6,172)

Provision for Income Taxes... 60 60 Net Income (Loss)..... $ (17,740) $ (962) $ (102) $ 16,299 $ (3,727) $ (6,232) Pro forma net loss per common share(g)..... $ (0.21) Pro forma weighted average number of common shares outstanding(g)..... 30,385 Pro forma as adjusted net loss per common share(g)... Pro forma as adjusted weighted average number of common shares outstanding(g).....

	MANAGEMENT'S BUSINESS COMBINATION ADJUSTMENTS	PRO FORMA AS ADJUSTED FOR YEAR ENDED JANUARY 31, 1996
Total Revenues.....	$	$ 33,561
Total Cost of Revenues.....	3,166(h)	15,712
Gross Margin.....	(3,166)	17,849
Operating Expenses:		
Research and Development...	1,783(i)	10,059
Sales and Marketing.....	8,660(j)	15,102
General and Administrative.....	785(j)	6,519
Write-off of In-Process Research and Development.....		
Total Operating Expenses.....	11,228	31,681
Income (Loss) from Operations.....	(14,394)	(13,832)
Other Income (Expense).....		61
Interest Income (Expense)....		(6,795)
Income (Loss) before Income Taxes.....	(14,394)	(20,566)
Provision for Income Taxes...		60
Net Income (Loss).....	$ (14,394)	$ (20,626)
Pro forma net loss per common share(g).....		

Pro forma weighted average number of common shares outstanding(g).....

Pro forma as adjusted net loss per common share(g)... $ (0.68) Pro forma as adjusted weighted average number of common shares outstanding(g)..... 30,385 PRO FORMA ADJUSTMENTS FOR THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEAR ENDED JANUARY 31, 1996, ARE AS FOLLOWS:

(a) Reflects the elimination of revenues and related cost of revenues on transactions between the entities prior to acquisition by the Company.

(b) Reflects the amortization of acquired distribution rights, developed technology and trademarks and tradenames.

(c) Reflects amortization of goodwill arising from the IMC acquisition.

(d) The unaudited pro forma condensed consolidated financial statements of operations for the year ended January 31, 1996 do not include the $11,194,000 in-process research and development write-offs relating to the acquisitions of IMC and ITI, or the extraordinary gain of $1,035,000 relating to

forgiveness of debt at ITI, since they are considered material non-recurring charges. The write-offs are included in the actual historical consolidated statements of operations in the period in which they were incurred.

(e) As the operating results of USL France for its year ended October 28, 1995 were consolidated in the operations of TUXEDO for the year ended October 28, 1995, separate unaudited pro forma operating results for USL have not been presented for the year ended January 31, 1996.

(f) Interest expense has been increased to reflect pro forma interest expense on debt incurred in connection with the acquisitions of IMC and TUXEDO.

(g) Pro forma net loss per share and pro forma as adjusted net loss per share is computed by dividing pro forma net loss and pro forma as adjusted net loss by the pro forma weighted average number of shares used elsewhere in this Prospectus.

MANAGEMENT ADJUSTMENTS FOR THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEAR ENDED JANUARY 31, 1996, ARE AS FOLLOWS:

(h) Prior to acquisition by the Company, IMC and ITI provided customer support in all but the most technically difficult situations, at which point customers were referred to Novell's corporate-wide customer support organization. Since the Company was unable to substantiate costs incurred by Novell required to provide these services, an estimate of the costs to provide these services has been made based on the Company's actual customer support cost experience.

(i) The costs included by Novell for the twelve months ended October 28, 1995 included only salaries and benefits expenses. The Company has provided an estimate, based on its own experience, for other expenses incurred by its research and development departments, primarily for costs such as outside professional services, facilities and other office costs and depreciation on equipment employed.

(j) The costs included by Novell for the twelve months ended October 28, 1995 included only salaries and benefits expenses for the domestic marketing organization. However, the costs of bringing TUXEDO to customers include the costs of the sales organization, as well as other expenses associated with marketing including travel, trade shows, facilities and depreciation expense. Additionally, there are certain other general and administrative expenses associated with the TUXEDO business such as the costs of finance, facilities and human resources departments and depreciation on property and equipment. These sales and marketing, as well as general and administrative expenses, were included in Novell's overall operating results but could not be directly identified with TUXEDO. The Company has made estimates, based on its own experience, of costs incurred related to these expenses.

Unaudited Pro Forma Condensed Consolidated Statements of Operation

For the Nine Months Ended October 31, 1996 (In Thousands, Except Per Share Amounts)

	BEA FOR THE NINE MONTHS ENDED OCTOBER 31, 1996	USL FOR THE PERIOD FROM FEBRUARY 1, 1995 TO MAY 5, 1995	PRO FORMA BUSINESS COMBINATION ADJUSTMENTS	PRO FORMA FOR THE NINE MONTHS ENDED OCTOBER 31, 1996
Total Revenues	$ 36,349	$ 1,368	$ (351)(a)	$ 37,366
Total Cost of Revenues	12,498	888	(7)(a)	13,379
Gross Margin	23,851	480	(344)	23,987
Operating Expenses:				
Research and Development	12,781	--		12,781
Sales and Marketing	20,814	357		21,171
General and Administrative	9,019	65		9,084
Write-off of In-Process Research and Development	62,248		(62,248)(b)	--
Total Operating Expenses	104,862	422	(62,248)	43,036
Income (Loss) from Operations	(81,011)	58	61,904	(19,049)
Interest Expense	4,941	10	--	4,951
Other Income (Expense)	95	--	--	95
Income (Loss) before Income Taxes	(85,857)	48	61,904	(23,905)
Provision for Income Taxes	300	26	--	326
Net Income (Loss)	$ (86,157)	$ 22	$ 61,904	$ (24,231)
Pro forma net loss per common share(c)				$ (0.48)
Pro forma weighted average number of common shares outstanding(c)				50,107

PRO FORMA ADJUSTMENTS FOR THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE NINE MONTHS ENDED OCTOBER 31, 1996, ARE AS FOLLOWS:

(a) Reflects the elimination of revenues and related cost of revenue on transactions between the entities prior to acquisition by the Company.

(b) The unaudited pro forma condensed consolidated financial statements of operations for the nine months ended October 31, 1996 do not include the in-process research and development write-offs relating to the acquisitions of TUXEDO ($60.9 million) and CST ($1.3 million), since they are conisdered material non-recurring charges. The write-offs are included in the actual historical consolidated statements of operations in the period in which they were incurred.

(c) Pro forma net loss per share is computed by dividing pro forma net loss per share by the pro forma weighted average number of shares used elsewhere in this Prospectus.

Liquidity and Capital Resources

Since inception, the Company has financed its operations, and acquisitions of subsidiaries and the distribution rights to TUXEDO, primarily through the private sale of equity securities of approximately $50 million, notes payable of approximately $80 million, financing of approximately $1 million under its equipment lease line, and borrowings on a revolving credit arrangement. Under the terms of the credit arrangement, the Company had the ability to borrow up to $10 million based upon 80% of eligible trade receivables. At October 31, 1996, the Company had borrowed $5.5 million and had an additional borrowing availability of $1.0 million. The credit arrangement is collateralized by the assets of the Company and also contains certain financial covenants. As of October 31, 1996, the Company was in compliance with the covenants. The credit arrangement bears interest at the LIBOR rate plus 5.125% (10.39% in aggregate at October 31, 1996) and is scheduled to expire in April 1997. However, the lender has agreed to automatically renew the arrangement for one year and allow the Company to borrow up to $10 million regardless of the eligible trade receivable balance.

During the year ended January 31, 1996, the Company purchased businesses and technologies for, in aggregate, $16.1 million in cash, a note payable for $2.7 million and assumed $5.4 million of other liabilities. For the nine months ended October 31, 1996, the Company purchased businesses and technologies for, in aggregate, $5.4 million in cash and the assumption of $6.6 million in liabilities. Also during the period ended October 31, 1996, BEA acquired from Novell the exclusive development and distribution rights to the TUXEDO software for a note payable of $77.3 million.

The $2.7 million note payable, issued as partial consideration in the acquisition of IMC, was increased as a result of a bonus payment of $1.4 million due to revenue levels achieved by IMC subsequent to acquisition. The note accrues interest at 8%, with the principal and all accrued interest payable on the earlier of October 2000 or the successful completion of a public offering of the Company's equity securities. See "Use of Proceeds."

The note payable issued for the purchase of the exclusive development and distribution rights to the TUXEDO software calls for payments aggregating $89.6 million. Interest was imputed at 8%, which resulted in the recorded liability of $77.3 million. The note is collateralized by the rights to the

software. The payments owed to Novell can be discounted by 8% if paid prior to 30 days of the established due date. However, management does not currently anticipate any early payments.

In the fiscal year ending January 31, 1996 and the nine months ending October 31, 1996, the Company used approximately $720,000 and $2.9 million, respectively, of cash to purchase property and equipment, primarily for leasehold improvements, personal computers and for furniture and other office equipment. The Company also acquired equipment with a cost of approximately $981,000 under a capital lease line of credit. At October 31, 1996, the Company had available borrowings of $1.0 million under the capital lease line of credit. The Company had no other material investing activities. As of October 31, 1996, the Company did not have any material commitments for capital expenditures.

At October 31, 1996, the Company had $1.6 million in cash and cash equivalents and a working capital deficit of $30.0 million.

Due to the relatively large dollar size of individual sales and the fact that a substantial portion of the Company's accounts receivable from license revenues have been generated within the last weeks of the quarter, the Company has experienced significant fluctuations in its average days sales outstanding. The Company believes that such fluctuations will continue in the future and will continue to affect its liquidity, working capital and financial condition.

The Company believes that the net proceeds from the Offerings, together with its current cash balances, cash available under its lines of credit and cash from operations will be sufficient to meet its working capital requirements through January 31, 1998. Although operating activities may provide cash in certain periods, to the extent that the Company experiences growth in the future, the Company anticipates that its operating and investing activities may use cash. Consequently, any such growth may require the Company to obtain additional equity or debt financing. There can be no assurance that additional financing will be available or, if available, that it will be on terms satisfactory to the Company. See "Risk Factors--Substantial Future Capital Needs."

Business

Introduction

BEA Systems, Inc. ("BEA" or the "Company") designs, develops, markets and supports software used by large organizations to enable and support their most critical business processes. The Company's Enterprise Transaction Framework is an integrated middleware software platform for developing, deploying and managing distributed mission-critical computer software applications. The core of the BEA Enterprise Transaction Framework is BEA TUXEDO, a software engine that manages transactions and communications for enterprise-wide applications, enabling organizations to realize the benefits offered by distributed computing environments while preserving the traditional advantages of mainframe-based systems. BEA products provide a middleware software infrastructure

that supports thousands of simultaneous users distributed worldwide. In addition to its software products, BEA provides its customers with complete solutions through a range of professional services offerings.

BEA's products are marketed and sold worldwide, principally through the Company's direct sales force and also indirectly through third parties. BEA's products have been adopted in a wide variety of industries, including banking and finance, manufacturing, retail, technology, telecommunications and transportation. For the nine months ended October 31, 1996, BEA sold new product licenses to over 170 customers, including over 50 new customers. The total number of customers using products that have been acquired and developed by BEA is greater than 600 worldwide. These customers include: The AT&T Corp., Bell Communications Research, Inc., Damark International Inc., Discover Card Trust, Federal Express Corp., Fidelity Investments, Gap Inc., J.J. Kenney, McKesson Corp., Motorola Inc., Nippon Telephone & Telegraph, Northwest Airlines Corp., U.K. Employment Services, Union Bank of Switzerland and Walgreens Co. In addition, ISVs such as PeopleSoft Inc. and Clarify, Inc. embed BEA TUXEDO into their own product offerings in order to improve the scalability, portability and interoperability of their products.

Industry Background

Over the past decade, the information systems of many large organizations have been evolving from traditional mainframe-based systems to distributed computing environments. This evolution has been driven by the benefits offered by distributed computing, including lower incremental technology costs; faster application development and deployment; increased flexibility; and improved access to business information. Despite these benefits, large-scale mission-critical applications that enable and support fundamental business processes, such as airline reservations, credit card processing and customer billing and support systems, have largely remained in mainframe environments. For several decades, the high levels of reliability, scalability, security, manageability and control required for these complex, transaction-intensive systems within thousands of organizations have been provided by mainframe middleware software such as IBM's Customer Information and Control Systems ("CICS"). Today, according to estimates by The Standish Group, there are more than 50,000 CICS licenses and over two billion lines of CICS code in use for mission-critical applications worldwide. These mainframe environments, however, suffer from several shortcomings, including inflexibility, lengthy development and maintenance cycles and limited, character-based user interfaces. Increasingly, these shortcomings are forcing many organizations to seek out technologies that will enable them to overcome the limitations of distributed computing for mission-critical applications while providing the robust computing infrastructure previously unavailable outside the mainframe environment.

The Limitations of Distributed Computing for Large-scale Mission-critical Applications

While some mission-critical applications have been successfully migrated to distributed computing environments, the inherent technical and business limitations of distributed computing have generally precluded its use for the complex, large-scale, transaction-intensive applications that are critical to the ongoing operations of many organizations. These limitations include the following:

LIMITED SCALABILITY, RELIABILITY AND INTEROPERABILITY. Distributed computing applications are generally limited in scalability to the capacity of database and application servers. Adding servers requires significant rewriting of application logic because existing applications are written in such a manner that each component must know the specific location within the system of all other components. In addition, in distributed computing environments, a significant portion of an application's business logic typically resides on the client (a desktop PC or workstation), while the database resides on one or more servers. Large amounts of data must travel over the network, limiting network performance, while application changes or updates must be deployed and monitored at each client, making effective network administration and management difficult. As a result of these factors, the addition of more clients and servers may actually lead to a decrease in system performance. Also, additional servers exponentially increase the difficulty of managing multiple resources and dynamically balancing processing loads across the network as a result of several factors, including: the risk of interruption to critical business processes due to the inability to make online changes to applications, the complexities that arise in ensuring that any changes are reflected across the network in a comprehensive and consistent manner and the need to reoptimize system performance in light of these changes.

Mission-critical applications must maintain the highest levels of reliability and data and transaction integrity, all of which are very difficult to achieve in distributed computing environments. These requirements mandate comprehensive monitoring and control of all system components in order to verify the correct completion of each processing step. In addition, most of these environments are heterogeneous, requiring applications to interoperate across a variety of hardware and software platforms. The lack of scalability, reliability and interoperability has greatly limited the use of distributed computing for large-scale, mission-critical applications.

DIFFICULTY IN LEVERAGING INVESTMENTS IN LEGACY TECHNOLOGY. Many organizations have significant, long-standing investments in their mainframe-based systems and the mission-critical applications running on these systems. According to IDC, approximately $250 billion has been spent to date on mainframe system hardware purchases. Distributed computing technologies have provided minimal integration or interoperability with existing mission-critical applications on the mainframe; therefore, achieving the benefits of distributed computing has generally required organizations to build entirely new applications. This typically means abandoning previous investments in legacy applications and increases the risk of costly business interruptions when organizations attempt to migrate mission-critical applications from the mainframe.

DIFFICULTY IN LEVERAGING EXISTING PERSONNEL AND SKILLS. Over time, organizations have invested extensively in mainframe-based programmers and technology. The Standish Group estimates that there are currently one million COBOL programmers worldwide. These programmers are well-versed in the business logic, programming languages and development methodologies necessary to build mainframe-based mission-critical applications. The successful implementation of distributed computing, however, requires additional expertise in various other skill sets and emerging technologies. Organizations that seek to implement distributed computing for mission-critical applications are thus faced with the choice of either retraining existing programmers or replacing them with new programmers possessing the requisite skills, but who must still be trained in the organization's business processes. These alternatives are extremely costly, have no guarantee of success and raise the risk of potential disruptions to critical business processes.

Middleware as the Means to Implement Distributed Mission-critical Applications

In order to overcome the technical and business limitations of distributed computing for large-scale, mission-critical applications, organizations are turning to a new architecture that incorporates middleware--a software infrastructure that is designed to connect clients, applications and databases. A sufficiently robust middleware product would enable developers to create large-scale, mission-critical applications that can be deployed and interoperate across multiple heterogeneous platforms, databases and operating systems while providing the flexibility to select those platforms that best suit a particular application environment. Such a software infrastructure would provide the traditional benefits of mainframe-based computing--scalability, reliability, security, manageability and control--while taking advantage of the opportunities offered by distributed computing.

Market Opportunity

The Company believes that robust middleware software, and the training and professional services capabilities required to support it, are crucial to enabling organizations to extend their mission-critical applications to take advantage of the benefits offered by distributed computing. The Standish Group estimates that U.S. companies spent over $60 billion in 1996 to modernize their mainframe-based applications to include distributed client/server and Internet technologies and that this annual spending rate will double by the year 2000. The Company believes that the potential benefits to organizations of distributed computing for mission-critical applications are significant. In order to be successful, however, distributed computing environments must provide many of the desirable capabilities of current mainframe-based systems and must preserve and leverage existing investments in technology and programmers.

The Bea Solution

BEA's products and services enable companies to overcome the limitations of distributed computing for mission-critical applications. BEA's Enterprise Transaction Framework, based upon time-tested and market-proven BEA TUXEDO technology, provides a middleware solution that addresses the scalability, manageability, platform independence, interoperability, integrity, reliability and security requirements of complex, large-scale, distributed computing in the heterogeneous environments present in most major organizations. The BEA solution allows companies to leverage their substantial investments in legacy systems, significantly extending the useful lives of mainframe and programmer assets while fully exploiting the benefits offered by distributed computing.

The BEA solution provides the following benefits:

Provides a Tested, Proven Infrastructure for Distributed Mission-critical Applications

BEA TUXEDO, the foundation of the BEA Enterprise Transaction Framework, is a time-tested and market-proven infrastructure for distributed mission-critical applications. By providing a robust, scalable, cost-effective infrastructure--formerly available only on mainframe computers--BEA enables mission-critical applications to run in distributed computing environments. BEA TUXEDO overcomes the limitations on scalability that characterize distributed computing environments by providing a messaging and dynamic load balancing infrastructure that determines the location and syntax of any component without requiring them to be programmed within an application. This separation of business logic from location and syntax enables an arbitrary number of servers to be added to the network with processing loads being balanced dynamically, thereby providing mainframe-like scalability and flexibility. This separation also enables applications written using BEA TUXEDO to reflect more closely underlying business processes, thereby increasing an organization's flexibility with respect to the design, development, implementation and adaptability of its mission-critical applications.

BEA TUXEDO's application, transaction and fault management systems combine to ensure data and transaction integrity, enabling distributed computing environments to achieve mainframe-like reliability and security. By using BEA's products and services, organizations do not have to build their own custom infrastructure solutions, a costly and time-consuming process that is often beyond their technical capabilities and resources. Instead, organizations can focus on developing and deploying their mission-critical applications, with the assurance that BEA TUXEDO will ensure their scalability, reliability, interoperability and security.

Preserves the Value of Investments in Legacy Systems and Skills

BEA products and services preserve an organization's investment in mainframe technology and programmers while allowing customers to take advantage of the capabilities of distributed computing. Customers do not need to change or replace reliable, robust mission-critical applications in which they have made significant investments; rather, BEA's products and services enable them to extend and evolve these applications to take advantage of the benefits of distributed computing. BEA's solutions allow mainframe software to be extended to distributed computing platforms with minimal change, protecting the investment in mainframe-based systems while permitting an orderly transition to a distributed computing environment. Because BEA's products allow the mainframe to be treated as just another node on the network, programmers can continue to develop, deploy and maintain mainframe-based applications as before. This allows current programmers who are well-versed in the business processes and logic of the organization to work more efficiently without needing to be trained in the skills necessary to maintain a reliable distributed computing environment. Additionally, BEA's products enable customers to adopt and integrate new technologies--such as the Internet and object-oriented development technologies--as they emerge.

Enables Interoperability Across a Broad Range of Platforms

BEA TUXEDO runs on virtually all major commercial platforms, providing interoperability across heterogeneous computing environments. This allows organizations to develop mission-critical applications that are independent of specific hardware, software and networking technologies. This interoperability enables organizations to avoid the cost, delay and technical risks associated with rewriting of applications to be compatible with new technologies and computer systems. By providing an open application programming interface for BEA TUXEDO, programmers may write applications only to that interface and can then rely on BEA TUXEDO to execute their applications across multiple platforms. Currently, BEA TUXEDO supports over 40 operating platforms, including the market-leading UNIX platforms, Windows NT and IBM MVS. BEA TUXEDO also supports all XA-compliant relational databases available as of October 31, 1996, including products from IBM Corporation, Informix Software, Inc., Microsoft Corporation, Oracle Corporation and Sybase Inc. BEA TUXEDO also works with over 40 development, testing and management tools.

Reduces Time and Cost of Application Development and Deployment

Application development using the BEA Enterprise Transaction Framework allows programmers to design the business logic in their applications independent of system deployment issues. Once the business logic has been programmed, the BEA Enterprise Transaction Framework provides the translations and interface conversions necessary to run the application in a distributed computing

environment. This reduces the time and cost of developing and deploying applications because programmers need focus only on the business logic, while the BEA Enterprise Transaction Framework ensures that these changes are incorporated automatically in a comprehensive and consistent manner. Because of this segregation, BEA's products enable an entire worldwide system to be tuned and administered, servers to be added and deleted and the network configuration to be altered, without changing the business application.

Extends Mission-critical Applications to the Internet and Intranets

BEA Jolt enables the extension of enterprise-wide mission-critical applications to the Internet and intranets without reprogramming. BEA Jolt translates between Java applets and BEA TUXEDO, ensuring that transaction integrity is maintained despite unreliable connections and the Internet's inherent inability to retain the current state of a transaction. By enabling Internet and intranet applications to meet the stringent scalability, reliability and availability requirements for mission-critical applications, many of the challenges of electronic commerce can be overcome. See "Risk Factors--Technological Change; Dependence on New Products and Product Enhancements."

The Bea Strategy

The Company's strategy is to leverage its current leadership position in distributed transaction processing in order to establish its middleware solutions as the industry standard for developing, deploying and managing large-scale mission-critical applications for distributed environments.

The key elements of the Company's strategy are:

Enhance Bea's Technology Leadership

The BEA Enterprise Transaction Framework is based upon BEA TUXEDO, a market-tested and proven technology initially developed at AT&T Bell Labs in 1984. The Company, which acquired the rights to TUXEDO in February 1996, intends to continue to invest in the enhancement of its core BEA TUXEDO technology. BEA expects to add new functionality to all components of the BEA Enterprise Transaction Framework. Over the course of the next 12 months, planned releases of BEA products will extend these products beyond Java to encompass standard object-oriented programming models (e.g. the Common Object Request Broker Architecture ("CORBA") and Microsoft's Distributed Component Object Model ("DCOM")), improve Internet electronic commerce capabilities and increase the number of platforms supported to more than 50.

Expand Bea's Global Solutions Channel

Due to the strategic nature of the Company's products, customers require BEA to provide complete global services and support. As of October 31, 1996, the Company had 22 offices in 12 countries worldwide and intends to continue to expand its global distribution facilities to provide the direct sales, services, training and support necessary to enable customers to develop, deploy and manage distributed mission-critical applications. In addition, the Company will continue to develop third-party relationships to augment its sales, services, training and support capabilities.

Promote the Embedding of Bea Tuxedo in Isv Applications

BEA will continue to work with ISVs to embed BEA TUXEDO into their product offerings. By licensing its products in this manner, the Company aims to accelerate the acceptance of BEA's products and establish these products as the de facto standard middleware solution. ISVs can benefit significantly from embedding BEA software into their product offerings, enabling them to scale the number of clients supported, eliminate most hardware porting concerns and provide interoperability with other applications based on the BEA Enterprise Transaction Framework. ISVs that have already embedded BEA software into their products include Clarify Inc., Cycare Systems, Inc., Filoli Information Systems and PeopleSoft Inc.

Leverage Strategic Partnerships

The sale of middleware solutions for distributed mission-critical applications requires significant expertise and time spent with potential customers. By leveraging its strategic partnerships with hardware OEMs, ISVs, systems integrators and consultants, the Company is able to extend the reach of its direct sales force. The Company intends to strengthen existing relationships with key industry players, such as Andersen Consulting, Hewlett-Packard Corporation and Sun Microsystems, as well as develop new relationships, in order to increase market awareness and demand and shorten the sales cycle for BEA's products.

Facilitate the Emergence of Electronic Commerce Over the Internet

The Company intends to provide the software and services necessary to enable businesses to conduct safe, reliable commercial transactions over the Internet while making use of their existing mission-critical applications. In order to provide robust commerce over the Internet, an application must be able to accommodate unreliable connections, massive scalability requirements and an inherent inability to retain the current state of a transaction. With BEA Jolt and the BEA Enterprise Transaction Framework, the Company provides both the middleware infrastructure and Java-based technology to

meet these technical challenges and to enable an organization to extend its mission-critical applications to the Internet and intranets without reprogramming. See "Risk Factors--Technological Changes; Dependence on New Products and Product Enhancements."

Markets and Customers

The total number of licensees using BEA TUXEDO and related products is greater than 1,200 worldwide. For the nine months ended October 31, 1996, BEA sold new product licenses to over 170 customers, including over 50 new customers. The Company's target end-user customers are organizations with sophisticated, high-end information systems with numerous, often geographically dispersed users and diverse, heterogeneous computing environments. Customers are generally mainframe-reliant or have large-scale client/server implementations that handle very high volumes of business transactions. The Company's customers use BEA products as a middleware platform for developing, deploying and managing mission-critical applications key to the customer's business.

The following is a representative list of the organizations that accounted for at least $100,000 in revenues to the Company during the nine months ended October 31, 1996:

Telecommunications Banking and Finance Government

Alltel Corp.
Ameritech Corp.
AT&T Corp.
AT&T Wireless
Bell Atlantic Corp.
Bell Communications Research, Inc.
Cincinnati Bell Information Systems, Inc.
Deutsche Telecom
France Telecom
Lucent Technologies Inc.
MCI Communications Corp.
Motorola Inc.
Nynex Cablecommunication Group Inc.
Nippon Telephone and Telegraph
Pacific Bell
Southern New England Telecommunications Corporation
Telecom Finland

Banco del Atlantico
Cybercash, Inc.
First Datacard
Societe Generale
Swiss Life
RBC Dominion
Union Bancaire Privee
Union Bank of Switzerland

DISTRIBUTION AND TRANSPORTATION

Federal Express Corp.
McKesson Corp.
Northwest Airlines Corp.
Renault

Finnish Ministry of Labor
Finnish Post
Greek Ministry of Finance
Swedish Police
Swedish Tax Office
Swedish Labor Union
United Utilities
United States Postal Service

RETAIL

Broadway & Seymour Inc.
Shopright Checkers
Walgreens Co.

In addition to direct sales to end-user customers, BEA works with systems and software integrators that incorporate BEA products for resale. The Company also sells BEA TUXEDO to software and computer hardware providers to embed into their application software or software toolsets. These customers include the following organizations:

HARDWARE OEMS ISVS SYSTEMS INTEGRATORS/CONSULTANTS

Bull Compagnie des Machines
Data General Corporation
Digital Equipment Corp.
ICL plc
Sequent Computer Systems Inc.
Sun Microsystems
Tandem Computers Inc.
Unisys Corp.

CableData
Clarify Inc.
Cylink Corporation
Filoli Information Systems
Minnesota Mining and Manufacturing Co.
Nomad Software
PeopleSoft Inc.
Sybase Inc.

Andersen Consulting
Cambridge Technology Partners
Computer Science Corporation
Electronic Data Systems Corporation
Tangent Computer, Inc.

See "Risk Factors--Expanding Distribution Channels and Reliance on Third Parties" The following examples illustrate how some organizations are using BEA products as a middleware framework to provide the infrastructure for enabling mission-critical distributed transaction processing applications.

AT&T

AT&T's Consumer Customer Care system for bill inquiry and order entry supports 7,500 services and 1,500 sales/customer contact positions 24 hours a day, seven days a week and is key to AT&T's overall customer satisfaction efforts. When AT&T decided to reengineer these applications to make use of distributed systems, BEA TUXEDO was selected as the middleware solution to provide reliable communications among the Customer Care system's many applications. The decision to use BEA TUXEDO was based on the product's asynchronous messaging technology and data-dependent routing capabilities, and its ability to support multiple processors in a flexible configuration. In the AT&T implementation of BEA TUXEDO, each processor is viewed as an independent domain. By providing independent application services that can be used by all domains, BEA TUXEDO isolates the impact of single processor failures, which has enabled high availability applications to be supported without redundant hardware. Overall, through this reengineering effort, AT&T is lowering unit costs and improving customer and employee satisfaction in support of bill inquiry and order entry functions.

Banco Del Atlantico

Banco del Atlantico ("B.A."), the fifth largest bank in Mexico, needed an information system that would allow it to leverage its legacy Unisys platform with its newly acquired Hewlett-Packard distributed systems. B.A. had over 4,000 personal computers and more than 100 local area networks running on heterogeneous platforms at its branch banks and headquarters in Mexico City. B.A. chose to invest in a middleware solution to increase total reliability and security, allow for more consistent performance, and solve key connectivity issues relating to integrating legacy and distributed systems. B.A. initially evaluated BEA TUXEDO and several other products and chose BEA TUXEDO because of its reliability and ability to provide seamless integration among all of B.A.'s platforms. BEA TUXEDO provides a common layer in the B.A. infrastructure to direct the complex interactions between applications and systems. Currently, all of B.A.'s telephone banking applications and customer information database applications are supported by BEA TUXEDO.

Damark

After years of growth, Damark, a major catalog direct marketing company, reached an earnings plateau in early 1994, despite increased sales. Damark was experiencing increasing paper and postage costs, which represent significant elements of its direct marketing efforts to 10 million prospective customers. The challenge faced by its IT department was to find the most efficient, cost-effective way to receive and fill customer orders, which at times reach fifteen thousand per day. The IT department evaluated middleware solutions that were capable of handling peak order volume and scaling to incorporate multiple call centers around the United States. Damark's specific requirements included guaranteed message delivery for both asynchronous or synchronous communications, a single development interface for all components, operational manageability and off-the-shelf, proven technology. Through a solution that combined BEA TUXEDO and Oracle relational databases. Through a solution that combined BEA TUXEDO and Oracle relational databases, Damark was able to connect its toll-free call representatives directly to the prospective customer's information database, thereby significantly improving overall representative efficiency. In addition, Damark uses BEA TUXEDO to minimize system downtime, as users are transferred within 30 seconds from a failed node to another node capable of handling the requested transaction.

Pacific Bell

Pacific Bell has undertaken a multi-billion dollar project to upgrade its infrastructure in efforts to meet the increasing demands of customers and advanced technologies, such as Internet access. The project, which Pacific Bell calls the Advanced Communication Network (ACN), involves running fiber optic cable to all households and businesses in California and Nevada. To support the enhanced telecommunications infrastructure, Pacific Bell is developing an advanced computer infrastructure that includes on-line customer care and billing systems. This is considered to be a highly competitive, mission-critical distributed system that requires a robust transaction management system. Pacific Bell evaluated several alternative solutions in the market and selected BEA TUXEDO, which was able to meet all of Pacific Bell's requirements for transaction management, including load balancing, data-dependent routing, guaranteed transaction integrity and support for heterogeneous computing environments. Pacific Bell selected BEA TUXEDO because of its time-tested market-proven technology and efficient memory usage on the desktop. Once in full production, this system is expected to enable Pacific Bell to scale its customer care and billing systems to regularly support the tens of thousands of Pacific Bell customers, increasing customer satisfaction and overall service. In addition, the flexibility of the system is expected to allow Pacific Bell to enhance its product and service offering capabilities, making advanced technologies more readily available to the customer. BEA TUXEDO has become a critical integrated component of Pacific Bell's on-line customer care and billing systems, and has already helped the company save on additional consulting, personnel and technology costs.

Peoplesoft

PeopleSoft, a leading provider of enterprise software supporting human resources, financial and manufacturing applications on open systems, needed a software framework to strengthen its ability to implement applications across multiple sites and computing environments. PeopleSoft investigated multiple technologies, including a number of middleware products. PeopleSoft decided to base PeopleSoft Release 6 and future applications on BEA technology, selecting BEA TUXEDO because of its request/reply and publish/subscribe messaging capabilities, and its strengths in handling high-volume transaction processing with high availability and reliability. By using BEA TUXEDO as its middleware infrastructure, PeopleSoft is able to deliver multi-tier global applications. PeopleSoft is making use of the multiple communication capabilities within the BEA TUXEDO framework based on the need of applications to process transactions in either a real-time or asynchronous mode. In addition, end users can use BEA TUXEDO to enable custom applications to interoperate with the packaged PeopleSoft applications. PeopleSoft 6, the first PeopleSoft release using BEA TUXEDO, began shipping to customers in December 1996.

United Kingdom Employment Service

In 1996, the United Kingdom Employment Service ("E.S.") determined that it needed a new software application to support its labor market activities. E.S.'s existing systems were reaching the end of their product life cycles and did not have the flexibility to incorporate new technology to enhance functionality. E.S. selected BEA TUXEDO as the middleware framework for the Labour Market System ("LMS"), an application designed to replace all existing applications. LMS now links all 1,067 job centers in Great Britain, using CA-Ingres relational databases running on Sequent platforms as the core of the system. LMS has become one of the world's largest distributed systems. Thirty thousand people throughout E.S. have been trained to use the system, which processes over five million transactions per day. The integrated system enables immediate searches and displays of suitable vacancies and opportunities for job seekers, thereby improving the services that E.S. is able to offer its clients.

Yellow Freight

In order to be competitive in the changing environment of the freight industry, Yellow Freight must provide customers increasingly faster transit times, improved on-time performance, and undamaged freight, all at a reduced cost. Yellow Freight and its technology division embarked on a reengineering project to provide applications with a new set of capabilities: a universal view of business data to enable mission-critical business information to move in real-time ahead of freight, improved time-to-market for new business applications by providing "pre-built" application frameworks, increased scalability of application processing capacity, and an architectural model providing high, but cost-effective, levels of availability and performance. BEA TUXEDO was selcted because it offered platform independence and multiple scalability options, provided a high level of availability through an automatic restart/recovery capability, could support a high-volume transaction throughput

requirements and is successfully implemented in production environments in combination with Powerbuilder and Oracle, which were the other technologies Yellow Freight selected for this project. The first enterprise-wide distributed BEA TUXEDO application implemented is used in two customer service centers supporting several hundred customer service representatives, providing 24 hours a day, seven days a week service to inbound customer calls. The application provides rapid response time, high availability, and increased scalability, while giving the Yellow Freight users the benefits of an easy-to use graphical interface.

Products

The BEA Enterprise Transaction Framework is an integrated middleware software platform for building, deploying and managing distributed mission-critical applications. The BEA Enterprise Transaction Framework provides the scalability, manageability, platform independence, interoperability, integrity, reliability and security requirements of complex, large-scale, transaction-intensive mission-critical applications in a distributed computing environment. The core of the BEA Enterprise Transaction Framework is BEA TUXEDO, a market-proven and time-tested technology first developed at AT&T Bell Labs in 1984. The Company took over development, sales and support of TUXEDO from Novell in February 1996 and has subsequently shipped BEA TUXEDO Release 6.2, BEA Connect SNA Version 1.1, BEA Connect TCP Version 1.1, and BEA Jolt Version 1.0.

The Bea Enterprise Transaction Framework

Set forth on page is a horizontal rectangular box bearing the caption "BEA TUXEDO KERNEL." Set forth on top of this box are four square boxes each with a caption reading, from left to right, "BEA BUILDER," "BEA CONNECT," "BEA TP BLUE" and "BEA JOLT." Set forth to the left of the five aforementioned boxes is a vertical rectangular box of equal height as the combined other boxes, with a caption reading "BEA MANAGER."

Bea Tuxedo

BEA TUXEDO is a robust engine for developing, deploying and managing mission-critical applications in distributed computing environments. BEA TUXEDO provides distributed transaction processing and application messaging capabilities, as well as the full complement of services necessary to build and run mission-critical applications. It enables developers to create applications that interoperate across multiple hardware platforms, databases and operating systems.

BEA TUXEDO provides mainframe-like performance for distributed mission-critical applications. It allows these applications to accommodate thousands of worldwide users, high-transaction throughput, multiple concurrent database access and large volumes of data, while maintaining short response times, high data integrity and security and 7x24x365 system availability. At the same time, BEA TUXEDO

enables developers and systems managers to take advantage of the benefits offered by distributed computing environments, such as lower incremental technology costs, increased flexibility, faster application development and deployment and improved access to business information.

Bea Jolt

BEA Jolt extends the capabilities of BEA TUXEDO to the Internet and intranets, making mission-critical applications immediately accessible through these media without the need for any additional application programming. It enables Internet and intranet application developers to take full advantage of the benefits offered by the BEA Enterprise Transaction Framework and, the Company believes, provides the means for resolving many of the technical issues hindering the development of electronic commerce on the Internet. BEA Jolt ensures that transaction integrity is maintained, notwithstanding the Internet's inherent inability to retain the current state of any transaction or the frequently unreliable connections encountered by users. BEA Jolt employs a Java-based interface that allows programmers to execute service requests from any Java-enabled web browser without requiring any knowledge of detailed transaction semantics. BEA Jolt also ensures an application's security, since neither transactional programming nor semantics are accessible from the Internet or intranets.

Bea Tp Blue

BEA TP Blue provides mainframe-to-UNIX and mainframe-to-NT application portability, compatibility and connectivity for CICS-based transaction processing. With BEA TP Blue, organizations can extend the useful lives of CICS applications, either by seamlessly sharing the transaction processing load with UNIX- or NT-based hardware or by migrating applications and data from the mainframe to a UNIX- or NT-based distributed computing environment. BEA TP Blue preserves organizations' investments in CICS/COBOL programs and programmers, while enabling them to take advantage of UNIX- and NT-based technologies. Programmers can continue to develop and deploy mission-critical applications on the mainframe using CICS/COBOL and to rely upon BEA TP Blue to connect or migrate those applications to UNIX and NT whenever necessary.

Bea Connect

BEA Connect is a family of connectivity products that allows applications to extend across heterogeneous hardware and software platforms. Designed to work in concert with all other BEA products, BEA Connect assures ready, transparent access to critical information across the network with a single, standard programming interface. BEA Connect supports a variety of mainframe-based and distributed transactional technologies, including CICS and IMS, by using standard network protocols such as TCP/IP, LU6.2/SNA or OSITP. Interfaces can also be built for connectivity with

specific packaged software applications, such as SAP's R/3. BEA Connect also enables customers to write mission-critical applications that access remote application services on mainframes or other hosts via industry-standard communications mechanisms.

Bea Builder

BEA Builder enables programmers to use familiar graphical development environments, such as Visual Basic, Visual C++ and PowerBuilder, in the development of BEA TUXEDO-based applications. BEA Builder incorporates application frameworks and code generators that enhance programmers' productivity, and provides pre-programmed wizards to automate the configuration and deployment of an application. By leveraging developers' familiarity with popular development environments and adding the capabilities noted above, BEA Builder reduces the training and development needed to design and deploy distributed mission-critical applications using BEA TUXEDO.

Bea Manager

The BEA Manager family of products extends the native management capabilities of BEA TUXEDO by enabling it to integrate with, and take advantage of the capabilities of, various third-party management frameworks, including Tivoli's TME 10 NetView, Sun's Solstice and Hewlett-Packard's OpenView. BEA Manager adds application level instrumentation for performance measurement and centralized message logging, which together provide increased detection and isolation capabilities for application faults. BEA Manager also provides a set of customizable intelligent agents that reduce the human involvement required to handle routine maintenance and fault correction. Finally, BEA Manager can be deployed by existing operations staff with little additional training required.

To date, the majority of the Company's license revenues have come from the BEA TUXEDO product. The Company's other products are sold as additional components of the BEA Enterprise Transaction Framework, often at the time of the initial BEA TUXEDO license sale. The core BEA TUXEDO product is priced based on the number of concurrent run-time users and has a U.S. list price of $395 per user. The additional components of the BEA Enterprise Transaction Framework are priced and licensed separately. During the nine months ended October 31, 1996, license fees per customer for BEA products generally ranged from $95,000 to more than $1.7 million and averaged approximately $395,000. Some components of the BEA Enterprise Transaction Framework, such as BEA Jolt, are priced by server class. See "Risk Factors--Product Concentration; Dependence on Growth of Market for Middleware; Novell Relationship."

Technology

TUXEDO was initially developed in 1983 within AT&T Bell Labs and released in 1984. Release 1.0 enabled an application to be partitioned into a set of cooperating client and server processes and an application programming interface ("API"). Subsequent releases built on this foundation, incorporating

capabilities to support high levels of system availability, highly secured and widely distributed clients and servers, interoperability across heterogeneous platforms, a graphical user interface for administration, transactional control of heterogeneous databases, implementation of both conversational and queued communications methodologies, enhanced data integrity and security and an event broker that supports the publish and subscribe paradigm.

The most recent version of BEA TUXEDO, Release 6.2, conforms with industry-standard interfaces and protocols. BEA TUXEDO's modular architecture is centered on the Application Transaction Manager Interface ("ATMI"), which consists of 30 simple calls and has been adopted by The Open Group as a standard X/Open API. BEA TUXEDO supports the Open Group's Distributed Computing Environment Remote Procedure Call ("DCE RPC") interface. BEA TUXEDO's performance is publicly documented in Transaction Processing Performance Council ("TPC") benchmarks and is used by virtually all hardware and database vendors publishing audited benchmarks of their platforms.

The BEA Enterprise Transaction Framework is a set of inter-related software technologies that enable the development, deployment and management of large-scale, mission-critical distributed applications. BEA technologies are typically used in conjunction with relational database management systems ("RDBMS"). The RDBMS provides a run-time environment for storing and retrieving data, while BEA provides the application server infrastructure for executing the business logic. BEA also provides a rich set of messaging services that enable reliable, efficient communications among components of a distributed application, as well as web-based access to the application services using Java and HTML. BEA technologies are hardware and operating system independent and are available on a wide variety of platforms, including Microsoft Windows and Windows NT, all major versions of UNIX, MVS Open Edition, Tandem NSK and AS/400.

Transaction Integrity and Security

Transaction integrity and security are fundamental requirements for building mission-critical applications, particularly in distributed computing environments where additional burdens are placed on the execution and management of these applications. BEA TUXEDO, through its transactional kernel, enables the resolution and execution of distributed application service requests. These application service requests are implementations of business processes, such as withdrawals and deposits in a banking application. BEA TUXEDO provides automated preparation and transmission of the underlying distributed application services in a real-time manner. It also provides automated propagation of transactions and security contexts, which enables distributed services to be automatically invoked without explicit sign-on to each server. BEA TUXEDO also provides automatic advertisement of available transaction services. This feature is critical when an application server becomes unavailable, as it prevents an application from waiting indefinitely for that particular service. The combination of these capabilities enables applications that incorporate BEA TUXEDO to achieve mainframe-like transaction integrity and security, while still taking advantage of the benefits offered by distributed computing environments.

Robust Messaging--publish-and-subscribe Model

Through the use of the recently developed publish-and-subscribe model, a new BEA product called the Event Broker allows applications to subscribe to events about which they are interested. BEA's Event Broker manages these subscriptions by maintaining a subscription list and managing event posting. The BEA Event Broker executes subscription actions in which subscriber and publisher maintain complete anonymity and independence. The Event Broker enables clients and servers to post events that have occurred and ensures that the appropriate applications are notified of the occurrence of those events. By combining BEA TUXEDO asynchronous messaging capability and the Event Broker, network traffic can be significantly reduced, as applications are only notified of relevant events. In addition, the complexity associated with incorporating new applications within a system is simplified by ensuring that existing applications are notified of updates and that subscription lists and postings are modified accordingly.

BEA TUXEDO supports five different modes of communication. In addition to the publish-and-subscribe model, these modes include asynchronous and synchronous transactions, request/ response, peer-to-peer messaging and reliable queuing. Each of these can be carried out with or without distributed transaction semantics and any combination can be utilized within a single business application. This enables BEA TUXEDO to be utilized as a message-oriented middleware platform for developing both transactional and non-transactional distributed applications.

Open Architecture and Programming Api

The APIs provided with the BEA Enterprise Transaction Framework are built on a common set of robust kernel services provided by BEA TUXEDO. These services provide a level of abstraction between the application programs and the underlying system facilities. They also enable transparent interoperability between components developed to different APIs. For example, a Java client can invoke a CICS transaction or an X/Open-compliant XATMI-based service via the same API call. This support of multiple programming styles also facilitates the migration of existing applications to distributed computing environments via the BEA Enterprise Transaction Framework.

BEA products have been designed from the ground up to conform with industry-standard interfaces and protocols. These include both formal standards, such as X/Open, DCE and ISO, and de facto standards, such as SNA, the Java Virtual Machine, OLE and ActiveX. The Company's product development efforts continuously reflect the knowledge gained from working with customers to build large-scale, mission-critical distributed applications. An example of the benefits to the Company of these efforts is the XA implementation within BEA TUXEDO, which vendors such as Oracle and Microsoft have selected as the reference platform for their database integration efforts. The Company's products support all major RDBMS platforms, which, in addition to Oracle and Microsoft's SQL Server, include Informix, IBM DB2/6000, Sybase and CA/Ingres.

Systems Services

BEA products provide a robust set of system services that enable distributed applications to be developed in a standard and consistent manner. These services include naming, application activation and deactivation, dynamic application reconfiguration and system fault management. In addition, the Company's products also provide a set of application level services. These services include intra-node and inter-node application communication management, application transaction management, client/workstation handling, security management, application queue management and event management. By providing these system and application level services, the Company's products significantly reduce the amount of system and application level programming effort required. These services also enable applications developed within the BEA Enterprise Transaction Framework to interoperate across heterogeneous computing environments.

Management Information Base

BEA's products enable distributed transaction system monitoring and management through a Management Information Base ("MIB"). This system monitors applications, databases, operating systems and networks; it also provides logging facilities, and event and performance management. The management information base enables systems administrators to set pre-defined rules or allows them to monitor and manages systems interactively through an easy-to-use graphical interface. In addition, BEA provides a Simple Network Management Protocol ("SNMP") agent kit to allow the use of any SNMP-based management tool, such as OpenView or TME.

Application-to-application Connectivity

Most connectivity products on the market today only provide a low-level solution, such as connecting a UNIX system running TCP/IP to a mainframe running SNA. This leaves most of the application-level connectivity programming to the IT programmers. BEA's products, however, support high-level application-to-application connectivity for a wide variety of mainframe and distributed systems, relieving programmers of the burden previously associated with systems level programming efforts. These connectivity technologies support industry-wide networking standards, such as the OSI/TP protocol for application services or the IBM LU6.2/SNA protocol. In addition, the Company provides an IBM syncpoint-enabled transactional connectivity technology for IMS-based or CICS-based applications. The Company is also currently developing an IBM-compatible Intersystems Communication ("ISC") protocol-based connectivity technology for customers who wish to develop mainframe-style applications in a fully-distributed environment.

Internet/intranet Extensibility

BEA Jolt extends BEA TUXEDO-based applications to the Internet/intranets without the need for additional application programming. BEA Jolt provides object-oriented access, from any Java-enabled browser via Java applets, to BEA TUXEDO-based applications behind an organization's firewall. Legacy mainframe environments, such as CICS, are similarly accessible using BEA Jolt and BEA Connect. BEA Jolt simplifies application design by providing object interfaces for Java, as well as turn-key access to BEA-developed Java class definitions and customized Java applets residing in the BEA Jolt repository. For ease of management, the BEA Jolt server can be administered with the same tools used to manage any resource within the BEA TUXEDO environment.

Research and Development

The Company has made substantial investments in technology acquisition and product development. BEA TUXEDO was originally developed by AT&T Bell Labs, and had been revised by UNIX System Labs and Novell before BEA became the developer of the product in February 1996. Important product technology for the BEA Enterprise Transaction Framework was gained through many of the Company's acquisitions. The Company will continue to review possible technology acquisitions when appropriate. See "Risk Factors--Past and Future Acquisitions" and "Management's Discussion and Analysis of Financial Condition and Results of Operation."

At October 31, 1996, the Company had a development staff of 89, which included the original four architects, as well as many of the original developers, of TUXEDO. In the nine months ended October 31, 1996, product development expenses were $12.8 million. The Company's product development organization is responsible for product architecture, core technology and functionality, product testing, user interface development and expanding the ability of BEA's products to operate with the leading hardware platforms, operating systems, relational database management systems ("RDBMSs"), application development and management tools and networking and communication protocols. To date, the Company has not capitalized any software development costs and does not anticipate capitalizing any software development costs. The Company expects to continue to devote substantial resources to its product development activities, including continued support of existing and emerging hardware platforms, operating systems, RDBMSs, application development and management tools, and networking and communication protocols.

BEA shipped BEA TUXEDO Release 6.1, Vol. 2 in July 1996, BEA Connect SNA Version 1.1 in August 1996, BEA Connect TCP in November 1996, and BEA TUXEDO 6.2 in December 1996. The Company released the first customer shipment of BEA Jolt Version 1.0, the first product developed exclusively by BEA, in December 1996. The Company intends to continue to extend the functionality of BEA TUXEDO and the BEA Enterprise Transaction Framework, to commit significant resources to the ongoing development of BEA TUXEDO and to support existing and emerging technologies such as object-oriented technology.

The market for the Company's products is highly fragmented, competitive with alternative computing architectures, and characterized by continuing technological development, evolving industry standards and changing customer requirements. The introduction of products embodying new technologies, the emergence of new industry standards or changes in customer requirements could render the Company's existing products obsolete and unmarketable. As a result, the Company's success depends upon its ability to further enhance existing products, respond to changing customer requirements, and develop and introduce in a timely manner new products that keep pace with technological developments and emerging industry standards. Customer requirements include, but are not limited to, operability across distributed and changing heterogeneous hardware platforms, operating systems, relational databases and networks. For example, although BEA TUXEDO interoperates with applications on over 40 operating platforms, as certain of the Company's customers start to utilize emerging platforms, it will be necessary for the Company to further enhance its products to interoperate with applications on these emerging platforms. There can be no assurance that the Company's products will adequately address the changing needs of the marketplace or that the Company will be successful in developing and marketing enhancements to its existing products or new products incorporating new technology on a timely basis. Failure to develop and introduce new products, or enhancements to existing products, in a timely manner in response to changing market conditions or customer requirements, will materially and adversely affect the Company's business, operating results and financial condition.

Sales, Marketing and Services

The Company's sales strategy is to pursue opportunities worldwide within large organizations through its direct sales, professional services and technical support organizations, complemented by indirect sales channels such as hardware OEMs, packaged application software developers, systems integrators and independent consultants, software tool vendors and distributors. The Company currently intends to add to its direct sales, support and professional services organizations in all major markets worldwide.

Direct Sales Organization

BEA markets its software and services primarily through its direct sales organization. As of October 31, 1996, the Company's direct sales force totaled 60 sales representatives in 22 offices worldwide. At October 31, 1996, the direct sales force was supported by 15 technical sales engineers worldwide. Field sales representatives are assigned quotas and compensated for all Company revenues, both direct and indirect, resulting from their assigned territory. Leads are generally qualified by a third party and then passed through the field sales organization.

The Company typically uses a consultative, solution-oriented sales model that entails the collaboration of technical and sales personnel to formulate proposals to address specific customer requirements. Because the Company's products are typically used to integrate applications that are critical to a

customer's business, the Company focuses its initial sales efforts on senior IT department personnel who are responsible for such applications. Subsequent efforts often include other senior members of a customer's executive management team.

Product Sales and Implementation Cycle

The license of the Company's software products is often an enterprise-wide decision by prospective customers and requires the Company to engage in a lengthy sales cycle to provide a significant level of education to prospective customers regarding the use and benefits of the Company's products. The Company's sales process consists of several phases: lead generation, initial contact, lead qualification, needs assessment, proposal generation and contract negotiation. Following the signing of a license contract for BEA products, a customer's implementation consists of a pre-deployment and a deployment phase. Approximately 10 to 30 percent of the revenue from a typical customer is realized during the pre-deployment phase and is usually weighted toward professional services and training. The remaining portion of revenue is realized during the deployment stage and predominantly consists of license fees. While the sales and implementation cycle varies substantially from customer to customer, for initial sales it has ranged from 18 to 24 months from the initial contact to the completion of the deployment phase. In many cases, a customer begins a second development project using BEA products, often with substantially shortened development and deployment timeframes. Additional development projects by a particular customer are often implemented in progressively abbreviated timeframes. See "Risk Factors--Lengthy Sales and Implementation Cycle."

Strategic Relationships

An important element of the Company's sales and marketing strategy is to expand its relationships with third parties to increase the market awareness, demand and acceptance of BEA and its products. The Company often benefits from third-party selling assistance and believes that, in a number of instances, its relationships with strategic partners have substantially shortened the Company's sales cycle. Partners have often generated and qualified sales leads, made initial customer contacts, assessed needs and recommended contact with the Company prior to BEA's introduction. Partners can provide customers with additional resources and expertise, especially in vertical markets, to help meet their system application development requirements. Types of partners include:

HARDWARE OEMS. BEA's hardware partners often act as resellers of BEA TUXEDO, either under the BEA TUXEDO name or integrated with their own software products, or recommend BEA TUXEDO to their customers and prospects who are planning to implement high-end, mission-critical applications on their hardware platform. BEA's relationships with hardware manufacturers include Digital Equipment Corp., Fujitsu Limited, Hewlett-Packard Corporation, IBM Corporation, NEC Corporation, Pyramid Technology Corp., Sequent Computer Systems Inc., Siemens-Nixdorf Informationssysteme A.G., Sun Microsystems Inc. and Tandem Computers Inc.

PACKAGED APPLICATION SOFTWARE DEVELOPERS. BEA licenses its software to packaged application software vendors. These vendors embed the software as a middleware infrastructure for the applications they supply, giving these applications increased distribution, scalability and portability across all platforms on which BEA TUXEDO runs. Customers can also easily integrate custom applications built using BEA TUXEDO into these existing packaged applications. Vendors that embed BEA TUXEDO software in their packaged applications include CableData, Clarify, Inc., Cycare Systems, Inc., Filoli Information Systems and PeopleSoft Inc.

SYSTEMS INTEGRATORS AND INDEPENDENT CONSULTANTS. Systems integrators often refer their customers to BEA and may utilize BEA as a subcontractor in some situations. BEA TUXEDO has been designated by EDS as a certified framework product, and BEA seeks similar certification from other systems integrators. BEA also works cooperatively with independent consulting organizations, often being referred to prospective customers by professional services organizations with expertise in high-end transactional applications. In addition to EDS, BEA has relationships with systems integrators such as Andersen Consulting, Oracle Consulting and Perot Systems Corporation, as well as many independent consultants.

INDEPENDENT SOFTWARE TOOL VENDORS. Partner ISVs integrate their tools with BEA TUXEDO to enable their customers to use these tools to build scalable distributed applications more easily. BEA has relationships with over 40 tool vendors, including Borland International Inc., BMC Software Inc., Compuware Corporation, Mercury Interactive Corporation, Microsoft Corporation, NAT Systems International, Inc., Oracle Corporation and Passport Communications, Inc.

DISTRIBUTORS. The Company uses distributors to sell its products in North America and major markets in Europe, Asia and Latin America to augment the efforts of its direct sales force. As of October 31, 1996, the Company was represented by 13 distributors.

Professional Services

The Company's professional services organization provides a full range of consulting services to customers developing, deploying and managing mission-critical applications using BEA products. These services include architectural assistance, prototyping, implementation, legacy migration, porting, application integration, performance evaluation and tuning, and data conversions. Because of the complex nature of its customers' mission-critical applications, the Company believes that its professional services organization plays a key role in facilitating initial license sales and enabling customers to successfully develop, deploy and manage such applications. As of October 31, 1996, the Company employed 73 professional services consultants. Fees for professional services are generally charged on a time and materials basis and vary depending upon the nature and extent of services to be performed.

Technical Support

The Company believes that a high level of customer support is integral to the successful marketing and sale of BEA products. Mission-critical applications require rapid support response and problem resolution. The Company's direct sales to customers include a basic level of maintenance. Comprehensive 7x24x365 support contracts are also available, typically on an annual basis. In addition, the Company offers introductory and advanced classes and training programs at the Company's offices, customer sites and training centers worldwide. Telephone hotline support is offered worldwide at either a standard or around-the-clock level, depending on customer requirements. The Company maintains product and technology experts on call at all times worldwide and has support call centers located in Sunnyvale, California and Paris, France. The Company sponsors user group conferences in North America and Europe.

Marketing

The Company's marketing efforts are directed at broadening the market for BEA TUXEDO and the BEA Enterprise Transaction Framework by increasing awareness of the benefits of using the Company's products to build mission-critical distributed applications. Marketing efforts are also aimed at supporting the Company's worldwide direct and indirect sales channels. Marketing personnel engage in a variety of activities including conducting public relations and product seminars, issuing newsletters, sending direct mailings, preparing sales collateral and other marketing materials, coordinating the Company's participation in industry trade shows, programs and forums, and establishing and maintaining close relationships with recognized industry analysts. The Company's senior executives are frequent speakers at industry forums in many of the major markets the Company serves.

Competition

The market for middleware software and related services is highly competitive. The Company's competitors are diverse and offer a variety of solutions directed at various segments of the middleware software marketplace. These competitors include database vendors such as Oracle Corporation ("Oracle"), IBM Corporation ("IBM") and others, which offer their own development tools for use with their proprietary databases, as well as companies offering and developing middleware software products and related services or application development tools that compete with products offered by the Company. In addition, internal development groups within prospective customers' organizations may develop software and hardware systems that may substitute for those offered by the Company. A number of the Company's competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than the Company.

The Company's principal competitors currently are database vendors that advocate client/server networks driven by the database server and software tool vendors that offer development tools designed to enable customers to create distributed mission-critical applications. Oracle is the primary relational database vendor offering products that are intended to serve as alternatives to the Company's enterprise middleware solutions. Currently, the software development tool vendors typically emphasize the broad versatility of their toolsets and, in some cases, offer complementary middleware software that supports these tools and performs messaging and other basic middleware functions. There can be no assurance that the Company will compete successfully with database vendors and software tool vendors, or that the products offered by such vendors will not achieve greater market acceptance than the Company's products.

Microsoft has announced that it will provide middleware functionality in future versions of its Windows NT operating system and has recently announced the release of a product that includes certain middleware functionality. The bundling of middleware functionality in Windows NT will require the Company to compete with Microsoft in the Windows NT marketplace, where Microsoft will have certain inherent advantages due to its significantly greater financial, technical, marketing and other resources, greater name recognition, its substantial installed base and the integration of its enterprise middleware functionality with Windows NT. If Microsoft successfully incorporates middleware functionality into Windows NT or separately offers middleware applications, the Company will need to differentiate its products based on functionality, interoperability with non-Microsoft platforms, performance and reliability and establish its products as more effective solutions to customers' needs. There can be no assurance that the Company will be able to successfully differentiate its products from those offered by Microsoft, or that Microsoft's entry into the middleware market will not materially adversely affect the Company's business, operating results 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 the Company's current and prospective customers. 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 the Company's ability to sell additional licenses and maintenance and support renewals on terms favorable to the Company. Further, competitive pressures could require the Company to reduce the price of its products and related services, which could materially adversely affect the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current and future competitors, and the failure to do so would have a material adverse effect upon the Company's business, operating results and financial condition.

The Company believes that the principal competitive factors in the market for its products are the ability to scale to accommodate a large number of users, interoperability with major hardware and software platforms and legacy systems, cost, time to implementation, robustness and support services. Based on these factors, the Company believes its products compete favorably, although there can be no assurance that the Company can maintain its competitive position against current and potential competitors.

In order to be successful in the future, the Company must continue to respond promptly and effectively to the challenges of technological change and competitors' innovations. There can be no assurance that the Company will be able to compete successfully with existing or new competitors or that competition will not have a material adverse effect on the Company's business, financial condition and results of operations.

Intellectual Property

The Company's success depends upon its proprietary technology. The Company relies on a combination of copyright, trademark and trade secret rights, confidentiality procedures and licensing arrangements to establish and protect its proprietary rights. The Company presently has three issued patents and two pending patent applications, as well as an exclusive license to one patent and one pending patent application. No assurance can be given that competitors will not successfully challenge the validity or scope of the Company's patents and that such patents will provide a competitive advantage to the Company. As part of its confidentiality procedures, the Company generally enters into non-disclosure agreements with its employees, distributors and corporate partners, and license agreements with respect to its software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization, or to develop similar technology independently. In particular, the Company has, in the past, provided certain hardware OEMs with access to its source code, and any unauthorized publication or proliferation of this source code could materially adversely affect the Company's business, operating results and financial condition. Policing unauthorized use of the Company's products is difficult and, although the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. Effective protection of intellectual property rights is unavailable or limited in certain foreign countries. There can be no assurance that the Company's protection of its proprietary rights will be adequate or that the Company's competitors will not independently develop similar technology, duplicate the Company's products or design around any patents issued to the Company or other intellectual property rights of the Company.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in the industry segment overlaps. Any such claims, with or without merit, could result in costly litigation that could absorb significant management time, which could have a material adverse effect on the Company's business, operating results and financial condition. Such claims might require the Company to enter into royalty or license agreements. Such royalty or license agreements, if required, may not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition.

Employees

At December 31, 1996, the Company had 439 full-time employees of whom 100 were primarily engaged in research and development, 301 in consulting, training, sales, support and marketing and 38 in administration and finance. None of the Company's employees is represented by a collective bargaining agreement and the Company has never experienced any work stoppage. The Company considers its relations with its employees to be good. The Company also employs a number of temporary and contract employees from time to time. At December 31, 1996, the Company employed approximately 51 temporary and contract employees.

The Company's future performance depends to a significant degree upon the continued service of its key members of management, as well as key marketing, sales, consulting and product development personnel. The loss of any of William T. Coleman III, the Company's President, Chairman and Chief Executive Officer, Edward W. Scott, Jr., the Company's Executive Vice President of Worldwide Field Operations, or Alfred S. Chuang, the Company's Chief Technical Officer and Executive Vice President of Product Development, or one or more of the Company's other key personnel, would have a material adverse effect on the Company's business, operating results and financial condition. The Company believes its future success will also depend in large part upon its ability to attract and retain highly skilled management, marketing, sales, consulting and product development personnel. Competition for such personnel is intense, and there can be no assurance that the Company can retain its key employees or that it will be successful in attracting, assimilating and retaining such personnel in the future. Hiring of qualified technical personnel in foreign countries will be difficult due to a more limited number of qualified professionals, as the Company seeks to expand its worldwide support organization. Failure to attract, assimilate and retain key personnel would have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Novell Agreement requires the Company to employ a minimum number of research and development personnel.

Facilities

The Company's primary offices are located in approximately 38,000 and 18,000 square feet of space in Sunnyvale, California and approximately 61,000 square feet in Bernards Township, New Jersey under leases expiring in January 31, 2001, June 30, 1998 and April 31, 2006, respectively. The Company has an option to extend the lease of the premises in Sunnyvale for an additional five years after the original expiration date on substantially the same terms. The Company also leases space for its sales and support offices in Atlanta, Georgia; Boston, Massachusetts; Brisbane, Australia; Capetown, South Africa; Chicago, Illinois; Dallas, Texas; Escondido, California; Espoo, Finland; Golden, Colorado; Johannesburg, South Africa; Kowloon, Hong Kong; London, England; Minneapolis, Minnesota; Munich, Germany; Paris, France; Philadelphia, Pennsylvania; Reston, Virginia; Sao Paulo, Brazil; Schaumburg, Illinois; Sydney, Australia; Toronto, Canada; Yokohama, Japan and Zaventem, Belgium. The Company believes that its existing facilities are sufficient to meet its anticipated needs for the foreseeable future.

Management

Executive Officers and Directors

The following table sets forth certain information concerning the executive officers and directors of the Company as of October 31, 1996:

Name Age Position(s)

William T. Coleman III 49 President, Chief Executive Officer, Chairman of the Board and Director Edward W. Scott, Jr. 58 Executive Vice President of Worldwide Field Operations, Assistant Secretary and Director Alfred S. Chuang 35 Chief Technical Officer, Executive Vice President of Product Development Steve L. Brown 43 Executive Vice President, Chief Financial Officer and Secretary Carol Bartz(1) 48 Director Cary J. Davis 30 Director Stewart K.P. Gross(2) 37 Director William H. Janeway(1) 53 Director Dean Morton(2) 64 Director (1) Member of Compensation Committee.

(2) Member of Audit Committee.

MR. COLEMAN was a founder of the Company and has been its President, Chief Executive Officer and a member of its Board of Directors since the Company's inception. Prior to founding the Company in January 1995, Mr. Coleman was employed by Sun Microsystems, Inc. from 1985 to January 1995, where his last position was Vice President and General Manager of its Sun Integration division. Mr. Coleman holds a B.S. from the Air Force Academy and an M.S. from Stanford University.

MR. SCOTT is a founder of the Company and has been a member of its Board of Directors and its Executive Vice President of Worldwide Field Operations since the Company's inception. Prior to founding the Company in January 1995, Mr. Scott was employed by Pyramid Technology, Inc. as its Executive Vice President of Worldwide Sales and Marketing from September 1988 to April 1995 and by Sun Microsystems from October 1985 to September 1988. Mr. Scott has a B.A. and an M.A. from Michigan State University and a Bachelor's Degree from Oxford University.

MR. CHUANG is a founder of the Company and has been its Chief Technical Officer and Executive Vice President of Product Development since the Company's inception. He served as a member of its Board of Directors from the Company's inception until September 1995. From 1986 to December 1994, Mr. Chuang worked at Sun Microsystems, Inc. in various positions, including Chief Technology Officer of Sun Integration Services and Corporate Director of Strategic Systems Development of Sun's Middleware Group. Mr. Chuang has a B.S. from the University of San Francisco and an M.S. from U.C. Davis.

MR. BROWN joined the Company in August 1996 and is currently Executive Vice President, Chief Financial Officer and Secretary. From October 1994 to July 1996, Mr. Brown was employed by MicroUnity Systems Engineering, Inc., where his last position was Vice President, Finance. From 1978

to 1994, Mr. Brown was employed at the Hewlett-Packard Corporation in various controller and treasury positions. He holds a B.A. from San Diego State University and an M.B.A. from UCLA.

MS. BARTZ has served as a director of the Company since November 1995. From April 1992 to present, Ms. Bartz has served as the Chairman and Chief Executive Officer of Autodesk, Inc. From 1983 to April 1992, Ms. Bartz served in various positions with Sun Microsystems, Inc., most recently as Vice President of Worldwide Field Operations. Ms. Bartz is a director of Autodesk, Inc., AirTouch Communications, Cadence Design Systems, Inc., Cisco Systems, Inc. and Network Appliance, Inc. Ms. Bartz holds a B.S. from the University of Wisconsin at Madison.

MR. DAVIS has served as a director of the Company since November 1995. Mr. Davis is a Vice President of Warburg, Pincus Ventures, LLC, the venture capital subsidiary of E.M. Warburg, Pincus & Company, LLC, ("EMWP") where he has been employed since October 1994. From August 1992 to September 1994, Mr. Davis was employed by Dell Computer Corporation, where his last position was Manager of Worldwide Desktop Marketing. Mr. Davis holds a B.A. from Yale University and an M.B.A. from Harvard University.

MR. GROSS has served as a director of the Company since inception. Mr. Gross is a Managing Director of EMWP and has been employed by EMWP since 1987. Prior to joining EMWP, Mr. Gross was employed at Morgan Stanley & Co. Mr. Gross is a director of Vanstar Corporation, OpenVision Technologies, Inc. and several privately-held companies. Mr. Gross has a B.A. from Harvard University and an M.B.A. from Columbia University.

MR. JANEWAY has served as a director of the Company since inception. Mr. Janeway has been a Managing Director of EMWP since July 1988. Prior to joining EMWP, Mr. Janeway was the Vice President and Director of Corporate Finance at F. Eberstadt & Co., Inc. from 1979 to July 1988. Mr. Janeway is a director of ECSoft Group plc, Industri-Matematik Corp., Maxis, Inc., OpenVision Technologies, Inc., Vanstar Corporation, Zilog, Inc. and several privately-held companies. Mr. Janeway has a B.A. from Princeton University and a Ph.D. from Cambridge University, where he studied as a Marshall Scholar.

MR. MORTON has served as a director of the Company since March 1996. Mr. Morton was Executive Vice President, Chief Operating Officer and a Director of the Hewlett-Packard Corporation until his retirement in October 1992, where he held various positions since 1960. Mr. Morton is a director of ALZA Corporation, Raychem Corporation, Tencor Instruments, The Clorox Company, Centigram Communications Corporation, and Kaiser Foundation Health Plan, Inc. Hospitals. He is a trustee of the State Street Research Group of Funds, The State Street Research Portfolios, Inc. and The Metropolitan Series Fund. Mr. Morton holds a B.S. from Kansas State University and an M.B.A. from Harvard University.

Currently all directors hold office until the next annual meeting of stockholders or until their successors are duly qualified. Upon completion of the Offerings, the Amended and Restated Certificate of Incorporation of the Company will provide for the Board of Directors to be divided into three classes, each with staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of stockholders of the Company, with the other classes continuing for the

remainder of their respective three-year terms. Upon the division of the Board of Directors into three classes, in the absence of cumulative voting rights, the Company's stockholders holding a majority of the shares of Common Stock outstanding will be able to elect all the directors. See "Description of Capital Stock-- Antitakeover Effects of Provisions of the Company's Charter and Bylaws" and "Risk Factors--Control by Management and Current Stockholders."

Officers are elected by and serve at the discretion of the Board of Directors. There are no family relationships among the directors or officers of the Company.

Board Committees

AUDIT COMMITTEE. The Audit Committee of the Board of Directors reviews the results and scope of the annual audit and other services provided by the Company's independent accountants, reviews and evaluates the Company's internal audit and control functions, and monitors transactions between the Company and its employees, officers and directors. Stewart K.P. Gross and Dean Morton serve as members of the Audit Committee.

COMPENSATION COMMITTEE. The Compensation Committee of the Board of Directors administers the 1997 Stock Incentive Plan, the 1997 Employee Stock Purchase Plan and the 1995 Flexible Stock Incentive Plan, and reviews and approves the compensation and benefits for the Company's executive officers. Carol Bartz and William H. Janeway serve as members of the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between any member of the Company's Board of Directors or Compensation Committee and any member of the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

Director Compensation

The Company's outside directors are reimbursed for expenses incurred in connection with attending Board and Committee meetings but are not compensated for their services as Board members. The Company may also grant to directors options to purchase Common Stock of the Company pursuant to the terms of the 1997 Stock Incentive Plan. See "--Stock Plans--1997 Stock Incentive Plan."

Executive Compensation

The following table sets forth certain information concerning compensation of the Company's Chief Executive Officer and each of the four other most highly compensated executive officers of the Company whose aggregate cash compensation exceeded $100,000 during the year ended January 31,

1996 (collectively, the "Named Executive Officers"). There have been no option grants to or option exercises by the Named Executive Officers during the fiscal year ended January 31, 1996.

Summary Compensation Table

ANNUAL COMPENSATION OTHER ANNUAL NAME AND PRINCIPAL POSITION SALARY($) BONUS($) COMPENSATION($) William T. Coleman III ..... 151,500 -- 22,500(1) President, Chief Executive Officer, Chairman of the Board and Director Edward W. Scott, Jr ..... 91,154 -- -- Executive Vice President and Director Alfred S. Chuang ..... 109,654 -- 16,500(1) Executive Vice President (1) Represents contributions made by the Company to the named individual's retirement plan.

Employment Agreements

The Company has entered into employment agreements with William T. Coleman, Edward W. Scott, Jr. and Alfred S. Chuang (the "Employees"), dated September 28, 1995 (the "Employment Agreements").

The Employment Agreements provide that Mr. Coleman, Mr. Scott and Mr. Chuang receive a yearly salary of $180,000, $150,000 and $150,000, respectively (to be reviewed annually), and reimbursement for certain expenses. The Employees are also entitled to participate in any pension, bonus, insurance, savings or other employee benefit plans adopted by the Company.

The Employment Agreements continue until the earlier of (1) September 28, 1999 or (2) termination of employment (i) by the Board of Directors for cause at any time upon 10 days' written notice, or without cause upon 24 hours' written notice; (ii) by death; (iii) by the Employee for good reason or following certain corporate transactions, or at will upon two weeks' notice; or (iv) due to disability. Upon termination of employment without cause by the Company, or for good reason by the Employee, the Company will hire the Employee as a consultant until the end of the period of employment, or for a period of two years following termination. During the Consultancy Period (as defined in the Employment Agreements), the Employee is required to be available a maximum of 40 hours per week in return for which he will be entitled to receive a monthly salary, bonus and benefits equal to the amount that he received immediately prior to the termination of employment. Upon termination of employment for cause by the Company, or at will by the Employee, the Company can require the Employee to provide consulting services for a maximum of 40 hours per week until the end of the period of employment, during which period the Employee will be paid his monthly salary on a prorated basis. Upon termination by death or disability, the Employee or his estate will under certain circumstances receive the Employee's salary and certain other benefits until the end of the period of employment.

The Employment Agreements contain a covenant not to compete which provides that during the Consultancy Period, under certain circumstances the Employee cannot compete with the Company, or accept employment with a competitor of the Company.

Stock Plans

1995 Flexible Stock Incentive Plan

The Company's 1995 Flexible Stock Incentive Plan (the "1995 Incentive Plan") was adopted by the Board of Directors and approved by the Company's stockholders in September 1995. The 1995 Incentive Plan provides for the granting to employees of the Company and of its subsidiaries of incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), and for the granting to employees, outside directors, consultants, and independent contractors of nonstatutory stock options. In addition, the 1995 Incentive Plan provides for the sale or grant of restricted Common Stock to eligible individuals in connection with the performance of services for the Company. The Board of Directors and the stockholders have authorized a total of 9,600,000 shares of Common Stock for issuance pursuant to the 1995 Incentive Plan.

The 1995 Incentive Plan may be administered by the Board of Directors or a committee of the Board (the "Committee"). The Committee has the power to determine the terms of the options granted, including the exercise price, number of shares subject to the option and the exercisability thereof, and the form of consideration payable upon exercise. Options granted under the 1995 Incentive Plan are not transferable by the optionee other than by will or the laws of descent or distribution, and each option is exercisable during the lifetime of the optionee only by such optionee. The exercise price of all incentive stock options granted under the 1995 Incentive Plan must be at least equal to the fair market value of the Common Stock on the date of grant. The exercise price of all nonstatutory stock options granted under the 1995 Incentive Plan must be at least 85% of the fair market value of the Common Stock on the date of grant. With respect to any participant who owns stock representing more than 10% of the combined voting power of the Company or certain affiliated entities (a "10% Stockholder"), the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date. The term of incentive stock options granted under the 1995 Incentive Plan may not exceed ten years (or five years in the case of an incentive stock option granted to a 10% Stockholder). No stock option granted under the 1995 Incentive Plan shall vest at a rate of less than 20% per year over 5 years from the date the option is granted. The consideration for exercising any option must consist of cash unless the Board, in its sole discretion, permits payment by check, Company shares, a promissory note or the assignment of part of the proceeds of the shares acquired upon exercise of the options.

With certain exceptions, the options terminate upon termination of employment, disability or death of the employee. In the event of a merger with or into another corporation, the options will terminate upon the consummation of a merger, unless assumed or substituted by a successor corporation or its parent company.

Unless terminated sooner, the 1995 Incentive Plan will terminate automatically in 2005. The Board has authority to amend, suspend or terminate the 1995 Incentive Plan, provided no such action may affect any share of Common Stock previously issued and sold or any option previously granted under the 1995 Incentive Plan.

1997 Stock Incentive Plan

The Company's 1997 Stock Incentive Plan (the "1997 Stock Incentive Plan") was adopted by the Board of Directors in January 1997 and is anticipated to be approved by the Company's stockholders prior to consummation of the Offerings. The purpose of the 1997 Stock Incentive Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants of the Company and its subsidiaries and to promote the success of the Company's business. The 1997 Stock Incentive Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Code and the granting of nonstatutory stock options, stock appreciation rights, dividend equivalent rights, restricted stock, performance units, performance shares, and other equity-based rights ("Awards") to employees, directors and consultants of the Company. Initially, 2,500,000 shares of Common Stock are reserved for issuance under the plan. Commencing January 2, 1997, the number of shares of Common Stock reserved for issuance under the 1997 Stock Incentive Plan will be increased by a number equal to two percent (2%) of the number of shares of Common Stock outstanding as of December 31 of the immediately preceding calendar year, provided that the number of shares of Common Stock available for grant of incentive stock options shall be 2,500,000 shares, and such number shall not be subject to adjustment as described above. Where the Award agreement permits the exercise or purchase of the Award for a certain period of time following the recipient's termination of service with the Company, disability, or death, the Award will terminate to the extent not exercised or purchased on the last day of the specified period or the last day of the original term of the Award, whichever occurs first. To date, no Awards have been granted under the 1997 Stock Incentive Plan.

With respect to Awards granted to directors or officers, the 1997 Stock Incentive Plan is administered by the Board of Directors or a committee designated by the Board of Directors constituted to permit such Awards to be exempt from Section 16(b) of the Securities Exchange Act of 1934, as amended, in accordance with Rule 16b-3 thereunder. With respect to Awards granted to other participants, the 1997 Stock Incentive Plan is administered by the Board of Directors or a committee designated by the Board of Directors. In each case, the Board of Directors or such committees (the "Plan Administrator") shall determine the provisions, terms and conditions of each Award, including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, shares of Common Stock, or other consideration) upon settlement of the Award, payment contingencies and satisfaction of any performance criteria. Incentive stock options are not transferable by the optionee other than by will or the laws of descent or distribution, and each incentive stock option is exercisable during the lifetime of the optionee only by such optionee. Other Awards shall be transferable to the extent provided in the agreement evidencing the Award. The

exercise price of incentive stock options must be at least equal to the fair market value of the Common Stock on the date of grant, and the term of the option must not exceed ten years. The term of other Awards will be determined by the Plan Administrator. With respect to an employee who owns stock possessing more than 10% of the voting power of all classes of the Company's outstanding capital stock, the exercise price of any incentive stock option must equal at least 110% of the fair market value of the Common Stock on the grant date and the term of the option must not exceed five years. The exercise or purchase price of other Awards will be such price as determined by the Plan Administrator. The consideration to be paid for the shares of Common Stock upon exercise or purchase of an Award will be determined by the Plan Administrator and may include cash, check, shares of Common Stock, a promissory note, or the assignment of part of the proceeds from the sale of shares acquired upon exercise or purchase of the Award.

In the event of an acquisition of the Company through the sale of all or substantially all of its assets, a merger or other business combination, the Plan Administrator has the discretion to accelerate vesting restrictions with respect to any outstanding Awards under the 1997 Stock Incentive Plan.

Unless terminated sooner, the 1997 Stock Incentive Plan will terminate automatically in 2007. The Board has the authority to amend, suspend or terminate the 1997 Stock Incentive Plan subject to stockholder approval of certain amendments and provided no such action may affect Awards previously granted under the 1997 Stock Incentive Plan.

1997 Employee Stock Purchase Plan

The Company's 1997 Employee Stock Purchase Plan (the "Stock Purchase Plan"), which was approved by the Board of Directors in January 1997 and is anticipated to be approved by the Company's stockholders prior to the consummation of the Offerings, is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code and to provide employees of the Company with an opportunity to purchase Common Stock through payroll deductions. An aggregate of 1,250,000 shares of the Company's Common Stock are reserved for issuance under the Stock Purchase Plan and available for purchase thereunder, subject to adjustment in the event of a stock split, stock dividend or other similar change in the Common Stock or the capital structure of the Company. All employees of the Company and its subsidiaries (including officers) whose customary employment is for more than five months in any calendar year and more than 20 hours per week are eligible to participate in the Stock Purchase Plan. Outside directors, consultants and employees subject to the rules or laws of a foreign jurisdiction that prohibit or make impractical the participation of such individuals in the Stock Purchase Plan are not eligible to participate in the Stock Purchase Plan.

The Stock Purchase Plan designates Purchase Periods, Accrual Periods and Exercise Dates. Purchase Periods are generally overlapping periods of 24 months. A Purchase Period will initiate on the effective date of the Registration Statement applicable to the Offerings and additional Purchase Periods will commence each subsequent January and July. The initial Purchase Period will end on March 31, 1999.

Accrual Periods are generally six months periods initially commencing on the effective date of the Offerings and ending on June 30 and December 31. Thereafter Accrual Periods will commence each January 1 and July 1. The Exercise Dates are the last days of each Accrual Period.

On the first day of each Purchase Period, a participating employee is granted a purchase right which is a form of option to be automatically exercised on the forthcoming Exercise Dates within the Purchase Period during which deductions are to be made from the pay of participants (in accordance with their authorizations) and credited to their accounts under the Stock Purchase Plan. When the purchase right is exercised, the participant's withheld salary is used to purchase shares of Common Stock of the Company. The price per share at which shares of Common Stock are to be purchased under the Stock Purchase Plan during any Accrual Period is the lesser of (a) 85% of the fair market value of the Common Stock on the date of the grant of the option (the commencement of the Purchase Period) or (b) 85% of the fair market value of the Common Stock on the Exercise Date (the last day of an Accrual Period). The participant's purchase right is exercised in this manner on all four Exercise Dates arising in the Purchase Period unless, on the first day of any Accrual Period, the fair market value of the Common Stock is lower than the fair market value of the Common Stock on the first day of the Purchase Period. If so, the participant's participation in the original Purchase Period is terminated, and the participant is automatically enrolled in the new Purchase Period during that day.

Payroll deductions may range from 1% to 10% (in whole percentage increments) of a participant's regular base pay, exclusive of overtime, bonuses, shift-premiums or commissions. Participants may not make direct cash payments to their accounts. The maximum number of shares of Common Stock which any employee may purchase under the Stock Purchase Plan during an Accrual Period is 1,000 shares. Certain additional limitations on the amount of Common Stock which may be purchased during any calendar year are imposed by the Code.

The Stock Purchase Plan will be administered by the Board of Directors or a committee designated by the Board, which will have the authority to administer the Stock Purchase Plan and to resolve all questions relating to its administration.

Limitation of Liability and Indemnification Matters

The Company's Bylaws provide that the Company will indemnify its directors and executive officers and may indemnify its other officers, employees and other agents to the fullest extent permitted by the Delaware General Corporation Law, as amended. The Company is also empowered under its Bylaws to enter into indemnification agreements with its directors and officers and to purchase insurance on behalf of any person whom it is required or permitted to indemnify. The Company has entered into indemnification agreements with each of its directors and executive officers and intends to obtain a policy of directors' and officers' liability insurance that insures such persons against the cost of defense, settlement or payment of a judgment under certain circumstances.

In addition, the Company's Certificate of Incorporation provides that the liability of the Company's directors for monetary damages shall be eliminated to the fullest extent permissible under the Delaware General Corporation Law, as so amended. This provision in the Certificate of Incorporation does not eliminate a director's duty of care, and in appropriate circumstances equitable remedies such as an injunction or other forms of non-monetary relief would remain available. Each director will continue to be subject to liability for breach of the director's duty of loyalty to the Company, for acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, for acts or omissions that the director believes to be contrary to the best interests of the Company or its stockholders, for any transaction from which the director derived an improper personal benefit, for improper transactions between the director and the Company and for improper distributions to stockholders and loans to directors and officers. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company 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.

There is no pending litigation or proceeding involving a director or officer of the Company as to which indemnification is being sought, nor is the Company aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

Principal Stockholders

The following table sets forth certain information known to the Company with respect to beneficial ownership of the Company's Common Stock as of October 31, 1996 as adjusted to reflect the sale of shares offered hereby, by (a) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock, (b) each of the Company's directors, (c) each Named Executive Officer (see "Management--Executive Compensation"), and (d) all current executive officers and directors as a group.

NAME OF BENEFICIAL OWNER(1)	SHARES BENEFICIALLY OWNED	PERCENTAGE PRIOR TO THE OFFERING	PERCENTAGE AFTER THE OFFERING(2)
Warburg, Pincus Ventures, LLC(3).....			
William T. Coleman III(4).....	2,506,828		
Edward W. Scott, Jr.....	1,671,586		
Alfred S. Chuang(5).....	1,671,586		
Stewart K.P. Gross(6).....			
William H. Janeway(6).....			
Carol Bartz(7).....	100,000	*	*
Dean Morton(8).....	100,000	*	*

All executive officers and directors as a
group(9 persons).....

* Less than 1% of the outstanding Common Stock.

(1) To the Company's knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws, each person named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. Except as otherwise indicated, the address of each of the persons in this table is as follows: c/o BEA Systems, Inc., 385 Moffett Park Drive, Suite 105 Sunnyvale, California 94089-1208.

(2) Assumes no exercise of the underwriters' over-allotment option. If the over-allotment option is exercised in full, the Company will sell an aggregate of shares of Common Stock.

(3) Includes shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock on a two-for-one basis which will occur automatically upon the closing of the Offerings and shares of Common Stock issuable upon conversion of shares of Series B Preferred Stock assuming a public offering price of $ per share and proceeds to the Company, after deducting the underwriting discount and expenses, of $ per share. Includes shares issuable within 5 days after the Closing of the Offering, at Warburg's option, pursuant to a convertible line of credit extended to the Company, assuming a public offering price of $ per share and proceeds to the Company, after deducting the underwriting discount and expenses, of $ per share. The sole general partner of Warburg, Pincus Ventures, LLC. ("Warburg") is Warburg, Pincus & Co., a New York general partnership ("WP"). E.M. Warburg, Pincus & Co., LLC, a New York limited liability company ("EMWP"), manages Warburg. The members of EMWP are substantially the same as the partners of WP. Lionel I. Pincus is the managing partner of WP and the managing member of EMWP and may be deemed to control both WP and EMWP. WP has a 15% interest in the profits of Warburg as the general partner, and also owns approximately 1.5% of the limited partnership interests in Warburg. Messrs. Janeway and Gross, directors of the Company, are Managing Directors and members of EMWP and general partners of WP. As such, Messrs. Janeway and Gross may be deemed to have an indirect pecuniary interest (within the meaning of Rule 16a-1 under the Securities Exchange Act of 1934) in an indeterminate portion of the shares beneficially owned by Warburg and WP. See Note 7 below. The address for Warburg, Pincus Ventures, LLC is 466 Lexington Avenue, New York, New York, 10017.

(4) Represents 2,506,828 shares held of record by the Coleman Family Trust, dated July 12, 1995, of which William T. and Claudia L. Coleman are co-trustees. Includes 41,000 shares of which the economic ownership has been transferred to certain of Mr. Coleman's relatives. Mr. Coleman retains sole voting power and investment power of these shares.

(5) Includes 90,000 shares of which the economic ownership has been transferred to certain of Mr. Chuang's relatives. Mr. Chuang retains sole voting power and investment power of these shares.

(6) All of the shares indicated as owned by Mr. Janeway and Mr. Gross are owned directly by Warburg and are included because of Mr. Janeway's and Mr. Gross's affiliation with Warburg. Mr. Janeway and Mr. Gross disclaim beneficial ownership of these shares within the meaning of Rule 13d-3 under the

Securities Exchange Act of 1934. The address for Mr. Janeway and Mr. Gross is c/o Warburg, Pincus Ventures, LLC, 466 Lexington Avenue, New York, New York 10017.

(7) Represents 100,000 shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock on a two-for-one basis which will occur automatically upon the closings of the Offerings. The address for Mr. Morton is c/o Hewlett-Packard Corporation, 3200 Hillview Avenue, Palo Alto, California 94304.

(8) Represents 100,000 shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock on a two-for-one basis which will occur automatically upon the closings of the Offerings. The address for Ms. Bartz is c/o Autodesk, Inc., 111 McInnis Parkway, San Rafael, CA 94903.

Certain Transactions

On September 28, 1995, Warburg entered into a Stock Purchase Agreement with the Company which was subsequently amended on October 31, 1995, January 10, 1996, April 16, 1996, July 1, 1996 and September 3, 1996. As a result of these purchases, Warburg acquired an aggregate of 4,000,000 shares of Common Stock, 17,066,000 shares of Series A Preferred Stock and 16,347,800 shares of Series B Preferred Stock for an aggregate purchase price of $46,500,000. In addition, on April 24, 1996, the board approved the purchase of an aggregate of 100,000 shares of Series A Preferred Stock, convertible into 200,000 shares of Common Stock, by two directors of the Company. Both Series A and Series B Preferred Stock convert automatically into shares of Common Stock upon the closing of the Offering. The conversion ratio of the Series B Preferred Stock depends upon the initial public offering price and the proceeds to the Company after deducting the underwriting discount and expenses. In connection with these purchases the Company, certain of its directors and officers and Warburg entered into a number of ancillary agreements, such as a stockholder agreement and an investment agreement.

On September 28, 1995, in connection with the Company's acquisition of its two main operating subsidiaries, the Company and Warburg, the Company's major stockholder, entered into an Assignment Agreement, under the terms of which Warburg assigned to the Company certain rights to acquire stock from stockholders of the subsidiaries, as well as a number of agreements related to the acquisitions, such as letters of intent and an Escrow Agreement, enabling the Company to acquire all outstanding stock of the two operating subsidiaries. See "Risk Factors--Past and Future Acquisitions" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations--Overview."

On January 22, 1997, the Company entered into a credit agreement with Warburg pursuant to the terms of which Warburg granted the Company a subordinated line of credit of up to $10,000,000. The agreement provides for an annual interest rate of 11% and is repayable 5 business days after the closing of the Offerings or on July 22, 1998, whichever occurs first. The loan is convertible, at Warburg's

option, into shares of Common Stock within five days after the closing of the Offerings, at a conversation ratio based upon the net price to the Company of the initial public offering, after deducting the underwriting discount and expenses.

On February 1, 1995 and following the incorporation of the Company, the Company's three founders, William T. Coleman III, the Company's President and Chief Executive Officer and a member of its Board of Directors, Edward W. Scott, Jr., the Company's Executive Vice President for Worldwide Sales and a member of its Board of Directors and Alfred S. Chuang, the Company's Executive Vice President of Product Development and Chief Technical officer, purchased 1,200,000, 800,000 and 800,000 shares, respectively, of the Company's Common Stock at a price of $.005 per share. These shares were purchased pursuant to Restricted Stock Purchase Agreements, which provide for the repurchase of these shares under certain conditions.

On September 28, 1995, Messrs. Coleman, Scott and Chuang purchased 1,306,828, 871,586 and 871,586 shares, respectively, of the Company's Common Stock at a price per share of $.285 per share, payable in part in cash and in part in the form of a recourse, five-year promissory note secured by the purchased shares pursuant to a security agreement entered into on the same date. The original principal amounts of these notes for Messrs. Coleman, Scott and Chuang were $97,446, $248,402 and $198,402, respectively. The notes bear interest at 7% per annum. These shares were purchased pursuant to Restricted Stock Purchase Agreements, which provide for the repurchase at original cost of these shares in decreasing percentages during the four year period following the date of issuance of these shares.

Certain holders of Common Stock and Warburg, as the holder of shares of Common Stock issued upon conversion of the Series A and Series B Preferred Stock, are entitled to certain registration rights. See "Description of Capital Stock--Registration Rights."

On December 12, 1995, Edward W. Scott, the Company's Executive Vice President of Worldwide Operations issued a promissory note in the amount of $720,000 in favor of the Company for the purpose of financing real property. The note bears interest at 7% per annum and is secured by a deed of trust covering the property acquired by Mr. Scott. Pursuant to its terms, the note is repayable within eight months after the closing of the Offerings.

The Company has entered into employment agreements with certain of its directors and officers. See "Management--Employment Agreements."

All future transactions, including loans, between the Company and its officers, directors, principal stockholders and their affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors on the Board of Directors.

Description of Capital Stock

Effective upon the closing of the Offerings, the Company will be authorized to issue up to 120,000,000 shares, $.001 par value, to be divided into two classes to be designated, respectively, "Common Stock" and "Preferred Stock." Of such shares authorized, 80,000,000 shares shall be designated as Common Stock, and 40,000,000 as Preferred Stock.

Common Stock

As of December 31, 1996, there were shares of Common Stock outstanding that were held of record by approximately 20 stockholders (assuming conversion of all shares of Preferred Stock outstanding as of December 31, 1996). There will be shares of Common Stock outstanding (assuming no exercise of the U.S. Underwriters' or International Underwriters' overallotment options and no exercise of outstanding options) after giving effect to the sale of Common Stock offered to the public by the Company hereby.

The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. The Company does not have cumulative voting rights in the election of directors, and accordingly, holders of a majority of the shares voting are able to elect all of the directors. Subject to preferences that may be granted to any then outstanding Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor as well as any distributions to the stockholders. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets of the Company remaining after payment of liabilities and the liquidation preference of any then outstanding Preferred Stock. Holders of Common Stock have no preemptive or other subscription of conversion rights. There are no redemption or sinking fund provisions applicable to the Common Stock.

Preferred Stock

Effective upon the closing of the Offerings and pursuant to the Company's Certificate of Incorporation, the Board of Directors will have the authority, without further action by the stockholders, to issue up to 40,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of Common Stock, without any further vote or action by stockholders. The issuance of Preferred Stock could adversely affect the voting power of holders of Common Stock and the likelihood that such holders will receive dividend payments and payments upon liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company. The Company has no present plan to issue any shares of Preferred Stock after consummation of the Offerings.

Registration Rights

Pursuant to an investor rights agreement (the "Rights Agreement") entered into in September 1995 between the Company and holders (the "Holders") of approximately 9,850,000 shares of the Company's Common Stock, 17,066,000 shares of the Company's Series A Preferred Stock and 16,347,800 shares of the Company's Series B Preferred Stock, including William T. Coleman III, Alfred S. Chuang, Edward W. Scott, Jr., and Warburg, the Holders are entitled to certain rights with respect to the registration of such shares under the Securities Act of 1933, as amended (the "Securities Act"). In addition, Warburg has an option, exercisable at Warburg's option within five days after the closing of the Offerings, to acquire a maximum of shares of Common Stock upon conversion of the outstanding amounts under a $10,000,000 line of credit extended to the Company. If the Company proposes to register any of its securities under the Securities Act, either for its own account or the account of other security holders, the Company is required to notify such Holders and to use its best efforts to effect the registration, and such Holders are entitled to include at the Company's expense their Registrable Securities (as such term is defined in the Rights Agreement) in such registration, subject to certain conditions and limitations. In addition, Holders may also require the Company to file a registration statement under the Securities Act at the Company's expense with respect to their shares, and the Company is required to use its diligent reasonable efforts to effect such registration. Further, Holders may require the Company to file registration statements on Form S-3 at the Company's expense, when such form is available for use by the Company. These 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 and the right of the Company not to effect a requested registration within six months following a registered offering of the Company's securities, including the offering made hereby. See "Management--Certain Transactions."

Antitakeover Effects of Provisions of the Company's Charter and Bylaws

Upon completion of the Offerings, the Certificate of Incorporation of the Company will provide for the Board of Directors to be divided into three classes, with staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of stockholders of the Company, with the other classes continuing for the remainder of their respective three-year terms. Stockholders will have no cumulative voting rights and the Company's stockholders representing a majority of the shares of Common Stock outstanding are able to elect all of the directors. The Company's Bylaws will also provide that all stockholder action must be effected at a duly called meeting of stockholders and not by a consent in writing; the Bylaws provide that only the Company's Chief Executive Officer and the President of the Company may call a special meeting of stockholders.

The classification of the Board of Directors and lack of cumulative voting will make it more difficult for the Company's existing stockholders to replace the Board of Directors as well as for another party to obtain control of the Company by replacing the Board of Directors. Since the Board of Directors has

the power to retain and discharge officers of the Company, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management.

These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of the Company. These provisions are intended to enhance the likelihood of continued stability in the composition of the Board of Directors and in the policies furnished by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of the Company. These provisions are designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, they also may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in the management of the Company. See "Risk Factors--Antitakeover Effects of Certificate of Incorporation, Bylaws and Delaware Law."

Section 203 of the Delaware General Corporation Law

The Company is subject to Section 203 or the Delaware General Corporation Law ("Section 203"), which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) prior to such date, the Board of Directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested holder, (ii) upon consummation of the transaction that that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (a) by persons who are directors and also officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

In general, Section 203 defines business combination to include: (i) any merger or consolidation involving the corporation and the interested stockholder, (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder, (iii) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder, (iv) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder or (v) the receipt by the interested stockholder of the benefit of any loss, advances, guarantees, pledges or other financial benefits by or

through the corporation. In general, Section 203 defines interested stockholder as an entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person. See "Risk Factors--Antitakeover Effects of Certificate of Incorporation, Bylaws and Delaware Law."

Listing

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

Transfer Agent and Registrar

The transfer agent and registrar for the Common Stock of the Company is Boston EquiServe. Its address is 150 Royall Street, Canton, Massachusetts 02021, and its telephone number is (617) 575-3120.

Shares Eligible for Future Sale

Prior to the Offerings, there has been no public market for the Common Stock of the Company, and any sale of substantial amounts in the open market may adversely affect the market price of the Common Stock offered hereby.

Upon completion of the Offerings, the Company will have shares of Common Stock outstanding based on shares outstanding as of October 31, 1996. Of these shares, the shares sold in the Offerings will be freely transferable without restriction under the Securities Act, unless they are held by "affiliates" of the Company as that term is used under the Securities Act and the Regulations promulgated thereunder.

The remaining outstanding shares were sold by the Company in reliance on exemptions from the registration requirements of the Securities Act and are restricted securities within the meaning of Rule 144 under the Securities Act. Approximately of these shares of Common Stock will be eligible for sale in the public market immediately upon the effective date of the Registration Statement of which this Prospectus is a part (the "Effective Date") in reliance on Rule 144(k) under the Securities Act. Beginning 90 days after the Effective Date, an additional approximately of these shares will become eligible for sale subject to the provisions of Rule 144 and Rule 701. Beginning 180 days after the date of this Prospectus, approximately additional shares will become eligible for sale subject to the provisions of Rule 144 or Rule 701 upon the expiration of agreements not to sell such shares entered into between the Underwriters and such stockholders of the Company and such stockholders. Beginning 180 days after the date of this Prospectus, approximately additional shares subject to vested options as of the Effective Date will be available for sale subject to compliance with Rule 701 and upon the expiration of agreements not to sell such shares entered into between the Underwriters and such stockholders. In addition, the Commission has proposed revisions to Rule 144 and Rule 144(k), the effect of which would be to shorten the holding period under Rule 144 from two years to one year and to shorten the

holding period under Rule 144(k) from three years to two years. If enacted, these proposed revisions would increase, potentially substantially, the number of shares that would be available for sale in the public market 180 days after the Effective Date. Any shares subject to lock-up agreements may be released at any time without notice by the Underwriters. See "Risk Factors--Shares Eligible for Future Sale."

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned restricted shares for at least two years is entitled to sell, within any three-month period commencing 90 days after the Effective Date, a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (approximately shares immediately after the Offerings) or (ii) the average weekly trading volume in the Common Stock during the four calendar weeks preceding such sale, subject to the filing of a Form 144 with respect to such sale and certain other limitations and restrictions. In addition, a person who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least three years, would be entitled to sell such shares under Rule 144(k) without regard to the requirements described above.

Any employee, officer or director of or consultant to the Company who purchased his or her shares prior to the Effective Date or who holds vested options as of that date pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701, which permits non-affiliates to sell their Rule 701 shares without having to comply with the public-information, holding-period, volume-limitation or notice provisions of Rule 144 and permits affiliates to sell their Rule 701 shares without having to comply with Rule 144's holding-period restrictions, in each case commencing 90 days after the Effective Date. However, the Company and certain officers, directors and other stockholders of the Company have agreed not to sell or otherwise dispose of any shares of Common Stock of the Company for the 180-day period after the date of this Prospectus without the prior written consent of the U.S. Underwriters and the International Underwriters. See "Underwriting."

Approximately 90 days after the Effective Date, the Company intends to file a registration statement on Form S-8 under the Securities Act to register shares of Common Stock reserved for issuance under the 1995 Flexible Stock Incentive Plan, the 1997 Stock Incentive Plan, and the 1997 Employee Stock Purchase Plan, thus permitting the resale of such shares by non-affiliates in the public market without restriction under the Securities Act. Such registration statements will become effective immediately upon filing.

Legal Matters

The validity of the Common Stock offered hereby will be passed upon for the Company by Morrison & Foerster LLP, Palo Alto, California. A partner at Morrison & Foerster LLP owns 50,000 shares of Common Stock of the Company. Certain U.S. legal matters in connection with the offerings will be passed upon for the U.S. Underwriters and the International Underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

Experts

The consolidated balance sheets of BEA Systems, Inc. as of January 31, 1996 and October 31, 1996, and the consolidated statements of operations, redeemable, convertible preferred stock and stockholders' equity (deficit) and cash flows for the year ended January 31, 1996 and for the nine months ended October 31, 1996, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The balance sheets of Information Management Company as of December 31, 1994 and September 29, 1995, and the statements of operations and retained earnings (deficit) and cash flows for the year ended December 31, 1994 and for the nine months ended September 29, 1995, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The statements of operations and cash flows of Independent Technologies, Inc. for the period from January 1, 1995 to November 1, 1995, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The statements of revenues and direct salaries and benefits expenses for domestic TUXEDO employees of the TUXEDO Systems Group of Novell, Inc., for the year ended October 28, 1995 and the four months ended February 24, 1996, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The consolidated balance sheet of USL Finance S.A. as of May 5, 1996, and the consolidated statements of operations, shareholders' equity and cash flows for the period from November 1, 1995 to May 5, 1996, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young Audit, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Additional Information

The Company has filed with the Securities and Exchange Commission (the "Commission"), Washington, D.C. 20549, a Registration Statement on Form SB-2 under the Securities Act of 1933, as amended, with respect to the 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. Certain

items are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed as a part thereof. 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, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference to such exhibit. The Registration Statement, including 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 located at the North Western Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, NY 10048, and copies of all or any part thereof may be obtained from such office after payment of fees prescribed by the Commission. The Commission maintains a web site at http://www.sec.gov that contains, reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

Index to Consolidated Financial Statements

BEA SYSTEMS, INC.
CONSOLIDATED FINANCIAL STATEMENTS--YEAR ENDED JANUARY 31, 1996 AND NINE MONTHS ENDED OCTOBER 31, 1996
Report of Ernst & Young LLP, Independent Auditors..... F-2
Consolidated Balance Sheets..... F-3
Consolidated Statements of Operations..... F-4
Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)..... F-5
Consolidated Statements of Cash Flows..... F-6
Notes to Consolidated Financial Statements..... F-7

INFORMATION MANAGEMENT COMPANY
FINANCIAL STATEMENTS--YEAR ENDED DECEMBER 31, 1994 AND NINE MONTHS ENDED SEPTEMBER 29, 1995
Report of Ernst & Young LLP, Independent Auditors..... F-24
Balance Sheets..... F-25
Statements of Operations and Retained Earnings (Deficit)..... F-26
Statements of Cash Flows..... F-27
Notes to Financial Statements..... F-28

INDEPENDENCE TECHNOLOGIES, INC.
STATEMENTS OF OPERATIONS AND CASH FLOWS--FOR THE PERIOD FROM JANUARY 1, 1995 TO NOVEMBER 1, 1995
Report of Ernst & Young LLP, Independent Auditors..... F-32
Statement of Operations..... F-33
Statement of Cash Flows..... F-34
Notes to Statements of Operations and Cash Flows..... F-35

TUXEDO SYSTEMS GROUP OF NOVELL, INC.
STATEMENTS OF REVENUES AND DIRECT SALARIES AND BENEFITS EXPENSES FOR DOMESTIC TUXEDO EMPLOYEES--YEAR ENDED OCTOBER 28, 1995 AND FOUR MONTHS ENDED FEBRUARY 24, 1996
Report of Ernst & Young LLP, Independent Auditors..... F-38
Statements of Revenues and Direct Salaries and Benefits Expenses for Domestic TUXEDO Employees..... F-39
Notes to Statements..... F-40

USL FINANCE S.A.
CONSOLIDATED FINANCIAL STATEMENTS--FOR THE PERIOD FROM NOVEMBER 1, 1995 TO MAY 5, 1996
Report of Ernst & Young Audit, Independent Auditors..... F-42
Consolidated Balance Sheet..... F-43
Consolidated Statement of Operations..... F-44
Consolidated Statement of Shareholders' Equity..... F-45
Consolidated Statement of Cash Flows..... F-46
Notes to Consolidated Financial Statements..... F-47

Report of Ernst & Young Llp, Independent Auditors

The Board of Directors and Stockholders BEA Systems, Inc.

We have audited the accompanying consolidated balance sheets of BEA Systems, Inc. as of January 31, 1996 and October 31, 1996, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for the year ended January 31, 1996 and for the nine months ended October 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BEA Systems, Inc. at January 31, 1996 and October 31, 1996, and the results of its operations and its cash flows for the year ended January 31, 1996 and for the nine months ended October 31, 1996, in conformity with generally accepted accounting principles.

Ernst & Young Llp

San Jose, California January 30, 1997 BEA SYSTEMS, INC. CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) PRO FORMA STOCKHOLDERS' EQUITY (DEFICIT) AT OCTOBER 31, JANUARY 31, OCTOBER 31, 1996 1996 1996 (SEE NOTE 11) (UNAUDITED)

ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,549	$ 1,628
Accounts receivable, net of allowance for doubtful accounts of $400 at January 31, 1996 and $1,036 at October 31, 1996	3,725	19,838
Prepaid expenses and other current assets	752	

1,368
Total current assets..... 9,026
22,834
Property and equipment, net..... 456
4,975
Acquired intangible assets, net..... 8,751
18,684
Note receivable from officer..... 720
720
Other assets..... --
1,250
Total assets..... $ 18,953 $
48,463

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:
Borrowings under line of credit..... $ -- $
5,530
Accounts payable..... 772
3,223
Accrued payroll and related liabilities..... 800
3,955
Other accrued liabilities..... 1,032
5,992
Accrued sales tax..... 949
1,410
Royalties payable..... 777
976
Deferred revenue..... 2,146
6,052
Current portion of notes payable and capital lease obligations..... 40
25,714
Total current liabilities..... 6,516
52,852
Notes payable and capital lease obligations..... 4,287
52,361
Commitments.....
Series B redeemable convertible preferred stock, $0.001 par value:
Authorized shares--20,000,000
Issued and outstanding shares--6,060,000 at January 31, 1996 and 16,347,800 at October 31, 1996, respectively (none pro forma); liquidation preference of $16,965 at October 31, 1996..... 6,112
16,965 $--
Stockholders' equity (deficit):
Series A preferred stock, $0.001 par value..... 11
17 --
Authorized shares--20,000,000
Issued and outstanding shares--11,100,000 at January 31, 1996 and 17,166,000 at October 31, 1996, respectively (none pro forma); liquidation preference of $29,182 at October 31, 1996.....
Common stock, $0.001 par value..... 8
10 47
Authorized shares--80,000,000
Issued and outstanding shares--8,274,000 at January 31, 1996 and 10,347,750 at October 31, 1996, respectively.....
Additional paid-in capital..... 20,355
32,223 49,168
Notes receivable from stockholders..... (544)
(544) (544)
Deferred compensation..... --
(906) (906)
Cumulative translation adjustment..... --
(1) (1)
Accumulated deficit..... (17,792)

(104,514)	(104,514)		
Stockholders' equity (deficit)		2,038	
(73,715)	$(56,750)		
Total liabilities and stockholders' equity (deficit)		$ 18,953	$
48,463			

See accompanying notes.

Bea Systems, Inc.

Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)

				NINE MONTHS ENDED
	YEAR ENDED			
	JANUARY 31,	OCTOBER 31,		OCTOBER 31,
	1996	1995		1996
		(UNAUDITED)		
Revenues:				
License	$ 3,569	$ 524	$	26,855
Service	1,564	230		9,494
Total revenues	5,133	754		36,349
Cost of revenues:				
License	1,929	324		7,655
Service	775	163		4,843
Total cost of revenues	2,704	487		12,498
Gross margin	2,429	267		23,851
Operating expenses:				
Research and development	3,244	531		12,781
Sales and marketing	2,572	973		20,814
General and administrative	3,058	796		9,019
Write-off of in-process research and development	11,194	6,060		62,248
Total operating expenses	20,068	8,360		104,862
Income (loss) from operations	(17,639)	(8,093)		(81,011)
Interest expense	89	21		4,941

Other income (expense)	48	5	95
Income (loss) before income taxes	(17,680)	(8,109)	(85,857)
Provision for income taxes	60	--	300
Net income (loss)	$ (17,740)	$ (8,109)	$ (86,157)
Pro forma net income (loss) per share	$ (0.58)		$ (1.72)
Shares used in computing pro forma net income (loss) per share	30,385		50,107

See accompanying notes.

BEA SYSTEMS, INC. CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) YEAR ENDED JANUARY 31, 1996 AND NINE MONTHS ENDED OCTOBER 31, 1996

(In Thousands, Except Shares)

	SERIES B REDEEMABLE CONVERTIBLE PREFERRED STOCK		STOCKHOLDERS' EQUITY (DEFICIT)					
			SERIES A PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT		
Issuance of common stock	--	$--	--	$--	8,000,000	$ 8	$ 1,446	$ --
Exercise of stock options	--	--	--	--	100,000	--	1	--
Issuance of preferred stock	--	--	11,100,000	11	--	--	18,859	--
Issuance of Series B redeemable convertible preferred stock	6,060,000	6,060	--	--	--	--	--	--
Accretion of cumulative dividends on Series B redeemable convertible preferred stock	--	52	--	--	--	--	--	(52)
Issuance of common stock for services	--	--	--	--	174,000	--	49	--
Net loss	--	--	--	--	--	--	--	(17,740)
Balance at January 31, 1996	6,060,000	6,112	11,100,000	11	8,274,000	8	20,355	(17,792)
Issuance of preferred stock	--	--	6,066,000	6	--	--	10,306	--
Issuance of common stock	--	--	--	--	2,000,000	2	568	--

Exercise of stock options.....	--	--	--	--	3,750	--	1	--
Issuance of Series B redeemable convertible preferred stock.....	10,287,800	10,288	--	--	--	--	--	--
Accretion of cumulative dividends on Series B redeemable convertible preferred stock.....	--	565	--	--	--	--	--	(565)
Issuance of common stock for services.....	--	--	--	--	70,000	--	20	--
Deferred compensation related to grant of stock options....	--	--	--	--	--	--	973	--
Amortization of deferred compensation.....	--	--	--	--	--	--	--	--
Translation adjustment.....	--	--	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--	(86,157)
Balance at October 31, 1996...	16,347,800	$16,965	17,166,000	$17	10,347,750	$10	$32,223	$(104,514)

	STOCKHOLDERS' EQUITY (DEFICIT)			
	NOTES RECEIVABLE FROM STOCKHOLDERS	DEFERRED COMPENSATION	CUMMULATIVE TRANSLATION ADJUSTMENT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Issuance of common stock.....	$(544)	$--	--$	$ 910
Exercise of stock options.....	--	--	--	1
Issuance of preferred stock...	--	--	--	18,870
Issuance of Series B redeemable convertible preferred stock.....	--	--	--	--
Accretion of cumulative dividends on Series B redeemable convertible preferred stock.....	--	--	--	(52)
Issuance of common stock for services.....	--	--	--	49
Net loss.....	--	--	--	(17,740)
Balance at January 31, 1996...	(544)	--	--	2,038
Issuance of preferred stock...	--	--	--	10,312
Issuance of common stock.....	--	--	--	570
Exercise of stock options.....	--	--	--	1
Issuance of Series B redeemable convertible preferred stock.....	--	--	--	--
Accretion of cumulative dividends on Series B redeemable convertible preferred stock.....	--	--	--	(565)
Issuance of common stock for services.....	--	--	--	20
Deferred compensation related to grant of stock options....	--	(973)	--	--
Amortization of deferred compensation.....	--	67	--	67
Translation adjustment.....	--	--	(1)	(1)

Net loss.....	--	--	--	(86,157)
Balance at October 31, 1996...	$(544)	$(906)	$(1)	$ (73,715)

See accompanying notes.

Bea Systems, Inc.

Consolidated Statements of Cash Flows

(In Thousands)

	PERIOD FROM INCORPORATION (JANUARY 20, 1995) TO		
	NINE MONTHS		
	ENDED		
	JANUARY 31, 1996	OCTOBER 31, 1995	OCTOBER 31, 1996
		(UNAUDITED)	
OPERATING ACTIVITIES			
Net loss.....	$ (17,740)	$ (8,109)	$ (86,157)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	39	12	1,226
Amortization of deferred compensation.....	--	--	67
Amortization of intangible assets acquired and write-off of in-process research and development.....	12,302	6,223	67,689
Issuance of note for compensation.....	1,429	--	--
Issuance of common stock for services.....	49	--	20
Changes in assets and liabilities:			
Interest accrued.....	89	--	254
Accounts receivable.....	(1,510)	(329)	(9,526)
Prepaid expenses and other current assets.....	(576)	(44)	375
Note receivable from officer.....	(720)	--	--
Other assets.....	--	--	(1,250)
Accounts payable.....	772	329	1,976
Accrued payroll and related liabilities.....	80	(232)	3,155
Other accrued liabilities.....	(4,261)	(1,670)	(867)
Accrued sales tax.....	949	600	461

Royalties payable	777	--	199
Deferred revenue	2,146	349	3,093
Net cash used in operating activities	(6,175)	(2,871)	(19,285)
INVESTING ACTIVITIES			
Acquisition of property and equipment	(67)	(105)	(3,200)
Acquisition of businesses, net of cash acquired	(15,050)	(8,140)	(2,348)
Net cash provided by (used in) investing activities	(15,117)	(8,245)	(5,548)
FINANCING ACTIVITIES			
Borrowings under line of credit	--	--	5,530
Repayment of principal on notes payable and capital lease obligations	--	--	(4,788)
Proceeds from issuance of common and preferred stock	25,841	21,340	21,171
Net cash provided by financing activities	25,841	21,340	21,913
Net increase (decrease) in cash and cash equivalents	4,549	10,224	(2,920)
Cumulative translation adjustment	--	--	(1)
Cash and cash equivalents at beginning of period	--	--	4,549
Cash and cash equivalents at end of period	$ 4,549	$ 10,224	$ 1,628
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period for interest	$ --	$ --	$ 4,325
Incurrence of capital lease obligations related to acquisition of equipment	$ --	$ --	$ 981
Notes issued to acquire businesses	$ 4,262	$ --	$ 77,301

See accompanying notes.

Bea Systems, Inc.

Notes to Consolidated Financial Statements

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

1. Organization and Summary of Significant Accounting Policies

Description of Business

BEA Systems, Inc. (the "Company" or "BEA"), a Delaware corporation, was incorporated on January 20, 1995. The Company designs, develops, markets, and supports the BEA Enterprise Transaction Framework, an integrated middleware software platform for building, deploying, and managing distributed mission-critical computer software applications. In addition to its software products, the Company provides customer solutions through a range of professional services offerings.

Basis of Presentation

On September 30, 1995, the Company acquired all of the shares of Information Management Company ("IMC") for approximately $12,551,000. The transaction was recorded using the purchase method of accounting. Accordingly, a new basis of accounting was established based on the purchase price. See Note 2.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. Operations of businesses acquired and accounted for as a purchase are consolidated as of the date of acquisition. The Company had no operating activity from inception through January 31, 1995. Accordingly, operating results for the year ending January 31, 1996 reflect the period from incorporation (January 20, 1995) to January 31, 1996.

The Company has incurred operating losses to date and incurred a net loss of approximately $86.2 million for the nine months ended October 31, 1996. At October 31, 1996, the Company had a stockholders' deficit of approximately $73.7 million and current liabilities exceeded current assets by approximately $30.0 million. The majority shareholder of the Company has guaranteed certain payment obligations of the Company as discussed in Note 6. In addition, in January 1997, the Company received a $10,000,000 unsecured line of credit from its majority shareholder. The Company

anticipates additional equity funding will be needed to finance expected operations in the fiscal year ending January 31, 1998 and for existing obligations. If such additional equity funding is not available, management believes, based on anticipated operations, that available resources combined with the majority shareholder line of credit and debt guaranty will provide sufficient resources to enable the Company to meet its obligations through at least January 31, 1998. If anticipated operations are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures so as not to require additional financial resources if such resources were not available.

Use of Estimates

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

Concentration of Credit Risk

The Company sells its products to customers, typically large corporations, in a variety of industries in North America, Europe, and Asia/Pacific. The Company performs ongoing credit evaluations of its

customers and generally does not require collateral. The Company maintains reserves for estimated credit losses and such losses have been within management's expectations.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the local currency of the respective subsidiary. The Company translates the assets and liabilities, revenues and expense of its foreign subsidiaries to U.S. dollars at the rates of exchange in effect at the beginning of the period. Gains and

losses from currency translation are included in stockholders' equity. Currency transaction gains or losses are recognized in current operations and have not been significant to the Company's operating results in any period.

Interim Financial Information

The consolidated statements of operations and cash flows for the period from incorporation to October 31, 1995 are unaudited but include all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of its operating results and cash flows for the period. Results for the interim periods are not necessarily indicative of results for the entire year.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with insignificant interest rate risk and maturities of three months or less at the date of purchase.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives ranging from three to five years. Assets under capital leases and leasehold improvements are amortized over the shorter of the asset life or the remaining lease term. The related amortization expense is included in depreciation expense.

Intangible Assets

Intangible assets consist of developed technology, distribution rights, trademarks and tradenames and goodwill related to acquisitions accounted for by the purchase method. See Note 2. Amortization of these purchased intangibles is provided on the straight-line basis over the respective useful lives of the assets ranging from thirty months for developed technology and distribution rights to sixty months for trademarks and tradenames and goodwill. Acquired in-process research and development without alternative future use is expensed as incurred.

Fair Value of Financial Instruments

The estimated fair value amounts discussed below have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The Company maintains its cash and cash equivalents principally with major banks. At January 31, 1996 and October 31, 1996, the Company had $4.0 million and $19,000, respectively, of cash and cash equivalents invested in money market mutual funds which invest in various short-term corporate debt instruments and U.S. Treasury bills. As such, the carrying value of these investments by the Company approximate their market value, and therefore, no unrealized gains or losses exist at this date.

At October 31, 1996, the carrying value of notes receivable from stockholders approximates their fair value. The fair values of notes receivable from stockholders are estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

The fair value of short-term and long-term debt is estimated based on current interest rates available to the Company for debt instruments with similar terms, the degree of risk, and remaining maturities. The carrying values of the loans approximate their respective fair values.

Product Concentration

The Company currently derives the majority of its revenue from the licensing of products in its BEA TUXEDO product line and fees from related services. These products and services are expected to continue to account for the majority of the Company's revenue for the foreseeable future. Furthermore, under the terms of its agreement with Novell, the Company is obligated to make certain payments to Novell through January 1999 as discussed in Note 6 to acquire perpetual rights to the TUXEDO product. Failure by the Company for any reason to make these payments could terminate the Company's continuing rights to BEA TUXEDO. Consequently, a reduction in demand for, or an increase in competition on these products, or a decline in sales of such products, would adversely affect operating results.

Revenue Recognition

The Company recognizes revenues in accordance with American Institute of Certified Public Accountants Statement of Position 91-1, SOFTWARE REVENUE RECOGNITION. Revenues from software license agreements are recognized at the time of product shipment, provided there are no vendor obligations remaining to be fulfilled and collectibility is probable. Ongoing License royalties are recognized on an as-reported basis by the Company's licensees.

Service revenues include consulting services, post-contract customer support and training. Consulting revenues and the related cost of these revenues are generally recognized on a time and materials basis; however, revenue from certain fixed price contracts are recognized on the percentage of completion basis, which involves the use of estimates. Actual results could differ from those estimates and, as a result, future profitability on such contracts may be more or less than planned. The amount of consulting contracts recognized on a percentage of completion basis has not been material to date. Post-contract customer support revenues are recognized ratably over the term of the support period (generally one year), and training and other service revenues are recognized as the related services are

provided. The unrecognized portion of amounts paid in advance for licenses and services is reported as deferred revenues.

Research and Development

Research and development expenditures are generally charged to operations as incurred. Statement of Financial Accounting Standards No. 86, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED OR OTHERWISE MARKETED, requires the capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model. Costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly, the Company has charged all such costs to research and development expense in the period incurred.

Stock-based Compensation

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION ("FAS 123") that also is effective for the Company's 1996 fiscal year. FAS 123 allows companies that have stock-based compensation arrangements with employees to adopt a new fair-value basis of accounting for stock options and other equity instruments, or to continue to apply the existing accounting rules under APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES ("APB 25"), but with additional financial statement disclosure. The Company has continued to account for stock-based compensation arrangements under APB 25; therefore, FAS 123 did not have a material impact on its financial position, results of operations or cash flows.

Net Loss Per Share

Except as noted below, historical net loss per share is computed using the weighted average number of common shares outstanding. Common equivalent shares from common stock options and convertible preferred stock are excluded from the computation as their effect is antidilutive, except that, pursuant to the Securities and Exchange Commission ("SEC") Staff Accounting Bulletins, common and common equivalent shares issued during the period commencing twelve months prior to the initial filing of a proposed public offering at prices below the assumed 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 offering price per share for stock options and the if-converted method for preferred stock). Per share information calculated on the above noted basis is as follows:

	YEAR ENDED JANUARY 31, 1996	NINE MONTHS ENDED	
		OCTOBER 31, 1995 (UNAUDITED)	OCTOBER 31, 1996
Net loss per share	$(0.76)	$(0.37)	$(3.11)
Shares used in calculating net loss per share (in thousands)	23,418	22,214	27,907

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Pro forma net loss per share has been computed as described above and also gives effect, pursuant to SEC policy, to common equivalent shares from convertible preferred stock issued more than twelve months from the proposed initial public offering that will automatically convert upon completion of the Company's initial public offering (using the if-converted method) from the original date of issuance.

2. Business Combinations and Technology Acquisitions

Acquisition of Information Management Company

On September 30, 1995, the Company acquired 100% of the outstanding shares of Information Management Company ("IMC"). The aggregate purchase price (including direct acquisition costs) was approximately $12,551,000 and consisted of cash, assumption of certain liabilities and issuance of notes payable to the founders of IMC. The Company has accounted for the acquisition using the purchase method, and the results of operations of IMC are included in the Company's operations since acquisition.

The following is a summary of the purchase price allocation (IN THOUSANDS):

Current assets and other tangible assets	$ 1,438
Acquired in-process research and development	5,200
Developed technology	4,780
Trademarks and tradenames	200
Goodwill	933
	$ 12,551

Acquisition of Information Technologies, Inc.

On November 2, 1995, the Company acquired 100% of the outstanding shares of Independence Technologies, Inc. ("ITI"). The aggregate purchase price (including direct acquisition costs) was approximately $10,761,000 and consisted of cash and assumption of certain liabilities. The Company has accounted for the acquisition using the purchase method, and the results of operations of ITI are included in the Company's operations since acquisition.

The following is a summary of the purchase price allocation (IN THOUSANDS):

Current assets and other tangible assets	$ 1,681
Acquired in-process research and development	5,134
Developed technology	3,946
	$ 10,761

Acquisition of Tuxedo Product Line

On February 23, 1996, the Company entered into a license agreement with Novell, Inc. ("Novell") and acquired exclusive rights to distribute and make enhancements to Novell's TUXEDO product on UNIX, Windows NT, and all non-NetWare platforms. In addition, the Company has assumed Novell's

2. BUSINESS COMBINATIONS AND TECHNOLOGY ACQUISITIONS (CONTINUED) obligations and rights under all contracts with TUXEDO partners, distributors and customers, and has exclusive rights to the TUXEDO trademark. The aggregate purchase price (including direct acquisition costs) was approximately $78,202,000 and consists primarily of a note payable to Novell with fixed payment terms. See Note 6.

The following is a summary of the purchase price allocation (IN THOUSANDS):

Receivables and other tangible assets	$ 4,270
Acquired in-process research and development	60,948
Developed technology	9,825
Trademarks and tradenames	3,159
	$ 78,202

Acquisition of Usl Finance, S.a., a French Corporation

On May 5, 1996, the Company acquired 100% of the outstanding shares of USL Finance, S.A. ("USL"), a distributor of BEA TUXEDO in France. The aggregate purchase price (including direct acquisition costs) was approximately $8,732,000 and consisted of cash and assumption of certain liabilities. The Company has accounted for the acquisition using the purchase method, and the results of operations of USL are included in the Company's operations since acquisition.

The following is a summary of the purchase price allocation (IN THOUSANDS):

Current assets and other tangible assets	$ 6,060
Distribution rights	2,672
	$ 8,732

Acquisition of Client Server Technologies, Oy, a Finnish Corporation

On June 12, 1996, the Company acquired 100% of the outstanding shares in Client Server Technologies, OY ("CST"), a distributor of BEA TUXEDO in Finland. The aggregate purchase price (including direct acquisition costs) was approximately $3,230,000 and consisted of cash and assumption of certain liabilities. The Company has accounted for the acquisition using the purchase method, and the results of operations of CST are included in the Company's operations since acquisition.

The following is a summary of the purchase price allocation (IN THOUSANDS):

Current assets and other tangible assets	$ 1,483
In-process research and development	1,300
Distribution rights	389
Trademarks and tradenames	58
	$ 3,230

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

2. BUSINESS COMBINATIONS AND TECHNOLOGY ACQUISITIONS (CONTINUED) The following unaudited pro forma summary represents the consolidated results of operations of the Company as if the acquisitions of IMC, ITI, TUXEDO, USL France and CST had occurred at the beginning of the periods presented and does not purport to be indicative of what would have occurred had the acquisitions been made as of those dates or the results which may occur in the future.

	YEAR ENDED JANUARY 31, 1996	FOR THE NINE MONTHS ENDED OCTOBER 31, 1996
	(UNAUDITED, IN THOUSANDS)	
Pro forma net revenues	$ 33,561	$ 37,366
Pro forma net loss	$ (6,232)	$ (24,231)
Pro forma net loss per share	$ (.21)	$ (.48)

The pro forma results include the historical operations of the Company and the historical operations of the acquired businesses adjusted to reflect the amortization of the excess purchase prices and an increase in interest expense resulting from additional debt used to finance the acquisitions. The pro forma results do not include the write-offs of in-process research and development relating to the business acquisitions or an extraordinary gain relating to the forgiveness of debt, which was recorded in the historical operations of IMC, since they are considered material non-recurring charges. The pro forma results do not include any adjustments for the Company's proposed initial public offering or other management adjustments.

Other

On August 1, 1995, the Company purchased certain technology of VI Systems, Inc. for $860,000 in cash. The entire purchase price has been charged to acquired in-process research and development on the date of acquisition as substantially all of the technology was to be incorporated in products under development and had no alternative future use.

3. Acquired Intangible Assets

Values assigned to acquired in-process research and development, distribution rights, developed technology, and trademarks and tradenames were generally determined by independent appraisals using discounted cash flow analysis. To determine the value of the in-process research and development, the Company considered, among other factors, the state of development of each project, the time and cost needed to complete each project, expected income, and associated risks which included the inherent difficulties and uncertainties in completing the project and thereby achieving technological feasibility and risks related to the viability of and potential changes to future target markets. This analysis results in amounts assigned to in-process research and development projects that had not yet reached technological feasibility (as defined and utilized by the Company in assessing software capitalization) and does not have alternative future uses. To determine the value of the distribution rights, the Company considered, among other factors, the size of the current and potential future customer base, quality of existing relationships with customers, the expected income, and associated risks.

3. ACQUIRED INTANGIBLE ASSETS (CONTINUED) Associated risks included the inherent difficulties and uncertainties in transitioning the business relationships from the acquired entity to the Company, and risks related to the viability of and potential changes to future target markets. To determine the value of the developed technology, the expected future cash flows of each existing technology product were discounted taking into account risks related to the characteristics and applications of each product, existing and future markets, and assessments of the life cycle stage of each product. Based on this analysis, the existing technology that had reached technological feasibility was capitalized.

	JANUARY 31, 1996	OCTOBER 31, 1996
	(IN THOUSANDS)	
Developed technology and distribution rights	$ 8,726	$ 21,612
Trademarks and tradenames	200	3,417
Goodwill	933	933
	9,859	25,962
Accumulated amortization	(1,108)	(7,278)
Acquired intangible assets, net	$ 8,751	$ 18,684

4. Property and Equipment

Property and equipment consist of the following (IN THOUSANDS):

	JANUARY 31, 1996	OCTOBER 31, 1996
Computer equipment	$ 384	$ 2,354
Software	4	932
Furniture and fixtures	48	844
Vehicles and other	37	85
Leasehold improvements	22	1,044
Equipment under capital leases	--	981
	495	6,240
Accumulated depreciation and amortization	(39)	(1,265)
	$ 456	$ 4,975

There was no accumulated amortization on equipment under capital leases at October 31, 1996 as such assets were added under the lease arrangement in October, 1996.

5. Other Assets

Included in other assets at October 31, 1996 is $1,250,000 invested in bank certificates of deposit (CDs) at interest rates ranging from 3.90% to 4.25%. The CDs' support letters of credit that are required as a security deposits by certain of the Company's facilities leases and other credit arrangements.

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

6. Line of Credit, Notes Payable and Capital Lease Obligations

Line of Credit

At October 31, 1996, the Company had borrowed $5.5 million pursuant to a revolving line of credit with a commercial lender. The maximum credit available is $10,000,000 and borrowing availability is based on a percentage of certain accounts receivable. Additional borrowings available under the line totaled $1.0 million at October 31, 1996. The credit arrangement bears interest adjusted monthly at the LIBOR plus 5.125% (10.39% in aggregate at October 31, 1996) and is secured by substantially all assets of the Company. In addition, the loan agreement prohibits the Company from paying dividends without the lender's approval. The credit agreement has a maturity date of April, 1997 and shall automatically renew thereafter for additional one-year terms unless the Company or the lender elects to terminate the agreement. The credit arrangement was not in place at January 31, 1996.

Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of the following:

	JANUARY 31, 1996	OCTOBER 31, 1996
	(IN THOUSANDS)	

Subordinated notes payable to founders of IMC bearing interest at 8%. Principal and interest is payable upon the earlier of a successfully completed public offering generating net proceeds of at least $20,000,000 or September 2000. Accrued interest of $89 and $343 is included at January 31, 1996 and October 31, 1996, respectively..... $ 4,248 $ 4,502 Note payable to Novell with interest imputed at 8%. The note is due in quarterly installments of various amounts totalling $68,550,000, which are guaranteed by the majority shareholder of the Company, with a final payment of $12,000,000 due in January 1999 upon the Company's exercise of an option to purchase perpetual rights..... -- 72,461 Other notes payable, bearing interest ranging from 9%-12% per annum, payable in installments through October 31, 1997..... 79 131 Capital lease obligations..... -- 981 4,327 78,075 Less amounts due within one year..... (40) (25,714) Long-term debt and capital obligations due after one year..... $ 4,287 $ 52,361

6. LINE OF CREDIT, NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS (CONTINUED) NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS (CONTINUED) Scheduled maturities of notes payable and capital lease obligations are as follows:

	CAPITAL LEASES OBLIGATIONS	NOTES PAYABLE (IN THOUSANDS)
Fiscal year ending January 31,		
1997 (three months)	$ 2,561	$ 95
1998	27,338	365
1999	42,693	365
2000	4,502	439
Total	$ 77,094	1,264
Less amount representing interest		(283)
Present value of net minimum lease payments		981
Less current portion		

(253)	
Noncurrent obligations under capital leases	$ 728

The Company has available capital lease lines totaling $1,020,000 at October 31, 1996, which availability expires June 30, 1997.

7. Notes Receivable from Shareholders

In September 1995, the Company issued 3,050,000 shares of common stock to certain officers in exchange for, in aggregate, cash of $325,000 and notes receivable of $544,250. The notes bear interest at 7% compounded semi-annually and are due upon the earlier of September 28, 2000 or on thirty days or one year after termination, depending upon the circumstances of the termination.

In December 1995, the Company loaned $720,000 to an officer and founder of the Company for the financing of real property. The note receivable, which is secured by a deed of trust on the real property, bears interest at 7% per annum and is due and payable on the earlier of January 1, 2001 or eight months subsequent to the closing of an underwritten public offering of the Company's common stock where the gross proceeds are $10,000,000 and the offering price is at least $5 per share. The note may be repaid at any time prior to the due date.

8. Lease Commitments

The Company leases its facilities under operating lease arrangements. Certain of the leases provide for certain specified annual rent increases. Approximate annual minimum lease commitments are as follows:

OPERATING LEASE OBLIGATIONS (IN THOUSANDS)

Fiscal year ending January 31,	
1997 (three months)	$ 791
1998	2,808
1999	2,573
2000	2,446
2001	1,605
Thereafter	9,906
Total minimum lease payments	$ 20,129

Total rental expense charged to operations for the periods from incorporation to January 31, 1996 and October 31, 1995 and for the nine months ended October 31, 1996 was approximately $184,000, $75,000, and $2.2 million, respectively.

9. Income Taxes

The provisions for income taxes of $60,000 and $300,000 for the periods ended January 31 and October 31, 1996, respectively, represent foreign withholding taxes for which no U.S. tax benefit is currently recognizable.

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rate (34%) to income tax expense is as follows (in thousands):

	JANUARY 31, 1996	OCTOBER 31, 1996
Tax at U.S. statutory rate	$ (6,011)	$ (29,192)
Nondeductible amortization of intangibles	1,770	11,478
Valuation Allowance	4,241	17,714
Foreign withholding taxes	60	300
	60	300

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax

9. INCOME TAXES (CONTINUED) purposes. Significant components of the Company's deferred tax assets for federal and state income taxes are as follows (in thousands):

	JANUARY 31, 1996	OCTOBER 31, 1996
Deferred tax assets:		
Net operating loss carryforwards	$ 1,545	$ 7,476
Deferred revenue	468	562
Accruals and reserves	580	368
Property and equipment and intangibles	2,549	18,727
Total deferred tax assets	5,142	27,133
Valuation allowance	(5,142)	(27,133)
Net deferred tax assets	$ --	$ --

Realization of deferred tax assets is dependent on future earnings, the timing and amount of which are uncertain. Accordingly, a valuation allowance, in an amount equal to the net deferred tax assets at January 31 and October 31, 1996, has been established to reflect these uncertainties. The valuation allowance increased by $21,991,000 in the period ended October 31, 1996.

As of January 31 and October 31, 1996, the Company had net operating loss carryforwards for federal tax purposes of approximately $4,100,000 and $20,000,000, respectively, that will expire from 2010 through 2011. The Company also has state net operating loss carryforwards at January 31 and October 31, 1996 of approximately $2,300,000 and $9,600,000, respectively, expiring from 2000 through 2001. Utilization of net operating loss carryforwards may be subject to substantial limitations due to the ownership change and other limitations provided by the Internal Revenue Code and similar state provisions. These limitations may result in the expiration of net operating loss carryforwards before full utilization.

10. Series B Redeemable Convertible Preferred Stock

Holders of Series B Redeemable Convertible Preferred Stock (the "Series B Stock") are entitled to annual dividends, when and if declared by the Board of Directors, of $0.07 per share, payable prior and in preference to any declaration or payment of any dividend on the Series A Convertible Preferred Stock (the "Series A Stock") and the Common Stock. The right to receive such dividends are cumulative and will accrue to the extent that such dividends are not declared or paid in any year. No dividends have been declared or paid by the Company on the Series B Stock. Total accumulated dividends on the Series B Stock were approximately $617,200 at October 31, 1996.

In the event of liquidation of the Company, holders of Series B Stock are entitled to receive a liquidation preference of $1.00 per share, plus all accumulated but unpaid dividends, prior and in preference to any payments made to holders of Series A Stock and common stock. The Series B Stock carries no voting rights.

Each share of Series B Stock is convertible, at the option of the holder, into that number of shares of common stock obtained by dividing the amount payable to such holder in the event of liquidation by the

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

10. SERIES B REDEEMABLE CONVERTIBLE PREFERRED STOCK (CONTINUED) fair value of the Company's common stock, as determined by the Board of Directors, or, in the event of a conversion in connection with an initial public offering, by the per share initial public offering price, net of underwriting commissions.

Each holder of Series B Stock has the right, exercisable at any time following September 30, 2001, to require the Company to redeem all or a portion of such holder's Series B Stock for $1.00 per share, plus accumulated and unpaid dividends (the "Redemption Price"). However, upon the closing of an initial public offering of the Company's common stock at an offering price of not less than $5.00 per share and gross proceeds to the Company of at least $10,000,000, each share of Series B Stock will be redeemed for the Redemption Price unless converted, at the option of the holder, into shares of common stock of the Company. Additionally, the Company may, at its option, redeem at any time any or all of the outstanding shares of the Series B Stock at the Redemption Price.

11. Stockholders' Equity

Convertible Preferred Stock

Series A Stock holders are entitled to noncumulative annual dividends, when and if declared by the Board of Directors, of $0.12 per share, payable in preference to common stock dividends, but after all cumulative dividends payable with respect to the Series B Stock have been declared and paid. No dividends have been declared or paid by the Company on the Series A Stock.

In the event of liquidation of the Company, Series A Stock holders are entitled to receive a liquidation preference of $1.70 per share, plus all declared but unpaid dividends, after payment of the full liquidation preference has been made on the Series B Stock prior and in preference to any payments made to holders of common stock.

Each share of Series A Stock votes equally with shares of common stock on an "if-converted" basis. Each share of Series A Stock is convertible at any time at the option of the shareholder into two shares of common stock. The conversion ratio is subject to upward adjustment upon the occurrence of certain events. Upon conversion, all declared and unpaid dividends will be paid in cash. Each share of Series A Stock automatically converts into common stock at the then-effective conversion rate in the event of

an underwritten initial public offering of the Company's common stock at an offering price of not less than $5.00 per share and gross proceeds to the Company of at least $10,000,000, or upon the written consent of two-thirds of the then outstanding Series A Stock.

Common Stock Repurchase Rights

The Company has stock repurchase agreements with certain individuals whereby, if the stockholder ceases to be a consultant or employee of the Company, the Company has the right to repurchase the stock at the original issuance price. Such repurchase rights generally lapse over four to five years from the original date of issuance. Certain of the repurchase rights lapse upon the successful completion of an initial public offering. Common stock subject to repurchase totaled 6,057,231 shares with an aggregate repurchase price of $7,836,000 as of October 31, 1996. Series A Stock subject to repurchase at October 31, 1996 was 95,833 shares at an aggregate price of $163,000.

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

11. Stockholders' Equity (Continued) Common Stock Reserved for Future Issuance

At October 31, 1996, the Company had reserved shares of common stock for future issuance as follows:

Conversion of Series A convertible preferred stock..... 34,332,000 1995 Stock Option Plan..... 9,252,250 In addition, the Company has reserved sufficient shares of common stock for the conversion of Series B redeemable convertible preferred stock.

Stock Option Plan

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FAS 123, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded.

The fair value option valuation models were developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly speculative assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Pro forma information regarding net income and earnings per share is required by FAS 123 which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a minimum value-pricing model with a risk free interest rate of 5.0% and no dividend yields. The effect of applying the minimum value method to the stock option activity did not result in pro forma net loss and loss per share that are materially different from historical amounts reported. Therefore, such pro forma information is not separately presented herein. Future pro forma net income or loss and earnings or loss per share may be materially different from actual amounts reported.

The Company's 1995 Flexible Stock Incentive Plan (the "Plan") provides for the grant of incentive and nonstatutory stock options, as determined by the Board of Directors. Options are generally granted at an exercise price of not less than the fair value per share of the common stock on the date of grant. The vesting and exercise provision are determined by the Board of Directors with a maximum term of ten years. Options granted under the Plan are immediately exercisable and generally vest over a four-year period with 25% vesting after one year and 2.08% each month thereafter. Unvested shares are subject to repurchase by the Company. There were 494,425 shares vested at October 31, 1996, at an average exercise price of $0.285. At October 31, 1996, 2,909,250 shares of common stock were reserved for future grants under the Plan. The Plan also provides for the sale or bonus of common stock to eligible

11. STOCKHOLDERS' EQUITY (CONTINUED) individuals in connection with the performance of services for the Company. During the year ended January 31, 1996 and the nine months ended October 31, 1996, the Company issued under the Plan 174,000 and 70,000 shares of Common Stock, respectively, as payment for services.

Information with respect to option activity in the Plan is summarized as follows:

	OPTIONS OUTSTANDING	PRICE PER SHARE	WEIGHTED AVERAGE PRICE
Balance at January 20, 1995	--	$ --	
Granted	2,344,200	$.01 - $.285	$ 0.273
Exercised	(100,000)	$0.01	$ 0.010
Balance at January 31, 1996	2,244,200	$ 0.285	
Granted	4,086,550	$0.285	$ 0.285
	186,750	$1.000	$ 1.000
	235,500	$2.000	$ 2.000
Exercised	(3,750)	$0.285	$ 0.285
Forfeited	(406,250)	$0.285	$ 0.285
Balance at October 31, 1996	6,343,000		$ 0.382

The assumed weighted average contribution life of options at October 31, 1996 is as follows:

PRICE PER SHARE	OUTSTANDING OPTIONS WEIGHTED AVERAGE CONTRIBUTION LIFE MONTHS
$0.285	48
$1.00	48
$2.00	48

The Company has recorded deferred compensation of $973,000 for the difference between the grant price and the deemed fair value of certain of the Company's common stock options granted in the period ended October 31, 1996. This amount is being amortized over the vesting period of the individual options, generally four years. Compensation expense recognized in the period ended October 31, 1996 totaled $67,000 and at October 31, 1996, deferred compensation totaled $906,000.

Unaudited Pro Forma Stockholders' Equity

Unaudited pro forma stockholders' equity at October 31, 1996 gives effect to the conversion of all shares of Series A Stock into common stock upon the close of the Company's initial public offering, as well as all shares of Series B Stock, based on an assumed initial public offering price, as the holder has indicated intent to convert such shares upon the close of the Company's initial public offering.

12. Industry and Geographic Segment Information

The Company operates in one industry segment (the development and marketing of computer software and related services) and markets its products and services internationally through subsidiaries in Europe and Asia, and through independent distributors and resellers located worldwide. Export sales totaled $2.6 million for the year ended January 31, 1996 and $3.2 million for the nine months ended October 31, 1996. Transfers between geographic areas are accounted for at estimated amounts which are generally above cost. Such transfers are eliminated in the consolidated financial statements. Identifiable assets are those assets that can be directly associated with a particular geographic area. The following is a summary of operations within geographic areas.

	YEAR ENDED JANUARY 31, 1996	NINE MONTHS ENDED OCTOBER 31, 1996
Revenues from unaffiliated customers		
United States	$ 4,568	$ 25,201
Europe	565	10,655
Asia and other	--	493
Total revenues	$ 5,133	$ 36,349
Income (loss) from operations		
United States	$ (15,639)	$ (77,916)
Europe	(2,000)	(1,620)
Asia and other	--	(1,475)
Total loss	$ (17,639)	$ (81,011)
Identifiable assets		
United States	$ 18,953	$ 51,065
Europe	--	13,092
Asia and other	--	894
Eliminations	--	(16,588)
Total identifiable assets	$ 18,953	$ 48,463

13. Subsequent Events

In January 1997, the Board of Directors authorized management of the Company to file a registration statement with the SEC, offering its common stock to the public.

In January 1997, the Company's Board of Directors adopted, subject to stockholder approval, the 1997 Stock Option Plan under which the Company is authorized to grant up to 2,500,000 stock options with similar terms to the 1995 Flexible Stock Incentive Plan.

In addition, in January 1997, the Company's Board of Directors adopted, subject to stockholder approval, the 1997 Employee Stock Purchase Plan under which an aggregate of 1,250,000 shares of common stock will be reserved.

Bea Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(Information for the Period from Incorporation to October 31, 1995 Is Unaudited)

13. SUBSEQUENT EVENTS (CONTINUED) In January 1997, the majority shareholder of the Company extended a $10 million unsecured line of credit to the Company, borrowing on which bears interest of 8%. The line expires on the earlier of completion of an initial public offering by the Company or July 15, 1998.

In December 1996, the Company acquired 100% of the outstanding stock of Bay Technologies Pty Limited, a distributor of TUXEDO in Australia. The aggregate purchase price totaled $1,000,000 in cash, and the Company is obligated to make certain contingent payments in cash based on future revenues over the next three years.

Report of Ernst & Young Llp, Independent Auditors

The Board of Directors Information Management Company We have audited the accompanying balance sheets of Information Management Company as of December 31, 1994 and September 29, 1995, and the related statements of operations and retained earnings (deficit) and cash flows for the year and nine months then ended, respectively. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Information Management Company at December 31, 1994 and September 29, 1995, and the results of its operations and its cash flows for the year and nine months then ended, respectively, in conformity with generally accepted accounting principles.

Ernst & Young LLP MetroPark, New Jersey January 10, 1997

Information Management Company

Balance Sheets Assets

	DECEMBER 31, 1994	SEPTEMBER 29, 1995
Current assets:		
Cash and cash equivalents	$ 30,783	$ --
Accounts receivable, less allowance for doubtful accounts of $49,000 in 1994 and $200,000 in 1995	1,255,269	1,334,324
Prepaid expenses and other current assets	13,419	47,414
Total current assets	1,299,471	1,381,738
Property and equipment, net	54,936	56,402
	$ 1,354,407	$ 1,438,140
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Cash overdraft	$ --	$ 123,380
Line of credit	--	522,123
Accounts payable	37,223	259,071
Accrued compensation and related payroll liabilities	213,804	107,656
Accrued royalties	310,102	154,545
Accrued sales taxes	350,000	600,000
Other accrued liabilities	55,676	112,298
Deferred revenue	334,126	505,133
Total current liabilities	1,300,931	2,384,206

Commitments

Stockholders' equity (deficit):		
Common stock, no par value, 1,500 shares authorized, issued and outstanding	200	200

Retained earnings (deficit)	53,276	(946,266)
Total stockholders' equity (deficit)	53,476	(946,066)
	$ 1,354,407	$ 1,438,140

See accompanying notes.

Information Management Company

Statements of Operations and Retained Earnings (Deficit)

	YEAR ENDED DECEMBER 31, 1994	NINE MONTHS ENDED SEPTEMBER 29, 1995
Revenues:		
License	$ 4,365,735	$ 2,753,789
Service	1,069,221	1,858,759
Total revenues	5,434,956	4,612,548
Cost of revenues:		
License	1,623,565	734,233
Service	887,296	1,407,760
Total cost of revenues	2,510,861	2,141,993
Gross profit	2,924,095	2,470,555
Operating expenses:		
Research and development	111,504	726,615
Sales and marketing	1,513,185	1,223,783
General and administrative	996,411	1,505,275
Total operating expenses	2,621,100	3,455,673
Income (loss) from operations	302,995	(985,118)
Interest expense	22,634	12,543
Other expense	691	1,881
Net income (loss)	279,670	(999,542)
Retained earnings (deficit) at beginning of period	(226,394)	53,276

Retained earnings (deficit) at end of period	$ 53,276	$ (946,266)

See accompanying notes.

Information Management Company

Statements of Cash Flows

	YEAR ENDED DECEMBER 31, 1994	NINE MONTHS ENDED SEPTEMBER 29, 1995
OPERATING ACTIVITIES		
Net income (loss)	$ 279,670	$ (999,542)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	768	44,746
Changes in assets and liabilities:		
Accounts receivable, net	(1,014,717)	(79,055)
Prepaid expenses and other current assets	14,325	(33,995)
Accounts payable and accrued expenses	26,927	172,322
Deferred revenue	250,276	171,007
Royalties payable	310,102	(155,557)
Sales taxes payable	350,000	250,000
Net cash provided by (used in) operating activities	217,351	(630,074)
INVESTING ACTIVITIES		
Purchases of property and equipment	(47,362)	(46,212)
Net cash used in investing activities	(47,362)	(46,212)
FINANCING ACTIVITIES		
Borrowing under line of credit	1,341,627	1,646,015
Payments on line of credit	(1,481,949)	(1,123,892)
Cash overdraft		123,380
Net cash (used in) provided by financing activities	(140,322)	645,503
Net increase (decrease) in cash and cash equivalents	29,667	(30,783)
Cash and cash equivalents at beginning of period	1,116	30,783

```
Cash and cash equivalents at end of period.....................................   $     30,783    $
--
```

SUPPLEMENTAL CASH FLOW INFORMATION Cash paid during the period for interest..... $ 22,634 $ 12,543 See accompanying notes.

Information Management Company

Notes to Financial Statements

September 29, 1995

1. Organization and Summary of Significant Accounting Policies

Description of Business

Information Management Company (the "Company") was incorporated in the state of Delaware in July 1990 and is located in Liberty Corner, New Jersey. The Company is engaged in providing standards-based, enterprise-wide client/server products and services.

Effective September 30, 1995, the Company was purchased by BEA Systems, Inc. ("BEA"); (see Note 7). The accompanying financial statements have been prepared on the Company's historical cost basis, and do not reflect any adjustments resulting from the acquisition.

Revenue Recognition

Revenues from end user software license agreements are recognized at the time of product shipment, provided there are no vendor obligations remaining to be fulfilled and collectibility is probable. License fees from resellers are also recognized as revenue when the software has been shipped, provided that no significant vendor obligations remain to be fulfilled, certain customer criteria established by the Company have been met, and the fees are payable within twelve months.

Services revenues include consulting services, post-contract customer support, and training. Consulting revenues and the related cost of these revenues are recognized on a time and materials basis. Support revenues are recognized pro rata over the term of the service period and training or other revenues are recognized as the related services are provided. The unrecognized portion of amounts billed or paid in advance for such services is reported as deferred revenues.

Cash Equivalents

The Company considers all highly liquid short-term investments with original maturities of 90 days or less when purchased to be cash equivalents.

Concentration of Credit Risk

The Company sells its products to customers, typically large corporations, in a variety of industries, primarily in North America. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and such losses have been within management's expectations.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the double-declining balance method.

The estimated useful lives used in computing depreciation are as follows:

```
Machinery and equipment.............................  3-5 years
Furniture and fixtures..............................    7 years
Leasehold improvements..............................   10 years
Vehicles............................................    5 years
```

Information Management Company

Notes to Financial Statements (Continued)

September 29, 1995

1. Organization and Summary of Significant Accounting Policies (Continued) Income Taxes

The Company has elected, with the consent of its shareholders, to be treated as an S Corporation under the Internal Revenue Code. The shareholder of an S Corporation includes the Company's income in its own income for income tax purposes. Accordingly, no federal income taxes are provided for in the accompanying financial statements. Effective January 1, 1995, the Company has also elected S Corporation status under the applicable sections of the New Jersey income tax laws.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Research and Development

Research and development expenditures are generally charged to operations as incurred. Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires the capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model. Costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly, the Company has charged all such costs to research and development expenses in the accompanying statements of operations.

Product Concentration

The Company derives the majority of its revenue from the licensing of products in the TUXEDO product line, to which the Company has certain distribution rights from Novell Inc. ("Novell"), and fees from related services. These products and services are expected to continue to account for a majority of the Company's revenue for the foreseeable future. Consequently, a reduction in demand or an increase in competition for these products due to market factors or a decline in sales of such products would affect operating results adversely.

During the year ended December 31, 1994 and the nine months ended September 29, 1995, the amount of royalties due to Novell totalled $982,500 and $687,440, respectively, and are included in cost of sales in the accompanying statements of operations.

2. Transactions with Significant Customers

Customers that comprise greater than 10% of the Company's total revenues in the periods presented are as follows:

	YEAR ENDED DECEMBER 31, 1994	NINE MONTHS ENDED SEPTEMBER 29, 1995
Customer A	22%	10%
Customer B	15%	--
Customer C	--	12%

Revenues generated from these customers were less than 10% of total revenue in the periods where percentages are not shown.

3. Property and Equipment

The components of property and equipment at December 31, 1994 and September 29, 1995 are as follows:

1994 1995

Machinery and equipment	$ 60,012	$ 82,558
Furniture and fixtures	14,486	18,685
Leasehold improvements	9,112	21,578
Vehicles	1,060	8,061
	84,670	130,882
Less accumulated depreciation and amortization	29,734	74,480
	$ 54,936	$ 56,402

4. Line of Credit

In March 1995, the Company entered into an accounts receivable revolving loan facility with a bank with availability up to $750,000 and renewable annually. Borrowings are limited to the borrowing base (as defined); however, the full amount of the facility was available to the Company at September 29, 1995. Advances bear interest at 1.5% above the bank's floating base rate (8% at September 29, 1995), and the Company is required to pay a fee for the unused portion equal to .5%, payable quarterly and calculated monthly. Borrowings under the facility is secured by substantially all assets of the Company and is personally guaranteed by the principal stockholders.

Management estimates that the carrying value of the revolving loan facility approximates its fair value.

During 1994, the Company maintained a line of credit with another bank in the amount of $350,000. This line was increased to $550,000 in January 1995 before it was replaced with the facility discussed above.

5. Leases

The Company leases its operating facility, certain equipment and vehicles under noncancellable operating leases that expire in 1997. The leases provide for all real estate taxes and operating expenses to be paid by the Company. Under the lease of the operating facility, the Company has the option to renew for additional terms at specified rentals. Minimum future rental payments under such leases as of September 29, 1995 are as follows:

Three months ending December 31, 1995	$ 79,851
Year ending December 31, 1996	308,779
Year ending December 31, 1997	178,396
Total minimum future rental payments	$ 567,026

Total rent expense charged to operations was $107,600 and $184,221, during the year ended December 31, 1994 and the nine months ended September 29, 1995, respectively.

6. General and Administrative Expenses

During the nine months ended September 29, 1995, the Company incurred various professional fees in conjunction with negotiations for the sale of the Company to prospective buyers, including BEA (see Note 7). These fees totaled $213,000 for the period and are included in general and administrative expenses in the accompanying statement of operations.

7. Subsequent Event

Effective September 30, 1995, the Company was purchased by BEA, a company which develops and markets middleware solution platforms. The purchase price, excluding liabilities assumed and direct acquisition costs, was $10,010,000 of which $7,280,000 was paid in cash at the closing and

$2,730,000 is payable through the issuance of a subordinated promissory note. The interest rate on this note is 8%.

Report of Ernst & Young Llp, Independent Auditors

The Board of Directors BEA Systems, Inc.

We have audited the accompanying statements of operations and cash flows of Independence Technologies, Inc. for the period from January 1, 1995 to November 1, 1995. These statements of operations and cash flows are the responsibility of BEA Systems, Inc.'s management. Our responsibility is to express an opinion on these statements of operations and cash flows based on our audit.

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

The accompanying statements of operations and cash flows were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the registration statement on Form SB-2 of BEA Systems, Inc. as described in Note 1, and are not intended to be a complete presentation of the financial position and results of operations of Independence Technologies, Inc.

In our opinion, the statements of operations and cash flows referred to above present fairly, in all material respects, the results of operations and cash flow of Independence Technologies, Inc. for the period from January 1, 1995 to November 1, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP San Jose, California January 20, 1997

Independence Technologies, Inc.

Statement of Operations for the Period from January 1, 1995 to November 1, 1995

Revenues:	
License	$ 3,756,574
Service	1,960,103
Total revenues	5,716,677
Cost of revenues:	

License	1,188,482
Service	1,239,911
Total cost of revenues	2,428,393
Gross profit	3,288,284
Operating expenses:	
Research and development	1,493,622
Sales and marketing	1,777,710
General and administrative	1,290,768
Total operating expenses	4,562,100

Loss from operations (1,273,816)

Interest income	15,693
Interest expense	(31,382)

Loss before extraordinary item (1,289,505) Extraordinary item--forgiveness of debt 1,035,000 Net loss $ (254,505) See accompanying notes.

INDEPENDENCE TECHNOLOGIES, INC. STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1, 1995 TO NOVEMBER 1, 1995

Operating Activities

Net loss	$ (254,505)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	365,417
Gain on forgiveness of debt	(1,035,000)
Changes in assets and liabilities:	
Accounts receivable	33,711
Prepaid expenses and other current assets	61,126
Accounts payable	236,063
Accrued liabilities	714,529
Net cash provided by operating activities	121,341
INVESTING ACTIVITIES	
Acquisition of property and equipment	(88,963)
Advances to stockholders	(2,621)
Net cash used in investing activities	(91,584)
FINANCING ACTIVITIES	
Repayments of long-term debt	(14,433)
Payments on capital lease obligations	(13,905)
Net proceeds from issuance of common stock and warrants	48,312
Net cash provided by financing activities	19,974
Net increase in cash	49,731
Cash, beginning of period	250,508
Cash, end of period	$ 300,239
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid during the period for interest	$ 18,216
Conversion of debt to common stock	$ 2,466,536

See accompanying notes.

Independence Technologies, Inc.

Notes to Statements of Operations and Cash Flows

For the Period from January 1, 1995 to November 1, 1995

1. Organization and Summary of Significant Accounting Policies

Description of Business

Independence Technologies, Inc. (the "Company") which was incorporated in July 1988 provides object-oriented software, programming products, and consulting services primarily for large, distributed on-line transaction processing applications based on the UNIX operating system. The Company also acts as a distributor of certain third party software products.

Basis of Presentation

On November 1, 1995, the Company was acquired by Information Management Company ("IMC"), a wholly owned subsidiary of BEA Systems, Inc. ("BEA") for approximately $7,266,000 in cash and the assumption of certain liabilities. The accompanying financial statements have been prepared on the Company's historical cost basis, and do not reflect any adjustments resulting from the acquisition.

The accompanying statements of operations and cash flows were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the registration statement on Form-SB-2 of BEA and are not intended to be a complete presentation of the financial position and results of operations of Independence Technologies, Inc.

Use of Estimates

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

Concentration of Credit Risk

The Company sells its products to customers, typically large corporations, in a variety of industries. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and such losses have been within management's expectations.

Revenue Recognition

Revenues from end user software license agreements and license fees from third-party distributors and value-added resellers are recognized at the time of product shipment, provided there are no significant vendor obligations remaining to be fulfilled and collectibility is probable. Consulting revenues and the related costs are generally recognized on a time and materials basis; however, certain fixed price contracts are recognized on the percentage of completion basis which involves the use of estimates. Actual results could differ from those estimates and, as a result, future profitability on such contracts may be more or less than estimated. The amount of consulting contracts recognized on a percentage of completion basis has not been material to date. Support revenues are recognized prorata over the term of the service period. Training and other service revenues are recognized as the related services are performed. The unrecognized portion of amounts paid for such consulting, support, and other services is reported as deferred revenues.

Independence Technologies, Inc.

Notes to Statements of Operations and Cash Flows (Continued)

For the Period from January 1, 1995 to November 1, 1995

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) PROPERTY AND EQUIPMENT Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Assets under capital leases and leasehold improvements are amortized over the shorter of the asset life or the remaining lease term. The related amortization expense is included in depreciation expense.

Research and Development

Research and development expenditures are generally charged to operations as incurred. Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires the capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model. Costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly, the Company has charged all such costs to research and development expenses in the accompanying statements of operations.

Product Concentration

The Company derives a majority of its revenue from the licensing of products in the TUXEDO product line, to which the Company has certain distribution rights from Novell, Inc. and fees from related services. These products and services are expected to continue to account for a majority of the Company's revenue for the foreseeable future. Consequently, a reduction in demand or an increase in competition for these products due to market factors, or a decline in sales of such products, would affect operating results adversely.

2. Extraordinary Item

On June 27, 1995, the Company entered into a settlement agreement to resolve all disputes with respect to a loan agreement with one of its creditors. In connection with this settlement agreement, the Company realized an extraordinary gain of approximately $1,035,000, representing the forgiveness of both principal and accrued interest due on the loan.

3. Lease Commitments

Facilities are leased under operating leases expiring at various dates through November 30, 1999. Certain leases have escalating rental payments and options for renewal for additional terms. Future minimum rental payments for the years ended and period ended December 31, are as follows:

November 2 through December 31, 1995	$ 27,000
1996	164,000
1997	171,000
1998	176,000
1999	162,000
Total	$ 700,000

Independence Technologies, Inc.

Notes to Statements of Operations and Cash Flows (Continued)

For the Period from January 1, 1995 to November 1, 1995

3. LEASE COMMITMENTS (CONTINUED) Rent expense was $147,916 for the period from January 1, 1995 to November 1, 1995.

4. Income Taxes

Due to the Company's loss position, there is no provision for income taxes for the period from January 1, 1995, to November 1, 1995.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes are as follows:

November 1, 1995

Deferred tax assets:	
Net operating loss carryforwards	$ 743,000
Deferred revenue	554,000
Accruals and reserves	527,000
Fixed assets	39,000
Total deferred tax assets	1,863,000
Valuation allowance	(1,863,000)
Net deferred tax assets	$ 0

Based upon the weight of available evidence, which includes the Company's historical operating performance, the reported cumulative net loss for the prior three years, and the uncertainties regarding future results of operations of the Company, the Company has provided a full valuation allowance against its net deferred tax assets as at this time it is more likely than not that the deferred tax assets will not be realized. The change in the valuation allowance was an increase of $7,000 for the period ended November 1, 1995.

As of November 1, 1995, the Company had net operating loss carryforwards for federal and state tax purposes of approximately $2,100,000 and $200,000 which will expire from 1998 through 2009. Utilization of net operating loss carryforwards may be subject to a substantial annual limitation due to

the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before full utilization.

Report of Ernst & Young Llp, Independent Auditors

The Board of Directors and Shareholders Novell, Inc.

We have audited the accompanying statements of revenues and direct salaries and benefits expenses for domestic Tuxedo employees of the Tuxedo Systems Group of Novell, Inc. for the year ended October 28, 1995 and the four months ended February 24, 1996. These statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying statements were prepared solely to present the revenues and direct salaries and benefits expenses for domestic Tuxedo employees of the Tuxedo Systems Group of Novell, Inc. pursuant to the Tuxedo License and Distribution Agreement between Novell, Inc. and BEA Systems effective February 23, 1996 (as amended), and are not intended to be a complete presentation of the results of operations of the Tuxedo Systems Group of Novell, Inc.

In our opinion, the statements referred to above present fairly, in all material respects, the revenues and direct salaries and benefits expenses for domestic Tuxedo employees for the year ended October 28, 1995 and the four months ended February 24, 1996, in conformity with generally accepted accounting principles.

Ernst & Young LLP San Jose, California January 29, 1997

Tuxedo Systems Group of Novell, Inc.

STATEMENTS OF REVENUES AND DIRECT SALARIES AND BENEFITS EXPENSES FOR DOMESTIC TUXEDO EMPLOYEES (IN THOUSANDS)

FOUR MONTHS ENDED FEBRUARY 24, 1996	YEAR ENDED OCTOBER 28, 1995

Revenues..... $ 20,371 $ 3,123

```
Direct salaries and benefits expenses for domestic Tuxedo employees:
  Research and development.....                                        3,017
1,167
  Selling, general and administrative.....                             1,055
443
                                                                       4,072
1,610
Revenues less direct salaries and benefits expenses for domestic Tuxedo employees....   $   16,299     $
1,513
```

See accompanying notes.

Tuxedo Systems Group of Novell, Inc.

Notes to Statements

1. Basis of Presentation

The Tuxedo Systems Group ("Tuxedo") was operated as a business operation of Novell, Inc. (Novell or the Company). The accompanying statements were prepared to present the revenues and direct salaries and benefits expenses for domestic Tuxedo employees, pursuant to the Tuxedo License and Distribution Agreement between Novell and BEA Systems Inc. ("BEA") effective February 23, 1996 as amended, (the "Agreement"). The statements are not intended to be a complete presentation of the results of operations of Tuxedo.

The Tuxedo system is an open transaction management software used by businesses to develop and deploy multi-tier, client-server applications. Tuxedo is used to create scaleable, high performance, secure, reliable business-critical applications, as well as more general purpose client-server applications. Under the terms of the agreement, BEA became the master distributor of Tuxedo on non-Netware platforms. The principal markets for these products are in the United States, Europe, and Japan.

The Tuxedo business had no separate legal status as it was an integral part of Novell's overall operations. As a result, separate financial statements were not maintained by Novell for the operations acquired by BEA.

The accompanying statements have been prepared from the historical accounting records of Novell and do not purport to reflect the results of operations that would have resulted if Tuxedo had operated as an unaffiliated independent company. In addition, the accompanying statements do not reflect any adjustments resulting from the acquisition by BEA.

Revenues denominated in foreign currencies have been remeasured into the functional currency in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," (FAS 52) using the U.S. dollar as the functional currency.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Significant Accounting Policies

Revenues

Revenues as reported per the accompanying statements represent billings by Novell for license and service and maintenance agreements related to the Tuxedo product. Although Novell maintains reserves for returns at the consolidated level, it does not record or maintain such information at a product line level. Accordingly, adjustments have not been made to reflect estimated sales returns.

No customer exceeded 10% of revenues during fiscal 1995, and one customer represented approximately 24% of revenues in the 1996 period.

Software Licenses

The Company recognizes revenue from sales of software licenses upon delivery of the software product to a customer unless the Company has significant related obligations remaining. When significant obligations remain after the software product has been delivered, revenue is not recognized

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) until such obligations have been completed or are no longer significant. The costs of any insignificant obligations are accrued when the related revenue is recognized.

When software licenses for multiple products are sold, revenue is recognized on a per unit basis until the delivery of the first copy of each software product under the arrangement or until the expiration of the arrangement, at which time the Company recognizes any remaining license fees.

Post-contract Customer Support and Software Services

Revenue from post-contract customer support is recognized over the period the customer support services are provided and software services revenue is recognized as services are performed.

Direct Salaries and Benefits Expenses for Domestic Tuxedo Employees

The accompanying statements include only direct salaries and benefits expenses for domestic Tuxedo employees during the periods presented. Substantially all of the Tuxedo domestic employees became employees of BEA under the Agreement. No allocations of corporate expenses or reflection of other direct expenses have been presented as management believes any method of allocation would be meaningless due to the immateriality of Tuxedo to Novell and accumulation of all other direct expenses is impracticable. These direct expenses are not necessarily indicative of the expenses that would have been incurred had Tuxedo operated as a stand-alone business.

Report of Ernst & Young Audit, Independent Auditors

The Board of Directors USL Finance S.A.

We have audited the accompanying consolidated balance sheet of USL Finance S.A. as of May 5, 1996 and the related consolidated statements of operations, shareholders' equity, and cash flows for the period from November 1, 1995 through May 5, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted accounting 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USL Finance S.A. as of May 5, 1996, and the consolidated results of its operations, and its cash flows for the period from November 1, 1995 to May 5, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG Audit Paris, France December 24, 1996

Usl Finance S.a.

Consolidated Balance Sheet

May 5, 1996

(In Thousands of U.s. Dollars)

Assets

Current assets:	
Cash and cash equivalents	$ 2,259
Accounts receivable	2,875
Prepaid expenses and other current assets	284
Total current assets	5,418
Leasehold improvements and equipment, net	642
Distribution rights, net of amortization	294
Total assets	$ 6,354

Liabilities and Shareholders' Equity

Current liabilities:	
Accounts payable	$ 405
Accrued expenses	350
Payable to BEA Systems Inc.	3,091
Value-added tax payable	277
Deferred revenues	411
Total current liabilities	4,534
Net deferred tax liabilities	5
Deferred revenues	750
Long-term debt	541
Minority interests	76
Commitments	
Shareholders' equity:	
Common stock, FF 100 par value; 13,220 shares issued and outstanding	270
Capital in excess of par value	131
Cumulative translation adjustment	(24)
Retained Earnings	71
Total shareholders' equity	448
Total liabilities and shareholders' equity	$ 6,354

See accompanying notes.

Usl Finance S.a.

Consolidated Statement of Operations

November 1, 1995 Through May 5, 1996

(In Thousands of U.s. Dollars)

Revenues:	
License	$ 2,024
Service	868
Total revenues	2,892
Cost of revenues:	
License	1,044
Service	873
Total cost of revenues	1,917
Gross profit	975
Operating expenses:	
Marketing and selling	667
General and administrative	88
Amoritzation of distribution rights	76
Total operating expenses	831
Income from operations	144
Interest income	64
Interest expense	(20)
Minority interest	(32)
Income before income taxes	156
Income taxes	(85)
Net income	$ 71

See accompanying notes.

Usl Finance S.a.

Consolidated Statement of Shareholders' Equity

(In Thousands of U.s. Dollars)

	COMMON STOCK		CAPITAL IN EXCESS	CUMULATIVE TRANSLATION	RETAINED	TOTAL SHAREHOLDERS'
	SHARES	AMOUNT	OF PAR VALUE	ADJUSTMENT	EARNINGS	EQUITY
Balance October 31, 1995	13,220	$ 270	$ 131	$ (21)	$ --	$ 380

Translation adjustment.....	--	--	--	(3)	--	(3)
Net income.....	--	--	--	--	71	71
Balance May 5, 1996.....	13,220	$ 270	$ 131	$ (24)	$ 71	$ 448

Usl Finance S.a.

Consolidated Statement of Cash Flows

For the Period from November 1, 1995 to May 5, 1996

(In Thousands of U.s. Dollars)

OPERATING ACTIVITIES	
Net income.....	$ 71
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of leasehold improvements and equipment.....	48
Amortization of distribution rights.....	76
Interests in equity investments.....	20
Deferred income taxes.....	18
Increase (decrease) in cash from:	
Accounts receivable.....	475
Prepaid expenses and other current assets.....	(174)
Accounts payable and accrued expenses.....	522
Deferred revenues.....	1,199
Value-added tax payable.....	128
Net cash provided by operating activities.....	2,383
INVESTING ACTIVITIES	
Purchase of leasehold improvements and equipment.....	(479)
Proceeds from sale of equipment.....	6
Business acquisition, net of cash acquired.....	(541)
Net cash used in investing activities.....	(1,014)
FINANCING ACTIVITIES	
Increase in long-term debt.....	559
Net cash provided by financing activities.....	559
Effect of changes in foreign exchange rates on cash.....	(81)
Net increase in cash and cash equivalents.....	1,847
Cash and cash equivalents at beginning of period.....	412
Cash and cash equivalents at end of period.....	$ 2,259

Usl Finance S.a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM NOVEMBER 1, 1995 THROUGH MAY 5, 1996

1. Organization and Summary of Significant Accounting Policies

Organization

USL Finance S.A. (the "Company") was incorporated in Paris, France in August 1995 and had no operating activity until it acquired from Novell, Inc., with effect from November 3, 1995, a 90% equity ownership in USL France S.A. (USL). The main activities of USL are the marketing and support of UNIX software products as well as offering related consulting and training services. USL's primary software product is TUXEDO, a product developed by Novell, Inc. USL's products are distributed through its direct sales force as well as through an external marketing firm.

With effect from February 23, 1996, Novell, Inc. granted to BEA Systems, Inc. (BEA) certain rights and licenses relating to TUXEDO software and USL entered into a new royalty agreement with BEA. Novell, Inc. transferred to BEA its debt due by USL and related to the royalty agreement in effect between Novell, Inc. and USL before February 23, 1996. On May 5, 1996, BEA purchased 100% of the shares of USL. The accompanying financial statements have been prepared on the Company's historical cost basis, and do not reflect any adjustments resulting from the acquisition.

Basis of Presentation and Principles of Consolidation

The Company and its subsidiary prepare their financial statements in accordance with accounting principles generally accepted in France.

The consolidated financial statements have been restated in order to comply with accounting principles generally accepted in the United States and stated in U.S. dollars. The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated.

Revenue Recognition

The Company recognizes revenue in accordance with the American Institute of Certified Public Accountants' Statement of Position 91-1 on software revenue recognition. License fees under software license agreements with end users and distributors are recognized upon shipment if no significant vendor obligations remain and collection of the resulting receivables is deemed probable. Service revenues are derived from consulting and training services and fees earned under annual or multi-year maintenance agreements for providing updates (on an "if and when available" basis) for existing

software products, user documentation, and technical support. Maintenance revenue is recognized ratably over the term of such agreements. If such services are included in the initial licensing fee, the value of the services is unbundled and recognized ratably over the related service period. Revenue from consulting and training services is recognized as the services are performed.

Concentration of Credit Risk

The Company sells its products to customers in a variety of industries in Southern Europe, Africa, and Israel. The Company performs ongoing credit evaluations of its customers and maintains

Usl Finance S.a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM NOVEMBER 1, 1995 THROUGH MAY 5, 1996 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) allowances for potential credit losses. To date, such losses have been within management's expectations.

Three customers accounted for 12%, 11%, and 10% of revenues, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit or temporary cash investments with original maturities of 90 days or less. The Company considers all highly liquid investments with insignificant interest rate risk and purchased with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

At May 5, 1996, the carrying values of cash and cash equivalents approximated their market value based on the short-term maturities of these instruments. The fair value of long-term debt is estimated using current interest rates available to the Company for debt instruments with similar terms, degree of risk, and maturities. The carrying value of the loans approximate their respective fair value.

Foreign Currency Translations

The functional currency of the Company is the French Franc ("FF"). Foreign currency transactions outstanding at the balance sheet date are translated into French Francs at year-end rates of exchange. Aggregate realized and unrealized gains or losses from foreign currency transactions are included in results of operations and amounted to a gain of $10,739. The effect of translating to U.S. Dollars is recorded as a cumulative translation adjustment.

Distribution Rights

Distribution rights relate to the right to distribute products in certain territories. Amortization is computed using the straight-line method over 30 months.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Purchase software	3 years
Computer equipment	5 years
Furniture and other equipment	10 years
Leasehold improvements	10 years, or lease term if less

Income Taxes

In accordance with Statement of Financial Accounting Standards No. 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are

Usl Finance S.a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM NOVEMBER 1, 1995 THROUGH MAY 5, 1996 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) expected to reverse. A valuation allowance is established if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

2. Business Acquisition and Debt

On November 3, 1995, the Company completed a transaction with Novell, Inc. in which the Company purchased from Novell a 90% interest in USL for a consideration of FF4,500,000 (approximately $870,000), of which FF3,000,000 was paid in cash with the balance payable in installments with interest at 5% as follows:

- FF500,000 due on October 31, 1998 (approximately $97,000) - FF500,000 due on October 31, 1999 (approximately $97,000) - FF500,000 due on October 31, 2000 (approximately $97,000) The acquisition was accounted for using the purchase method of accounting in accordance with APB Opinion No. 16, "Business Combinations" ("APB16"). Under APB16, purchase price allocations were made to the assets acquired and the liabilities assumed based on their respective fair value, as follows:

Purchase price..... $ 870,406 Estimated fair value of net tangibles assets acquired..... 502,321 Excess of purchase price over net tangible assets acquired..... $ 368,085 The excess of purchase price over net tangible assets acquired was allocated to distribution rights.

On January 1, 1995, the Company issued FF1,300,000 (approximately $250,000) in bonds which are payable in full on November 20, 2000. Interest is payable annually at a rate of 5% beginning October 31, 1996.

3. Cash and Cash Equivalents

Cash and cash equivalents at May 5, 1996 include (in thousands):

Cash held at bank.....	$ 7
Temporary cash investments.....	2,252
	$ 2,259

Usl Finance S.a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM NOVEMBER 1, 1995 THROUGH MAY 5, 1996

4. Leasehold Improvement and Equipment

Leasehold improvement and equipment at May 5, 1996 include (in thousands):

Purchased software.....	$ 94
Computer equipment.....	276
Furniture and other equipment.....	126
Leasehold improvements.....	280
	776
Accumulated depreciation and amortization.....	(134)
	$ 642

Depreciation and amortization expense for the period from November 1, 1995 through May 5, 1996 was $47,904.

5. Shareholders' Equity

At May 5, 1996, the issued and outstanding share capital of the Company consisted of 13,220 shares with a nominal value of $19.

Dividends may be distributed from the statutory retained earnings, subject to the requirements of French law and the Company's by-laws. The Company has not distributed any dividends since its inception and had no distributable retained earnings at May 5, 1996.

6. Income Taxes

The provision for income taxes consists of the following (in thousands):

Current	$	67
Deferred		18
Provision for income taxes	$	85

A reconciliation of income taxes computed at the French statutory rate (36.67%) to the income tax benefit is as follows (in thousands):

Income taxes computed at the French statutory rate	$	57
Amortization of distribution rights not deductible for tax		28
Total	$	85

Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes.

Usl Finance S.a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) PERIOD FROM NOVEMBER 1, 1995 THROUGH MAY 5, 1996 6. INCOME TAXES (CONTINUED) Significant components of the Company's deferred taxes consist of the following at May 5, 1996 (in thousands):

Deferred tax assets:		
Net operating loss carryforwards	$	8
Deferred start-up costs		11
Other		1
		20
Deferred tax liabilities:		
Maintenance recognized as a purchase accounting adjustment		25
Net deferred tax liability	$	(5)

7. Employee Retirement Plans

The Company contributes to government pensions for personnel in France in accordance with French law based on the salaries of the individuals. There exists no actuarial liability in connection with these plans. French law also requires payment of a lump sum retirement indemnity to employees based upon years of service and compensation at retirement. Benefits do not vest prior to retirement. The Company's obligation at May 5, 1996 was immaterial.

8. Operating Lease Commitments

The Company leases its facilities and certain equipment under operating leases that expire through 2002. Future minimum lease payments under operating leases due for the periods from May 5, 1996 through January 31, 1997 and for fiscal years ending January 31 are as follows (in thousands):

May 5, 1996 through January 31, 1997	$	156
12 month periods ending January 31, 1998		208
1999		208

2000	122
2001 and thereafter	1

Rental expense for the period from November 1, 1995 through May 5, 1996 was approximately $108,000.

Underwriting

Subject to the terms and conditions of the Underwriting Agreement, the Company has agreed to sell to each of the U.S. Underwriters named below (the "U.S. Underwriters"), and each of the U.S. Underwriters, for whom Goldman, Sachs & Co., Alex. Brown & Sons Incorporated, Robertson, Stephens & Company LLC, and SoundView Financial Group, Inc. are acting as representatives, has severally agreed to purchase from the Company, the respective number of shares of Common Stock set forth opposite its name below:

Number of Shares Underwriter of Common Stock

Goldman, Sachs & Co. ..... Alex. Brown & Sons Incorporated..... Robertson, Stephens & Company LLC..... SoundView Financial Group, Inc..... Total.....

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 (other than those covered by the U.S. Underwriters' over-allotment option described below), 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.

The Company 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 shares of Common Stock in an international offering outside the United States. The offering price and aggregate underwriting discounts and commissions per share for the two offerings are identical. The closing of the offering made hereby is a condition to the closing of the international offering, and vice versa. The representatives of the International Underwriters are Goldman Sachs International, Alex. Brown & Sons Incorporated, Robertson, Stephens & Company LLC and SoundView Financial Group, Inc.

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 a part of the distribution of the shares offered hereby and subject to certain exceptions, it will offer, sell or deliver shares offered hereby and any other 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 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 Untied States or to any U.S. person 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 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.

The Company has granted to the U.S. Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of additional shares of Common Stock 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 shares of Common Stock offered hereby. The Company has granted the International Underwriters a similar option to purchase up to an aggregate of shares of Common Stock.

The Company's officers and directors, and certain other holders of shares of Common Stock and options therefor, 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 the Prospectus, they will not offer, pledge, sell, contract to sell, sell any option to contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of the Common Stock without the prior written consent of a designated representative of the U.S. and International Underwriters, except for the shares of Common Stock offered in connection with the concurrent United States and international offerings. The Company has agreed, with certain limited exceptions, that, during the period beginning from the date of this Prospectus and continuing to and including the date 180 days after the date of the Prospectus, it will not offer, sell, contract to sell, or otherwise dispose of any securities of the Company that are

substantially similar to the shares offered hereby, including but not limited to any securities that are convertible into, or exchangeable for, or that represent the right to receive Common Stock or any such substantially similar securities without the prior written consent of the designated representative of the U.S. and International Underwriters, except for the shares of Common Stock offered in connection with the United States and international offerings and except that the Company may issue securities pursuant to the employee stock plans and currently outstanding options.

The representatives of the Underwriters have informed the Company 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 shares. The initial public offering price will be negotiated among the Company 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 the Company's historical performance, estimates of the business potential and earnings prospects of the Company, an assessment of the Company's management and the consideration of the above factors in relation to market valuations of companies in related businesses.

The Common Stock will be quoted on the Nasdaq National Market under the symbol "BEAS."

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act.

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

Set forth on the inside back cover page is a horizontal rectangular box bearing the caption "BEA TUXEDO KERNEL." Set forth on top of this box are four square boxes each with a caption reading, from left to right, "BEA BUILDER," "BEA CONNECT." "BEA TP BLUE" and "BEA JOLT." Set forth to the left of the five aforementioned boxes is a vertical rectangular box of equal height as the combined other boxes, with a caption reading "BEA MANAGER." Set forth above this graphic is a caption reading "THE BEA ENTERPRISE TRANSACTION FRAMEWORK." Set forth below the graphic is the following text:

"The BEA Enterprise Transaction Framework is an integrated middleware software platform, based upon BEA TUXEDO, for developing, deploying, and managing distributed mission-critical applications.

BEA TUXEDO provides distributed transaction processing and application messaging capabilities, as well as the full complement of services necessary to build and run mission-critical applications.

BEA Jolt extends the capabilities of BEA TUXEDO to the Internet and intranets by providing a secured infrastructure without the need for additional application programming.

The BEA TP Blue Interface provides mainframe-to-distributed applications portability, compatibility, and connectivity for TP Blue-based transaction processing.

BEA Connect allows applications to access remote applications services on a variety of host-based computing environments including mainframes.

BEA Builder enables programmers to use familiar development environments to develop BEA TUXEDO-based applications.

BEA Manager extends the native BEA TUXEDO management capabilities by allowing it to integrate with third party management frameworks."

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 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 THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

Table of Contents

Page

Prospectus Summary..... 3
Risk Factors..... 6
Use of Proceeds..... 16
Dividend Policy..... 16
Capitalization..... 17
Dilution..... 18
Selected Consolidated Financial Data.... 19
Management's Discussion and
  Analysis of Financial Condition
  and Results of Operations..... 21
Business..... 34
Management..... 54
Principal Stockholders..... 61
Certain Transactions..... 62
Description of Capital Stock..... 64
Shares Eligible for Future Sale..... 66
Legal Matters..... 67
Experts..... 67
Additional Information..... 68
Index to Consolidated Financial

Statements..... F-1
Underwriting..... U-1

THROUGH AND INCLUDING , 1997 (THE 25TH DAY AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS 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.

Shares

Bea Systems, Inc.

Common Stock (Par Value $0.001 Per Share)

[Logo]

Goldman, Sachs & Co.

Alex. Brown & Sons Incorporated

Robertson, Stephens & Company

Soundview Financial Group, Inc.

Representatives of the Underwriters

Part Ii

Information Not Required in Prospectus

Item 24. Indemnification of Directors and Officers

Under Section 145 of the General Corporate Law of the State of Delaware, the Registrant has broad powers to indemnify its directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). The Registrant's Amended and Restated Bylaws (Exhibit 3.3 hereto) also provide for mandatory indemnification of its directors and executive officers, and permissive indemnification of its employees and agents, to the fullest extent permissible under Delaware law.

The Registrant's Amended and Restated Certificate of Incorporation (Exhibit 3.2 hereto) provides that the liability of its directors for monetary damages shall be eliminated to the fullest extent permissible under Delaware law. Pursuant to Delaware law, this includes elimination of liability for monetary damages for breach of the directors' fiduciary duty of care to the Registrant and its Stockholders. These provisions do not eliminate the directors' duty of care and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to the Registrant, for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for any transaction from which the director derived an improper personal benefit, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

Prior to the effective date of the Registration Statement, the Registrant will have entered into agreements with its directors and certain of its executive officers that require the Registrant to indemnify such persons against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred (including expenses of a derivative action) in connection with any proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a director or officer of the Registrant or any of its affiliated enterprises, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

The Registrant intends to obtain in conjunction with the effectiveness of the Registration Statement a policy of directors' and officers' liability insurance that insures the Company's directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

The Underwriting Agreements filed as Exhibit 1.1 and Exhibit 1.2 to this Registration statement provides for indemnification by the U.S. Underwriters and the International Underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act or otherwise.

Item 25. Other Expenses of Issuance and Distribution

The expenses to be paid by the Registrant in connection with the distribution of the securities being registered, other than underwriting discounts and commissions, are as follows:

*Amount**

Securities and Exchange Commission Filing Fee	$	12,197
NASD Filing Fee		4,525

Nasdaq National Market Listing Fee	30,000
Accounting Fees and Expenses	900,000
Blue Sky Fees and Expenses	5,000
Legal Fees and Expenses	300,000
Transfer Agent and Registrar Fees and Expenses	15,000
Printing Expenses	375,000
Miscellaneous Expenses	58,278
Total	$ 1,700,000

* All amounts are estimates except the SEC filing fee, the NASD filing fee and the Nasdaq National Market listing fee.

Item 26. Recent Sales of Unregistered Securities

Since the Registrant's inception in January 1995, the Registrant has issued and sold the following unregistered securities:

1. During the period, the Registrant granted stock options to employees, directors and consultants under its Stock Incentive Plans covering an aggregate of 7,465,650 shares of the Registrant's Common Stock, at exercise prices ranging from $0.0100 to $6.00 with a weighted average exercise price of $0.7560 per share.

2. During the period, the Registrant issued and sold an aggregate of 348,623 shares of its Common Stock to 18 employees for cash and promissory notes in the aggregate amount of $71,857.58 upon exercise of stock options granted pursuant to the Registrant's Stock Incentive Plans, at exercise prices ranging from $0.01 to $0.285 with a weighted average exercise price of $0.2061 per share.

3. During the period, the Registrant issued and sold an aggregate of 10,344,000 shares of its Common Stock to Warburg, Pincus Ventures, L.P. and certain employees, directors and consultants for an aggregate purchase price of $2,094,039.98. Of such shares of Common Stock, on February 1, 1995 and September 28, 1995, 2,506,828 shares of Common Stock were sold to William T. Coleman III for $378,466 payable $281,000 in cash and $97,446 by an installment note; 1,671,586 shares of Common Stock were sold to Edward W. Scott, Jr. for $252,402 payable $4,000 in cash and $248,402 by an installment note; and 1,671,586 shares of Common Stock were sold to Alfred S. Chuang for $252,402 payable $54,000 in cash and $198,402 by an installment note.

4. During the period, the Registrant issued and sold an aggregate of 17,166,000 shares of its Series A Preferred Stock (convertible into 34,332,000 shares of Common Stock) to Warburg, Pincus Ventures, L.P. and certain directors for an aggregate purchase price of $29,182,200.

5. During the period, the Registrant issued and sold an aggregate of 16,347,800 shares of its Series B Preferred Stock (convertible into shares of Common Stock) to Warburg, Pincus Ventures, L.P. for an aggregate purchase price of $16,347,800.

The sale and issuance of securities in the transactions described in paragraphs 1 and 2 above were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 promulgated thereunder in that they were offered and sold either pursuant to written compensatory benefit plans or pursuant to a written contract relating to compensation, as provided by Rule 701.

The sale and issuance of securities in the transactions described in paragraphs 3, 4 and 5 above were deemed to be exempt from registration under the Securities Act by virtue of Rule 4(2) promulgated thereunder.

Appropriate legends were affixed to the stock certificates issued in the above transactions. Similar legends were imposed in connection with any subsequent sales of any such securities. No Underwriters were employed in any of the above transactions.

Item 27. Exhibits

The exhibits are as set forth in the Exhibit Index.

Item 28. Undertakings

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

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act") may be permitted to directors, officers and controlling persons of the issuer pursuant to the foregoing provisions, or otherwise, the issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 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 issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the issuer 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 Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

(1) For 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 issuer 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 the Commission declared it effective.

(2) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial BONA FIDE offering

of those securities.

Signatures

In accordance with the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California on January 31, 1997.

Bea Systems, Inc.

By: /s/ WILLIAM T. COLEMAN III William T. Coleman III PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William T. Coleman III, Edward W. Scott, Jr., Alfred S. Chuang, and Steve L. Brown as his 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 any and all amendments (including post-effective amendments to this Registration Statement) and sign any registration statement for the same offering covered by the Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, 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, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature Title Date

/s/ WILLIAM T. COLEMAN III William T. Coleman III	President, Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	January 31, 1997
/s/ STEVE L. BROWN	Executive Vice President, Chief Financial Officer and Secretary (Principal	January 31, 1997

Steve L. Brown Financial and Accounting Officer)

/s/ EDWARD W. SCOTT, JR. - ---------- Director January 31, 1997 Edward W. Scott, Jr.

Signature Title Date

/s/ STEWART K.P. GROSS - ---------- Director January 31, 1997 Stewart K.P. Gross /s/ WILLIAM H. JANEWAY - ---------- Director January 31, 1997 William H. Janeway /s/ CARY J. DAVIS - ---------- Director January 31, 1997 Cary J. Davis /s/ CAROL BARTZ - ---------- Director January 31, 1997 Carol Bartz /s/ DEAN MORTON - ---------- Director January 31, 1997 Dean Morton

Exhibit Index

Exhibit Number Document

1.1* Form of Underwriting Agreement.....

3.1 Restated Certificate of Incorporation of the Registrant, as currently in effect.....

3.2* Form of Registrant's Amended and Restated Certificate of Incorporation to be adopted upon completion of the Offerings.

3.3 Registrant's Bylaws, as currently in effect along with Certificate of Amendment of Bylaws, dated November 1995.....

3.4* Form of Registrant's Amended and Restated Bylaws, to be adopted upon completion of the Offerings.

4.1 Reference is made to Exhibits 3.1 and 3.2, 3.3 and 3.4.....

5.1* Opinion of Morrison & Foerster LLP as to the legality of the Common Stock.....

10.1 Investor Rights Agreement by and among the Registrant and William T. Coleman III, Alfred S. Chuang, Edward W. Scott, Jr. and Warburg, Pincus Ventures, L.P., dated September 28, 1995.....

10.2* Form of Indemnification Agreement between the Registrant and each of its executive officers and directors.

10.3 Employment Agreement between the Registrant and William T. Coleman III dated as of September 28, 1995...

10.4 Employment Agreement between the Registrant and Edward W. Scott, Jr. dated as of September 28, 1995.....

10.5 Employment Agreement between the Registrant and Alfred S. Chuang dated as of September 28, 1995.....

10.6 Form of Promissory Notes entered into between the Registrant, William T. Coleman III, Edward W. Scott, Jr. and Alfred S. Chuang each dated September 28, 1995.....

10.7 Promissory Note secured by deed of trust entered into between the Registrant and Edward W. Scott, Jr. and Cheryl S. Scott, dated December 12, 1995.....

10.8+ Agreement between the Registrant and Novell, dated January 24, 1996, and Amendments thereto.
10.9 Lease Agreement between the Registrant and William H. and Leila A. Cilker dated November 15, 1995 and
First Amendment thereto, dated January 19, 1996.....
10.10 Stock Purchase Agreement between the Registrant and Warburg, Pincus Ventures, L.P. dated September 28,
1995, and Amendments thereto.....
10.11 Registrant's 1995 Flexible Stock Incentive Plan, including forms of agreements thereunder.....
10.12* Registrant's 1997 Stock Incentive Plan, including forms of agreements thereunder.
10.13* Registrant's 1997 Employee Stock Purchase Plan, including forms of agreements thereunder.
10.14 Subordinated Bridge Line of Credit between the Registrant and Warburg, Pincus Ventures, L.P., dated
January 22, 1997.....
11.1 Statement regarding calculation of net income (loss) per share.....
21.1 List of Significant Subsidiaries.....
23.1* Consent of Morrison & Foerster LLP. Reference is made to Exhibit 5.1.....
23.2 Consent of Ernst & Young LLP., Independent Auditors Reference is made to Page II-6.....
23.3 Consent of Ernst & Young LLP., Independent Auditors Reference is made to Page II-7.....
23.4 Consent of Ernst & Young LLP., Independent Auditors Reference is made to Page II-8.....
23.5 Consent of Ernst & Young LLP., Independent Auditors Reference is made to Page II-9.....
23.6 Consent of Ernst & Young Audit. Reference is made to Page II-10.....
24.1 Powers of Attorney. Reference is made to pages II-4 and II-5.....
27.1 Financial Data Schedule.....

* To be filed by amendment.

+ Confidential treatment requested as to portions of this exhibit. </TEXT>