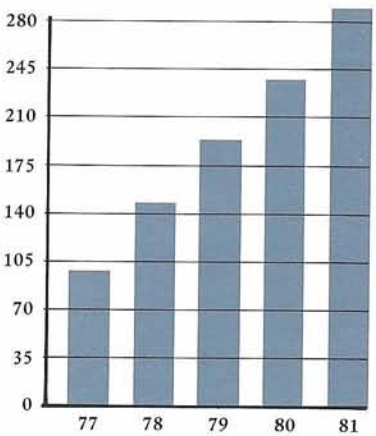
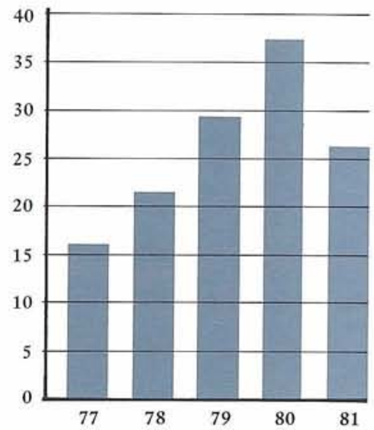
Tymshare 1981 Annual Report

Five-Year Highlights

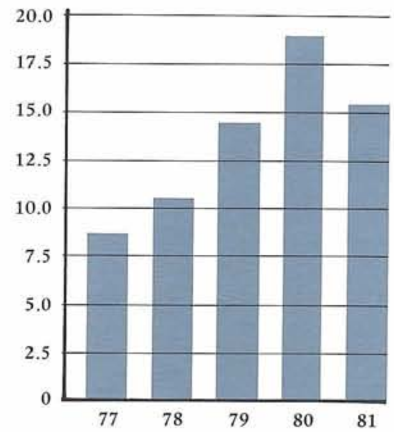
Revenue
in millions of dollars



Income From Operations
in millions of dollars



Net Income
in millions of dollars



	Year Ended December 31, (In thousands, except earnings per share)				
	1977	**1978**	**1979**	**1980***	**1981***
Revenue	$101,174	$149,559	$193,092	$235,854	$289,687
Income from operations	16,503	21,318	29,574	37,040	26,452
Net income	8,008	10,594	14,644	18,743	15,670
Earnings per share	$ .91	$ 1.15	$ 1.53	$ 1.81	$ 1.33
Shareholders' investment	$ 40,057	$ 53,124	$ 70,931	$140,319	$160,954

*Quarterly breakdowns of revenues and income for 1981 and 1980 are presented on page 27 in chart and tabular form.

To Our Shareholders:

After eleven straight years of increasing profitability, our pattern was interrupted in 1981. Steadily increasing fixed costs, sudden and substantial hikes in telephone service rates, and lower than anticipated revenues late in the year produced a downturn in earnings for 1981. Our earnings of $1.33 per share compare with $1.81 for the previous year. Revenues in 1981 grew a very respectable 23 percent year to year.

Obviously the effects of a national recession reached us late in the year. Large companies and financial institutions, which are important customers for our remote computing services, became more uncertain as the year wound down. They passed along the effects of the slowdown in their businesses to our business. Potential new customers began to hold back. Applications being run for current customers were scaled down in size and scope and new applications deferred. Some customers simply, and quite suddenly, eliminated applications that had been running for some time.

All of this increased the burden of producing replacement revenues on other parts of the business. Although these other sectors performed quite close to plan, their contribution was not enough to overcome escalating costs and reduced growth in remote services revenues.

Except for some lowering in cost-per-computation due to new computer technology, fixed costs kept climbing in every other area: memory devices, communications lines and equipment, buildings and facilities of all types, and, of course, our people.

In spite of the problematic economy, however, we still could have recorded a more satisfactory year had it not been for the sudden bulge in telephone services rates. We have no method to control rates charged by AT&T, unlike internal costs.

Tymnet was able to pass along a portion of the rate hikes that it felt from the phone company fairly quickly. Shortly thereafter, a general price change was made to begin recovering some of the cost increases affecting our remote services. Fixed-price contracts, however, cannot be changed at will. These contracts, which represent significant revenues in our remote service sector, can only be changed as they come up for renewal. We have been doing this since the latter part of 1981 as the opportunity arises. These several pricing changes are expected to have an increasingly positive impact on 1982 revenues as we go through the year.

We also expect to stimulate our markets by the additional remote information tools and decision aids available this year. Our Information Services Division has brought several new service products to market in recent months. In addition, as the volume of credit processing slows, we are expanding point-of-sale authorization equipment and services offered to broaden transaction revenue potential.

The need for electronic financial transactions authorization is growing. Authorization is a must not just for credit buying but also for debit transactions and for personal check cashing, which is increasing because of high credit cost. Check warranty services eliminate risk for the merchant and increase convenience for consumers. Our TeleCheck® check warranty service, which had its best year ever in 1981, is at the forefront of this transaction application.

Of course, product line expansion and development of new revenue sources must go hand in hand with cost control. We have been carefully reexamining all programs calling for continuing investment. Those that do not promise near-term return are being stretched out or, in some cases, terminated. It is important, however, as we slow or stop activity on some experimental programs, to balance short-term cost consciousness with proper regard for development that supports longer-term growth.

With this balance in mind, we are placing greater emphasis in 1982 on bringing existing, marketable products onto our delivery systems to produce revenues this year. These will be mainly applications-specific products. More generic systems, demanding internal control and extended development periods, will proceed more slowly with reduced staff and resource investment this year.

An example of a program that will be terminated is the OPTION™ automatic teller machine pilot network program in Southern California. In a normal economy, continued patience and slow expansion would likely be warranted. However, the depressed economy, coupled with the difficult plight of the savings and loan industry, which was the target market for this service, makes further support unwise.

All business and development programs and staffing requirements are undergoing the same rigorous test of near-term return versus level of commitment this year.

The Tymnet pilot program to test new methods of local data distribution concluded very successfully in October of last year. This forms the basis for an exciting new opportunity for profitable revenue. We are waiting for a decision from the Federal Communications Commission that will allow us to commence the program that follows directly from this test. Our demonstrated ability to meet the need for advanced, flexible, and economic network communications in this most demanding "Last Mile" to be touched by modern communications technology—the local data market—opens vast new potential for Tymshare. Additional commentary on this program follows in this report.

Several other events and developments beneficial to our prospects this year and in future years are also worth brief mention here.

We were very pleased with our business development results through acquisition in 1981. Microband® Corporation of America, which distributes pay-TV programming to local markets and leads in its specialized microwave technology, officially joined the Tymshare fold in January. Automated bill payment became a Tymshare service with acquisition of Payment and Transfer Services, Inc., the same month.

At midyear, we acquired both Applied Systems Corporation, the largest supplier of data processing services for TeleCheck franchises, and the TeleCheck franchises in Washington, D.C., and Philadelphia. September marked another newcomer, when we acquired the operating assets of ITT Electronic Travel Services, Inc., broadening our travel industry revenues and product line.

In the spring of 1981, we announced agreement to purchase, over several years, 100,000 personal information terminal units. Small, inexpensive, and specially designed for this potentially large market, the first models in this new personal terminal product line are now being offered through our national field sales organization with broader distribution being planned.

We were pleased to have Gordon L. Hough, former board chairman and chief executive officer of Pacific Telephone and Telegraph, join our board of directors near year end. He brings with him several decades of experience in the communication industry.

1981 is now in the record. It was a difficult, disappointing year, but it is over. And, even though the company's financial performance overshadows all else in such a year, 1981 was a year of significant progress in supporting and growing our strength in areas of great opportunity. In the new communications. In applications that integrate our several technologies to produce high value, composite applications for information management. In new and expanded services and products for management decision support. And in future-oriented financial transaction services.

We also have gained another year of training and experience for the newer Tymshare employees who have joined us during the past couple of years. The demand for talent and special aptitude in our industry has been intense. We recognized this some time ago, and we have brought in more junior people who need more time and training after they get here. We committed to that mode of recruiting and employee development, and we look for higher returns on this investment in our people this year and in the future.

In summary, we must do something very difficult this year—not next year or the next. We must put the disappointment of 1981 behind us, lest we fail to see the truly enlarging opportunity in front of us. We are in the fastest moving, most influential business of our time—the business of information. We have the financial, technological, and marketing resources to return our company to the fast track of growth and profits. It calls for leadership of the highest order from our managers, and dedication and resolve from each Tymshare person every day of 1982. With our team of professionals, I am confident of the result.

T. J. O'Rourke
President and Chairman of the Board

OPPORTUNITIES — Perspective on

Individuals benefit more each year from technology and Tymshare services as financial transactions become more efficient and convenient by becoming more automated. Personal check cashing is on the rise, as credit costs increase and as our TeleCheck service expands to make checks more readily accepted in stores, restaurants, or almost anywhere. Computerized processing of tax returns, now using laser printers as shown here in the Tymshare center in Dallas, speeds turnaround for our accountant client and improves accuracy. New point-of-sale equipment offered by Tymshare to merchants automates the task of gaining authorization for credit purchases. What spells greater convenience for individuals and client firms also spells opportunity for Tymshare.

The industry providing communications and information services grew faster in the depressed economy of last year than many others do in a boom.

Our communications services revenues through Tymnet, Inc., our network subsidiary, moved up again more than 50 percent in 1981. Market information provided by The Yankee Group indicates that total 1981 revenues for Tymnet's form of value-added public data services approached $140 million. By 1985, just this one market sector—in which Tymnet is the leading supplier—is expected to hit $800 million. This is a growth of some 60 percent per year. U.S. Department of Commerce figures put the annual market for all data communications equipment and services at $11 billion by 1985.

The opportunity for Tymshare in communications is one that demands careful selection based on current strength, analysis of competition, and optimum use of capital. The opportunity is certainly not inhibited by market constraints. In fact, in recent years Tymnet's main challenge has been trying to expand capacity to keep pace with service demand.

For information on computing services, we look to International Data Corporation (IDC) as one of our authoritative market data sources. IDC puts total revenues for 1981 at $15.3 billion. Projecting industry growth through 1986 at a compound rate of 22 percent, IDC arrives at an industry annual revenue of more than $40 billion in five years. These are projected worldwide revenues of U.S. suppliers of value-added computing services in three categories: software, processing, and professional support.

Differing growth rates among the three categories spell different levels of opportunity. Revenues from software products are projected to grow at a compound rate of 31 percent through the next five years, with applications software revenues moving even faster, at a 33 percent rate. Tymshare provides a wide range of applications software integral to its services, and the company also can participate selectively in market slices for software products, currently illustrated by our line of software products for smaller banks. Most

This Business of Information

of Tymshare's clients, however, apply our applications software within the total service solution framework. Obviously, the software products horizon is quite appealing and provides generous expansion opportunities for Tymshare as we explore areas of greatest potential benefit within our overall business plan.

IDC projects continued 18 to 19 percent growth through 1986 for remote processing services revenues, a sector from which Tymshare derives significant revenues. Batch data processing growth is expected to decline further from its 6 percent 1980–1981 rate to a compound growth rate of 5 percent through 1986, according to IDC. Tymshare participation in the batch data processing market is minor.

Professional services spending, predominantly contract programming as performed by our Consulting and Professional Services (CAPS) organization nationwide, is forecast to keep growing nicely, despite some integration of software functions into hardware. A \$1.6 billion component of the total industry revenue picture in 1981, contract programming is seen by IDC as reaching \$4 billion in 1986. This represents a 21 percent compound growth rate for the period.

Our historic rate of growth as a company has consistently bettered the industry rate. Even with our disappointments last year, Tymshare revenues grew overall at a 23 percent rate, a percentage point higher than in the previous year and one point higher than the IDC projection for the industry over the next five years.

In such a fast-paced industry, a "slowdown" in growth still leaves us with a very healthy expansion of the business.

This summary view of the telecommunications and information software and services market is not the whole story. The larger information industry includes organizations whose basic business objectives have been to sell raw resources, equipment, and/or supplies. Several companies are moving aggressively from their traditional business bases into adjacent areas in order to protect or expand their positions. We see IBM moving more toward communications and service for its equipment users. We see AT&T restructuring to engage in unregulated markets for resources and equipment. Service companies that have been strong in batch computing and/or in a special applications area are attempting to change course to insure market competitiveness in the faster growth sectors.

We believe that Tymshare has a unique profile among those seeking to follow the information opportunity to future growth and profit. Our strength is in the combination of data processing and communications technology, the areas that experts say will show continued fast growth.

Since inception, Tymshare has focused on practical timeshared use of computing, communications, and intricate online software to solve problems, manage information, and bring the intelligence of centralized data to a universe of users. We understand and apply the most advanced available technology in ways that make that technology and capability easy to use.

Complexity and practical innovation are our unique strengths in the more specialized regions of this business of information. Rapid integration of equipment, software, and networks into tailored service solutions—supported by highly qualified information professionals—is our primary business. It is a business calling for special skills and attention to the service bias.

Opportunities in serving the information and communications needs of the international, national, and local community are certainly there. The challenge is to pursue them vigorously.

Our leadership and our familiarity with several key facets of technology and implementation give us confidence that we will maintain or improve our position in those market sectors we choose to serve.

Priorities in 1982

Moving data, linking people and information economically, reliably, with an eye on the future is vital. Tymshare is a proven leader in doing this. Control of this transfer of information is centered at TYMNET Network Control Center, which maintains vigilance around the clock, around the globe. Advanced microwave technology, including compact send-receive units, is useful both in new local networks, and in another manner for pay-TV programs transmission by Microband. Proprietary TYMNET Engines serve as network nodes in the U.S. public network and for private network customers. Tymshare Network Systems Consulting (TNSC) S.A., wholly owned by Tymshare, is expanding our private network business overseas.

Communications

Roughly 40 billion data characters moved across our TYMNET® communications network in January 1982, nearly two billion each working day. There are now a thousand access nodes in the network. More than 250 U.S. cities have direct access to this network and more than 30 other countries have bought and installed TYMNET technology to link their business centers with the information and intelligence TYMNET brings to people.

TYMNET began with a handful of nodes at the dawn of the 1970s as a necessary delivery mechanism for a small, innovative computer services company. Today TYMNET is the largest and most used network of its kind in the world.

It is the launchpad of our leadership position in the New Communications, which observers estimate will be part of a $10 billion market by mid-decade, double that by 1990. TYMNET is more than a network; it is a physical representation of the way Tymshare, as a service company, thinks about communications and the opportunity it represents.

During Thanksgiving week, at the World Trade Center in New York City, more than two hundred news media representatives and securities analysts gathered to wrap up discussions of a highly successful experiment in the New Communications. Tymnet, Satellite Business Systems, and LDD, which provided equipment, talked about the exciting future direction for local transmission of information. The communications path of the future lies in wideband, or broadband, technology which is completely independent of traditional telephone circuits. The demonstration program blended several broadband technologies with excellent results—satellite communications, cellular digital radio, cable TV with packet switching, and advanced user equipment. We have applied for authority to build and operate local networks employing these technologies in 50 major U.S. cities.

Prominent among participating test users were American International Group Realty, Inc.; Control Data Corporation; Depository Trust Company; Wells Fargo Bank; ITT World Communications; Merrill, Lynch, Pierce, Fenner and Smith; and Tymshare itself.

Early this year, the Microband unit of Tymshare filed a proposal with the Federal Communications Commission

(FCC) which the *New York Times* called "a development that could signal the strongest threat yet to cable television . . ." Microband's proposal is in the public interest, in the FCC's interest, and in Tymshare's interest in pursuing a larger share of the mushrooming premium television market.

Dubbed "Urbanet" by Microband, the concept also can tie into the existing packet network capability to form a two-way communications system for informational exchange and transaction execution for homes, and local businesses and institutions.

From a basis of growing strength and leadership—aided by sensible exploration of new service potential from integration of proven technologies in imaginative ways—Tymshare is committed and confident regarding its place in the New Communications.

Information Management

Tymshare develops effective, economic methods to meet many information management and decision support needs, creating and working with massive or specialized data bases, personalizing systems for analyzing information, and providing selective techniques for examining and reporting on business or market conditions. Business managers in corporate finance, marketing and sales, planning, human resources, and business development are among our customers.

Anyone who makes key decisions or who supports the information flow required for informed decision making is in the user profile for Tymshare's proprietary Decision Support Systems™. Large and complex industrial, financial, or governmental organizations need effective, timely data from many sources to buttress experience and judgment. Tymshare management decision capability for its primary large company market has added strength for 1982.

Consumer goods companies, manufacturers concerned with constant and complex shipping and distribution procedures, energy suppliers, utility organizations, and financial services firms all benefit from expansion of products and services from Tymshare. This year will be the first full year of marketing for several new offerings.

The uniquely wide range of capabilities in one of our new systems is triggering excellent initial sales. ACUSTAR™, being sold nationwide this year, is designed specifically for product management in consumer goods corporations. It is a specialized marketing data management and analysis application system that was developed by product marketing managers and analysts who deal with consumer products. The system automatically integrates information that is normally disparate— information from different data sources cast in different time frames—for easy review and reporting. It is billed as a one-stop support system for marketing managers, giving them the edge in reacting quickly to competitive or market changes.

Also new from Tymshare is Rail Fleet Management Services, designed to support fleet managers who need reliable means of maximizing use and productivity from a rail car fleet. Timely, accurate reports on shipments are vital to meet these objectives.

With Tymshare's comprehensive new service, the fleet manager has the capability needed. Car location is pinpointed quickly. The shipper can identify and react to potential problems readily, locate empty cars, and plan for most efficient use of rail cars for future shipments. Tested and proven in use by several major manufacturers before full-scale marketing began, this system can be tailored to individual customer needs and can be installed in just a few days. It requires no specialized staff for operation. Users in diverse locations of the customer company can share information in the system via Tymshare's network.

Emphasis on support to management in the energy field will be very visible this year. New tools from Tymshare include the DWIGHTLINE™ data base and others for examining petroleum economics, acquisitions, partnerships, and windfall profits decisions and consequences.

The data base gives online access to extremely useful oil and gas production statistics and to test information on more than 400,000 properties representing in excess of 85 percent of domestic petroleum production. Tymshare's powerful data base management capabil-

Breakfast food moves from producer to grocer to consumer on predictable schedules. Petroleum industry dynamics and economics are monitored and studied as a routine part of management's search for more certainty in decision making in the oil and gas business. Scanset, Tymshare's new personal information appliance, is for use by anyone needing simple access to computer-stored information, often merely by striking a single key. It's all part of the expanding scenario for Tymshare in supporting the information management and decision support requirements of companies, utilities, government units, and in serving a common need across an entire body of industrial or professional organizations.

Priorities in 1982

ity adds substantial value to the raw DWIGHTLINE data by providing reporting, four-color graphics displays, and statistical analysis, using simple English commands to trigger the responses.

Our newest financial decision support aid for management in the oil and gas industry has several benefits for management. They include quick, easy retrieval of exploration and production data for better risk analysis, economic evaluation, and production forecasting.

Other kinds of utility companies are candidates for an integrated marketing information system (IMIS) based on one originally developed with a large telephone company in the Bell System.

Increasing market opportunity exists among financial services industry companies that perform personal financial planning for individual clients. All are open to automating and improving the way they do this. Tymshare now has a better way, with a new product aimed specifically at insurance companies, trust departments of banks, accounting firms, investment brokerage firms, and the rising number of specialized personal financial planning organizations.

The system that meets this expanding requirement is a carefully integrated set of software capabilities used to perform comprehensive estate planning, tax planning, and insurance policy analysis. Added value comes from the system's ability to do several other related functions: risk/reward analysis, cash flow management, preparation of financial statements, business valuation, client tracking, and general support. It's a product in tune with the times, aimed at the rapidly expanding personal financial planning market.

Additional new product and service programs aimed at the large company information management and decision support market, although not cleared for announcement in this report, are expected this year. The combination of the broad customer and revenue foundation in place, and the additional strength from new products and systems such as those mentioned above, give renewed momentum to the remote service sector of Tymshare's business, not just for 1982 but well into the future.

The key is to recognize emerging needs early, spot and apply the appropriate technology early, and support the customer with professional business information and applications training throughout the life of the application.

Leveraged Selling

A special program begun during the last part of 1981 will leverage Tymshare's considerable, nationwide sales strength into additional product and service markets. These efforts are focused at two separate areas of opportunity: electronic messaging and point-of-sale (POS) authorization equipment sales.

Tymnet's electronic messaging product, OnTyme®, was enhanced with additional capabilities and features last year. At the same time, plans and training got under way to enable the nationwide Tymshare computing services sales organization to start selling OnTyme this year. OnTyme had been sold previously only through the smaller and more specialized Tymnet sales force.

The combination of low cost (typically about 50 cents for a 500-character message), new features that expand OnTyme's applicability, and nationwide sales representation through all Tymshare branch offices, should make 1982 a record year in electronic messaging. New advertising and direct mail promotion also is part of the expanded program.

Our financial transaction services marketing also is getting a boost from leveraged use of existing sales resources. One of the definite growth areas in this market is electronic point-of-sale transaction authorizations. We are broadening our role as a provider of electronic authorization services. Initially treated as merely an adjunct to credit card processing activities, authorization first took on additional revenue and service significance with our acquisition of the Validata® service. The TeleCheck check warranty service is in the same general market category.

More recently, we have focused additional effort on providing not only the authorization itself, but additional terminal models at the point of sale. Now, in agreement with the TeleCheck franchisees, Tymshare is training the franchisee sales personnel, some 250 in all, to make sales calls on financial institutions in their market areas to aid in selling point-of-sale equipment. Although in its early phases, this is a program that has real promise and that springs from the principle of leveraged selling.

Personal Terminals

It looks small enough to pass for a toy. Its design is smart and pleasing, suitable for the personal workspace in the den at home or the credenza of an executive suite.

It is the first product in a new line of Tymshare personal information terminals. Scanset™. It is priced low, engineered to be powerful and productive, yet ideal for occasional use as a personal information aid. Scanset combines economy with extensive features that make complex functions happen with ease. Completely unintimidating, this personal information device is seen as the forerunner of an entire product line for anyone, not just computer professionals.

So automatic and simple to use that it gives one-button computer and information access, Scanset was officially released for sale through Tymshare sales offices nationwide in February of this year. Much broader distribution is planned.

Additional penetration of this potentially large market for such personal information aids will result from the next scheduled product in the line. It's everything an automatic telephone should be. It's everything the best personal terminal should be. In one package. Still small. Still low cost. And even more appealing in form and function.

Tymshare, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 1981 and 1980

Assets

	1981	1980
	(In thousands)	
Current assets:		
Cash and cash investments	$ 7,542	$ 16,970
Accounts receivable, less allowance of $3,200,000 in 1981 and $1,650,000 in 1980 for doubtful accounts	68,207	48,486
Refundable income taxes	9,620	—
Inventories	22,735	14,353
Prepaid expenses and deposits	3,372	3,725
Total current assets	111,476	83,534
Property and equipment, at cost:		
Land and buildings	10,168	7,046
Computer systems	72,107	60,244
Terminal and communications equipment	80,295	52,156
Purchased software	6,531	3,970
Furniture, fixtures and other equipment	14,223	11,030
Leasehold improvements	8,609	6,039
	191,933	140,485
Less — Accumulated depreciation and amortization	75,289	54,901
	116,644	85,584
Other assets:		
Cost in excess of net assets acquired	14,298	11,180
Investment in affiliates	7,091	7,018
Deferred charges	1,638	1,649
	23,027	19,847
	$251,147	$188,965

The accompanying notes are an integral part of these balance sheets.

Liabilities and Shareholders' Investment

	1981	1980
	(In thousands)	
Current liabilities:		
Current portion of long-term debt	$ 1,339	$ 686
Accounts payable	22,974	21,536
Accrued payroll liabilities	3,685	2,956
Other accrued liabilities	4,973	4,643
Accrued and current deferred income taxes	14,179	4,525
Total current liabilities	47,150	34,346
Deferred taxes:		
Deferred investment tax credits	8,547	6,425
Deferred income taxes	9,655	6,281
	18,202	12,706
Long-term debt, net of current portion	24,841	1,594
Lease commitments		
Shareholders' investment:		
Preferred stock, $10 par value:		
Authorized — 2,000,000 shares, none issued	—	—
Common stock, without par value:		
Authorized — 20,000,000 shares		
Outstanding — 11,755,622 shares in 1981 and 11,294,187 shares in 1980	78,460	72,954
Retained earnings	82,494	67,365
	160,954	140,319
	$251,147	$188,965

Tymshare, Inc. and Subsidiaries
Consolidated Statements of Income

For the Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
	(In thousands, except earnings per share)		
Revenues from services and sales	**$289,687**	$235,854	$193,092
Costs and expenses:			
Cost of revenues and operating expenses	**171,280**	122,116	98,520
Selling, general and administrative	**75,951**	64,466	55,406
Technical development	**16,004**	12,232	9,592
	263,235	198,814	163,518
Income from operations	**26,452**	37,040	29,574
Interest expense	**1,953**	3,409	3,987
Interest income	**(1,207)**	(762)	(477)
Income before provision for income taxes	**25,706**	34,393	26,064
Provision for income taxes:			
Federal	**7,668**	12,600	9,575
State	**2,368**	3,050	1,845
	10,036	15,650	11,420
Net income	**$ 15,670**	$ 18,743	$ 14,644
Earnings per share	**$1.33**	$1.81	$1.53

The accompanying notes are an integral part of these statements.

Tymshare, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Investment

For the Years Ended December 31, 1981, 1980 and 1979

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
		(In thousands)		
Balance, December 31, 1978	**9,010**	$19,146	$33,978	$ 53,124
Sale of common stock:				
Employee stock option plans	158	994	—	994
Employee stock purchase plan	128	1,349	—	1,349
Tax benefit related to employee shares	—	308	—	308
Shares issued in connection with acquisitions	34	512	—	512
Net income	—	—	14,644	14,644
Balance, December 31, 1979	9,330	22,309	48,622	70,931
Sale of common stock:				
Public offerings	1,625	46,175	—	46,175
Employee stock option plans	165	1,444	—	1,444
Employee stock purchase plan	135	1,948	—	1,948
Tax benefit related to employee shares	—	273	—	273
Shares issued in connection with acquisitions	39	805	—	805
Net income	—	—	18,743	18,743
Balance, December 31, 1980	11,294	72,954	67,365	140,319
Sale of common stock:				
Employee stock option plans	210	1,942	—	1,942
Employee stock purchase plan	127	2,662	—	2,662
Tax benefit related to employee shares	—	877	—	877
Shares issued in connection with acquisitions	125	25	—	25
Net income	—	—	15,670	15,670
Translation adjustments	—	—	(774)	(774)
Other	—	—	233	233
Balance, December 31, 1981	11,756	$78,460	$82,494	$160,954

The accompanying notes are an integral part of these statements.

Tymshare, Inc. and Subsidiaries
Consolidated Statements of Changes in Financial Position

For the Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In thousands)	
Working capital provided from (used for):			
Net income	**$ 15,670**	$ 18,743	$ 14,644
Add (deduct) items not requiring the use of working capital:			
Depreciation and amortization	**22,951**	16,023	13,851
Deferred investment tax credits and deferred income taxes	**5,496**	3,203	3,552
Increase in equity of undistributed earnings of affiliates	**(637)**	(476)	(644)
Working capital provided from operations	**43,480**	37,493	31,403
Increase (decrease) in long-term debt	**23,247**	(22,883)	(1,264)
Sale of common stock	**4,604**	49,567	2,343
Issues of stock related to acquisitions	**25**	805	512
Tax benefit related to employee shares	**877**	273	308
Additions to property, net:			
Related to acquisitions	**(2,807)**	(698)	(1,673)
Computer systems	**(11,583)**	(8,924)	(8,573)
Terminal and communications equipment	**(27,304)**	(13,666)	(16,420)
Other	**(11,018)**	(9,651)	(2,817)
Increase in cost in excess of net assets acquired	**(3,455)**	(5,986)	(526)
Increase in deferred charges	**(858)**	(318)	(323)
Decrease (increase) in investment in affiliates	**471**	(669)	—
Translation adjustments	**(774)**	—	—
Other	**233**	—	—
Increase in working capital	**$ 15,138**	$ 25,343	$ 2,970
Working capital increase represented by:			
Increase (decrease) in current assets:			
Cash and cash investments	**$ (9,428)**	$ 11,451	$ 2,039
Accounts receivable	**19,721**	7,925	9,245
Refundable income taxes	**9,620**	—	—
Inventories	**8,382**	7,172	649
Prepaid expenses and deposits	**(353)**	1,407	426
Decrease (increase) in current liabilities:			
Notes payable	—	600	—
Current portion of long-term debt	**(653)**	3,074	(784)
Accounts payable	**(1,438)**	(6,128)	(3,772)
Accrued liabilities	**(1,059)**	626	(2,612)
Accrued and current deferred income taxes	**(9,654)**	(784)	(2,221)
Increase in working capital	**$ 15,138**	$ 25,343	$ 2,970

The accompanying notes are an integral part of these statements.

Tymshare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Tymshare, Inc. and its subsidiaries after elimination of significant intercompany accounts and transactions. The minority interests in two foreign subsidiaries are not significant in amount.

The Company has elected to apply Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," beginning in fiscal 1981. The effect of applying Statement No. 52 compared to its predecessor Statement No. 8 was insignificant to net income for 1981 and prior years and such results have not been restated.

Retained earnings include the following translation adjustments (in thousands):

Cumulative translation adjustments — December 31, 1980	$(206)
Translation adjustments during fiscal 1981	(774)
Cumulative translation adjustments — December 31, 1981	$(980)

Foreign currency transaction gains and losses have been included in operating expenses and were not significant.

The investment in minority-owned affiliates is accounted for on the equity method, and the Company's share of the affiliates' earnings ($637,000 in 1981, $512,000 in 1980 and $684,000 in 1979) is included in revenues. The excess of the cost of the investment in these affiliated companies over the underlying equity in net assets acquired is being amortized over 40 years. The unamortized cost was $2,493,000 at December 31, 1981.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of computer spare parts and related equipment, communications equipment parts and related spares, technical manuals, and tax preparation and other data processing supplies.

Software Development

The cost of software developed by the Company is charged to expense as incurred. Purchased software is capitalized and amortized over its estimated life.

Depreciation and Amortization

Depreciation and amortization are provided generally on the straight-line method using the following estimated lives:

Buildings	10 to 40 years
Computer systems	3 to 7 years
Terminal and communications equipment	3 to 7 years
Purchased software	2 to 6 years
Furniture, fixtures and other equipment	3 to 10 years
Leasehold improvements	Life of lease

Cost in Excess of Net Assets Acquired

The cost in excess of net assets acquired in connection with acquisitions of subsidiaries in 1971 and thereafter is being amortized generally over 40 years. The excess cost ($1,739,000) associated with acquisitions of subsidiaries prior to 1971 is not being amortized because management believes there has been no impairment of value.

Income Tax Preparation Services

The Company's income tax preparation services are seasonal with most of the revenue being earned in the months of January through April of each year. Certain direct costs associated with the income tax preparation services are deferred and charged against income during the months these revenues are earned.

2. ACQUISITIONS AND INVESTMENTS

Acquisitions in 1981

During 1981, in five separate transactions, the Company acquired the operations of a private television communications company, a computerized airline reservation service, two check authorization services and a preauthorized bill paying service. Total payment for the above acquisitions consisted of cash payments of $8,350,000; 122,000 shares of the Company's common stock; and, for one of the acquisitions, contingent annual payments based on operating results through 1987. Four acquisitions were accounted for as purchases, and the operating results since the dates of acquisition are included in the accompanying financial statements. One minor acquisition was accounted for as a pooling of interests but had no significant effect on prior year financial statements. If these acquisitions had taken place at the beginning of 1979, the effect upon the results of operations for 1979, 1980 and 1981 would not have been significant.

Acquisitions in 1980

During 1980, in three separate transactions, the Company acquired the assets of a medical accounting software company, a credit card processing center and a check authorization service. Total payment for the above acquisitions consisted of cash payments of $803,000; 6,190 shares of the Company's common stock and amounts payable in 1981 of $4,470,000. These acquisitions were accounted for as purchases, and the operating results since the dates of acquisition are included in the accompanying financial statements. If these acquisitions had taken place at the beginning of 1979, the effect upon the results of operations for 1979 and 1980 would not have been significant.

Acquisitions in 1979

During 1979, in three separate transactions, the Company acquired the principal assets of a computerized credit inquiry system; certain assets and an exclusive license for an electronic funds transfer system; and certain assets of an equipment maintenance operation. Total payment for all three acquisitions consisted of cash of $1,400,000 and a royalty obligation and promissory note of $450,000 payable only from proceeds of certain net revenues generated from the electronic funds transfer system. These acquisitions were accounted for as purchases, and the operating results since the dates of acquisition are included in the accompanying financial statements. If these acquisitions had taken place at the beginning of 1979, the effect upon the results of operations for 1979 would not have been significant.

3. BANK LINES OF CREDIT

The Company has separate unsecured lines of credit with several banks which expire from March 1982 through February 1984. At December 31, 1981, the unused portion of the lines was $118,175,000, including $73,000,000 which the Company may convert to term loans. The lines provide, among other conditions, that certain financial ratios be maintained by the Company. The Company was in compliance with all financial ratio requirements at December 31, 1981. Borrowings of $23,500,000 under these agreements at interest rates of 14⅝% to 15¾% as of December 31, 1981, were included in long-term debt.

4. LONG-TERM DEBT

The long-term debt as of December 31, 1981, consisted of:

	Current	Long-Term
	(In thousands)	
Borrowings under lines of credit (Note 3)	$ —	$23,500
Mortgages payable	80	442
Note payable	10	435
Capitalized lease obligations (Note 5)	882	—
Other	367	464
	$1,339	$24,841

The mortgages are payable at various times through 1998 and bear interest from 7½% to 10%. The note payable results from an acquisition in 1979, is non-interest bearing, and is payable only from certain revenues resulting from the acquisition.

Future annual payments of long-term debt as of December 31, 1981, were:

Fiscal Year	Amount (In thousands)
1982	$ 1,339
1983	23,895
1984	264
1985	105
1986	110
1987–1998	467
	$26,180

5. LEASES

The Company has leases for computer equipment having a cost of approximately $3,700,000 as of December 31, 1981, which have been classified as capital leases. In addition, the Company has operating leases for computers, related equipment and office and computer facility space expiring through 1997. Approximate future commitments under leases as of December 31, 1981, were:

	Capital	Operating Leases	
Years	Leases	Equipment	Facilities
		(In thousands)	
1982	$969	$ 4,240	$ 8,632
1983	—	3,696	8,232
1984	—	3,568	6,956
1985	—	2,256	5,162
1986	—	40	3,573
1987–97	—	15	18,849
Total commitments	969	$13,815	$51,404
Amounts representing interest (12.6% to 12.8%)	(87)		
Present value of capital lease obligations	$882		

Rent expense for operating leases (including leases with terms of less than 12 months) was:

	1981	1980	1979
		(In thousands)	
Equipment	$11,461	$11,367	$ 9,329
Facilities	9,791	6,870	5,362
	$21,252	$18,237	$14,691

6. COMMON STOCK

As of December 31, 1981 and 1980, the Company had reserved 626,683 and 836,445 shares of its common stock for issuance under employee stock option plans, including 257,496 shares and 224,996 shares, respectively, which were available for future granting of options. Options have been granted generally at 100% of the fair market value on the date of grant. However, certain stock option plans permit the Company to grant options at less than fair market value. Options are exercisable on a cumulative basis at various dates and expire five years from the date of grant.

At December 31, 1980, options for 611,449 shares were outstanding. During 1981, options for 32,500 shares were cancelled. As of December 31, 1981, options for 369,187 shares ranging in price from $7.25 to $35.75 per share (average price of $16.15) and expiring from 1982 through 1985 were outstanding (including options for 197,398 shares which were exercisable). Options were exercised as follows:

Year	Number of Shares	Option Price	
		Per Share	Total
1979	158,038	$2.87 to $12.00	$ 994,000
1980	165,069	3.62 to 19.00	1,444,000
1981	209,762	7.25 to 24.88	1,942,000

As of December 31, 1981 and 1980, the Company had reserved 157,025 and 283,626 shares, respectively, of its common stock for issuance under the employee stock purchase plan. Under the plan, eligible employees may purchase shares of common stock at 85% of the lower of the fair market value of the stock at the beginning or end of a twelve-month offering period. In July 1981, 126,601 shares were issued to participants at $21.07 per share. At December 31, 1981, payroll deductions for the offering period ending June 30, 1982, amounted to $1,717,000 and have been included in accounts payable in the accompanying balance sheet. At the beginning of the current offering period, 85% of the fair market value was $35.10 per share.

7. INCOME TAXES

The provision for income taxes consisted of the following:

	1981	1980	1979
		(In thousands)	
Current portion	$ 2,702	$12,386	$ 8,515
Refundable income taxes	(10,875)	—	—
Increase in deferred investment tax credits	2,122	1,890	1,031
Increase in noncurrent deferred income taxes	3,374	1,313	2,521
(Increase) decrease in prepaid income taxes	1,213	61	(647)
Increase in current deferred taxes	11,500	—	—
Total provision for income taxes	$10,036	$15,650	$11,420

Deferred income taxes result primarily from using accelerated depreciation and the cash method of accounting for Federal income tax purposes. Deferred investment tax credits result from reporting investment tax credits on the deferral method for financial reporting purposes.

The income tax provision differs from the amount computed by applying the statutory income tax rate to income before taxes as follows:

	Fiscal Year		
	1981	1980	1979
Federal provision at statutory rate	46%	46%	46%
State tax provision, net of Federal benefit	5	5	4
Investment tax credits	(9)	(5)	(4)
Research and development credits	(4)	—	—
Other	1	—	(2)
	39%	46%	44%

8. EARNINGS PER SHARE

Earnings per share have been computed based on the weighted average number of common shares and common equivalent shares (stock option and employee stock purchase plans) outstanding during each period. The weighted average number of common shares and common equivalent shares used in the computation was 11,827,000 in 1981, 10,383,000 in 1980 and 9,586,000 in 1979. Earnings per share assuming full dilution were substantially the same as reported earnings per share.

9. BUSINESS SEGMENT INFORMATION

The Company and its subsidiaries operate in the computer information services industry and the telecommunications services industry. Operations in the computer information services industry include the providing of data processing services, software and hardware, which enable customers to apply computer software and data processing techniques to solve diverse information retrieval, information management and computational problems. Operations in the telecommunications services industry include the providing of facilities which enable customers to transmit data between computers and terminal devices, transmit business messages between terminals, transmit private television communications and transmit other communications.

	Computer Information Services	Tele-Communications Services	Eliminations and Adjustments	Consolidated
		(In thousands)		
Year ended December 31, 1981:				
Sales to unaffiliated customers	$246,518	$ 42,532	$ 637	$289,687
Intersegment revenues	10,976	17,740	(28,716)	—
Total revenues	$257,494	$ 60,272	$(28,079)	$289,687
Operating profit	$ 25,198	$ 5,666	$ —	$ 30,864
Equity in earnings of affiliates				637
General corporate expenses				(5,049)
Income from operations				$ 26,452
Identifiable assets	$185,139	$ 41,755	$ —	$226,894
Investment in affiliates				7,091
Corporate assets				17,162
Total assets at December 31, 1981				$251,147
Year ended December 31, 1980:				
Sales to unaffiliated customers	$210,980	$ 24,362	$ 512	$235,854
Intersegment revenues	7,516	10,503	(18,019)	—
Total revenues	$218,496	$ 34,865	$(17,507)	$235,854
Operating profit	$ 35,935	$ 4,761	$ —	$ 40,696
Equity in earnings of affiliates				512
General corporate expenses				(4,168)
Income from operations				$ 37,040
Identifiable assets	$146,491	$ 18,486	$ —	$164,977
Investment in affiliates				7,018
Corporate assets				16,970
Total assets at December 31, 1980				$188,965

	Computer Information Services	Tele-Communications Services	Eliminations and Adjustments	Consolidated
	(In thousands)			
Year ended December 31, 1979:				
Sales to unaffiliated customers	$176,244	$ 16,164	$ 684	$193,092
Intersegment revenues	6,518	7,752	(14,270)	—
Total revenues	$182,762	$ 23,916	$(13,586)	$193,092
Operating profit	$ 29,100	$ 3,118	$ —	$ 32,218
Equity in earnings of affiliates				684
General corporate expenses				(3,328)
Income from operations				$ 29,574
Identifiable assets	$112,930	$ 12,175	$ —	$125,105
Investment in affiliates				5,956
Corporate assets				5,584
Total assets at December 31, 1979				$136,645

Intersegment revenues are recorded at approved tariff rates, or rates charged to unrelated third parties for a similar volume of business, or at the estimated cost of providing the services where such services are not provided to unrelated third parties. Operating profit is total revenue less operating expenses. Identifiable assets are those assets that are used in the operations of each segment. Corporate assets are principally cash and cash investments and refundable income taxes.

The Company's revenues, earnings and identifiable assets attributable to foreign operations are not significant in relation to consolidated amounts.

10. UNAUDITED SUPPLEMENTAL INFORMATION ON THE EFFECT OF CHANGING PRICES

Overview

The following supplemental information is presented in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 33 (the Statement). The objective of the Statement is to help readers understand the effects of inflation on companies' financial statements. To this end, it requires two supplemental computations of operating results:

A. The first is based on the effect of general inflation (constant dollar), as measured by the Consumer Price Index for All Urban Consumers (CPI-U).

B. The second is based on the change in prices for specific resources used in the Company's operations (current cost).

In addition it requires a computation of certain net asset values based on constant dollar and current cost and a five-year summary of selected financial data on a constant dollar basis.

This supplemental information does not reflect a comprehensive application of either the constant dollar or current cost accounting method to the financial statements taken as a whole. Instead, only the items most affected by inflation are restated.

The FASB views this information as experimental and the methods used to prepare it involve numerous assumptions, estimates and approximations. Therefore, the Company cautions that these disclosures should not be taken as a precise measure of the effect of inflation on the Company's financial position or results of operations. Further, this information does not necessarily represent the amounts for which assets could be sold, costs which will be incurred in future periods, or the manner in which actual replacement of assets will occur.

Constant Dollar Calculations

Constant dollar data for property and equipment were developed using the average level of the CPI-U during the year. Depreciation and amortization expenses were calculated on the restated cost of assets using the same methods and rates as used in the primary financial statements.

Current Cost Calculations

Current cost data for property and equipment were developed using indices published by the United States Department of Labor appropriate to the various forms of assets which the Company owns. These indices do not necessarily reflect all the technological changes which have occurred in the form and function of these assets. As with the constant dollar calculations, depreciation and amortization expenses were computed using the same methods and rates as used in the primary financial statements.

The Company's operations are concentrated primarily on providing service, as opposed to production and sale of capital goods, consequently it has a relatively small percentage of assets invested in items held for sale. Accordingly, the effect of inflation on cost of revenues is insignificant, and is not presented.

Gain (Loss) Due to Decline in Purchasing Power of Net Monetary Assets

Net monetary assets represent cash and claims to cash which are fixed in terms of dollars, less liabilities to pay cash, which are also fixed. An excess of monetary liabilities during periods of inflation represents a monetary gain because of the diminished purchasing power of the dollars used to settle the liabilities. Conversely, an excess of monetary assets represents a monetary loss.

Table 1

Consolidated Statement of Net Income Adjusted for Changing Prices For Year Ended December 31, 1981 (In thousands of average 1981 dollars)

Net income as reported in the primary financial statements	$15,670
Adjust depreciation and amortization effect of changing prices	(5,541)
Net income adjusted for general inflation (constant dollar)	10,129
Adjustments to reflect difference between effect of general inflation and specific prices on depreciation and amortization	6,073
Net income adjusted for changes in specific prices (current cost)	$16,202
Purchasing power loss on net monetary assets	$(1,445)
Effect of increase in general price level	$17,086
Increase in current cost of property held during year, net of accumulated depreciation and amortization	(1,090)
Excess of increase in general prices over increase in specific prices	$15,996

Table 2

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for Effects of Changing Prices
(In thousands of average 1981 dollars, except per share amounts)

	Year Ended December 31, 1977	1978	1979	1980	1981
Revenues from services and sales	$151,761	$207,887	$241,365	$259,439	$289,687
Historical cost information adjusted for general inflation:					
Net income					$ 10,129
Net income per share					$ .86
Net assets at year end					$268,233
Current cost information:					
Net income					$ 16,202
Net income per share					$ 1.37
Excess of increase in general prices over increases in specific prices					$ 15,996
Net assets at year end					$252,237
Purchasing power loss on net monetary assets					$ (1,445)
Cash dividends declared per common share	$ —	$ —	$ —	$ —	$ —
Market price per common share at year end	$ 16.71	$ 18.30	$ 30.58	$ 51.26	$ 27.70
Average consumer price index	181.5	195.4	217.4	246.8	272.4

Auditors' Report

To Tymshare, Inc.:

We have examined the consolidated balance sheets of Tymshare, Inc. (a California corporation) and subsidiaries as of December 31, 1981 and 1980, and the related statements of income, shareholders' investment and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Tymshare, Inc. and subsidiaries as of December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

San Jose, California
February 22, 1982

Five-Year Summary of Selected Financial Data

	Year Ended December 31, 1981	1980	1979	1978	1977
	(Amounts in thousands, except earnings per share)				
Revenues from services and sales	$289,687	$235,854	$193,092	$149,559	$101,174
Costs and expenses:					
Cost and expenses	263,235	198,814	163,518	128,241	84,671
Interest, net	746	2,647	3,510	1,924	695
	263,981	201,461	167,028	130,165	85,366
Income before provision for income taxes	25,706	34,393	26,064	19,394	15,808
Provision for income taxes	10,036	15,650	11,420	8,800	7,800
Net income	$ 15,670	$ 18,743	$ 14,644	$ 10,594	$ 8,008
Earnings per share	$1.33	$1.81	$1.53	$1.15	$.91
Weighted average number of common shares and common equivalent shares used to compute earnings per share	11,827	10,383	9,586	9,180	8,818
Total assets	$251,147	$188,965	$136,645	$107,161	$ 77,753
Working capital	$ 64,326	$ 49,188	$ 23,845	$ 20,875	$ 13,026
Total debt	$ 26,180	$ 2,280	$ 28,837	$ 29,317	$ 18,759
Long-term debt	$ 24,841	$ 1,594	$ 24,477	$ 25,741	$ 15,184
Shareholders' investment	$160,954	$140,319	$ 70,931	$ 53,124	$ 40,057
Current ratio	2.36	2.43	1.75	1.93	1.67

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

Tymshare, Inc. and its subsidiaries had significant increases in revenues and net income from 1977 through 1980, primarily due to continued growth of the Company's computer information services and the data communications services of its subsidiary, Tymnet, Inc. In 1981 the rate of revenue growth was approximately the same as in 1980, but net income declined by approximately 16 percent from the prior year. This decrease in net income was due primarily to substantial increases in telephone rates by the Bell Telephone System, a decrease in revenues and earnings from the credit card processing operations and, to a lesser extent, to a reduced growth rate of computer information services.

Total assets increased from $136,645,000 at the beginning of 1980 to $251,147,000 at December 31, 1981 and shareholders' investment increased from $70,931,000 to $160,954,000 over the same period, primarily as the result of expanded operations and two public common stock offerings in 1980. The principal capital expenditure requirements in 1981 and 1980 were for computer systems and expanded facilities, terminals and data communications equipment for Tymnet, and acquired operations.

Results of Operations

Total revenue for 1981 increased to $289,687,000 from $235,854,000 in 1980, or 23 percent. Revenue of the computer information services segment from unaffiliated customers grew from $210,980,000 in 1980 to $246,518,000 in 1981, or 17 percent. The telecommunications services segment's revenue from unaffiliated customers increased from $24,362,000 in 1980 to $42,532,000 in 1981, or 75 percent, part of which was due to the revenues of Microband acquired in January 1981. Total revenue in 1980 increased 22 percent over 1979 with a 20 percent growth in the computer information services segment, and a 51 percent growth in the telecommunications services segment. The primary reasons for the increases in revenues were: (1) greater penetration of the Company's products and services within established markets and into new markets; (2) the continued diversification of the Company's capabilities and services, substantially through internal growth and, to a lesser extent, acquisitions made in 1980 and 1981, most of which were accounted for as purchases; (3) the expansion and enhancement of the data communications network and new telecommunication services; and (4) price increases for certain services.

Costs and expenses increased 32 percent in 1981 as compared with 1980, and 22 percent in 1980 as compared with 1979. Cost and expenses increased in 1981 and 1980 as compared with the prior years as a result of increases in the Company's business as reflected in the growth of revenues previously discussed. The additional increase in costs and expenses in 1981 as compared with 1980 was due primarily to substantial increases in telephone rates by the Bell Telephone System and, to a lesser extent, to increased occupancy costs and depreciation during the comparable periods.

The operating profit margin of the computer information services segment was 10.2 percent in 1981 as compared with 17.0 percent in 1980. The operating profit margin of the telecommunications services segment was 13.3 percent in 1981 as compared with 19.5 percent in 1980. The increased operating expenses impacted the profit margins of both the computer information services and telecommunications services segments. In addition, profit margins in the computer information services segment were negatively affected by a decrease in revenues and earnings from the credit card processing operations and, to a lesser extent, to a reduced growth rate of computer information services.

Interest expense (net) decreased by $1,901,000 in 1981 as compared with 1980 due to the reduction of bank indebtedness from the proceeds of a December 1980 public offering. Interest expense (net) decreased by $863,000 in 1980 as compared with 1979 due to the reduction of bank indebtedness from the proceeds of an April 1980 public offering.

The Company's decrease in pre-tax income margins from 14.6 percent in 1980 to 8.9 percent in 1981 was due to the same factors which impacted operating profit margins.

The effective tax rate decreased from 45.5 percent in 1980 to 39.0 percent in 1981. This is primarily attributable to the effects of the research and development and investment tax credits. The effective tax rate in 1980 increased to 45.5 percent from 43.8 percent in 1979 primarily as a result of increases in state income taxes.

Liquidity and Financial Resources

The net proceeds from two public stock offerings in April and December 1980 were $46,175,000, of which approximately $30,000,000 was received in late December 1980. Such proceeds were used to retire bank debt, finance business acquisitions, and to finance purchases of additional capital equipment.

The major changes in financial condition for 1981 resulted primarily from increases in accounts receivable and inventories and the acquisition of property and equipment in connection with expansion of the Company's business and data communications network. The Company has acquired substantial communications equipment in an effort to reduce its increased telephone expense and, in addition, the Company has increased its prices where possible to offset the higher communications costs. However, the effects of such measures may not begin to be fully reflected in results of operations until the last half of 1982.

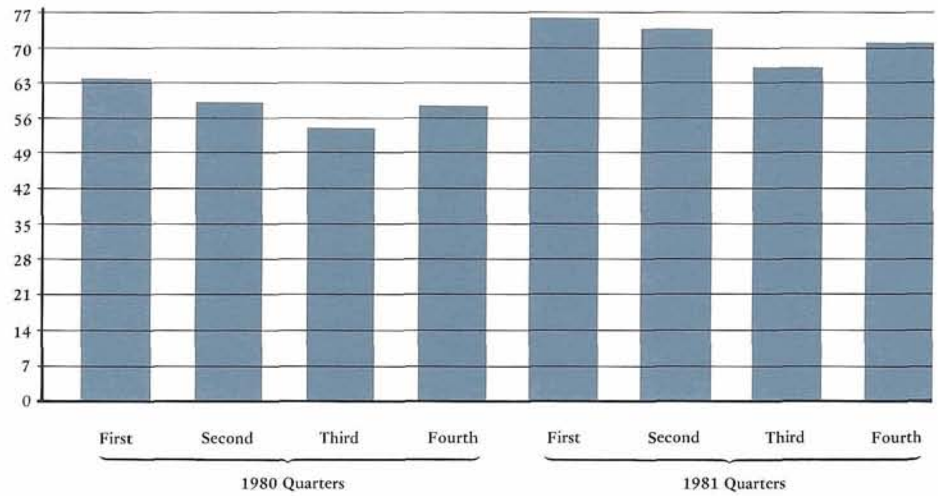
The Company's capital resource commitments at December 31, 1981 consisted primarily of continued expansion of computer systems, terminals and data communications equipment, and related facilities to meet expected business growth, and of certain lease obligations for existing computer equipment and facilities. In addition, the Company has historically acquired businesses which are compatible with, or complementary to, its existing services. This program of planned acquisition is expected to continue in 1982.

The Company's continued needs for working capital are primarily to finance expected higher levels of accounts receivable and inventories, and its capital resource commitments. These needs for working capital can be met by cash generated from operations and through borrowings under available lines of credit of approximately $118 million. See Notes 3 and 4 to Consolidated Financial Statements for further information concerning the Company's bank lines of credit and long-term debt.

1981 and 1980 Quarterly Highlights

The following consolidated financial information is unaudited.

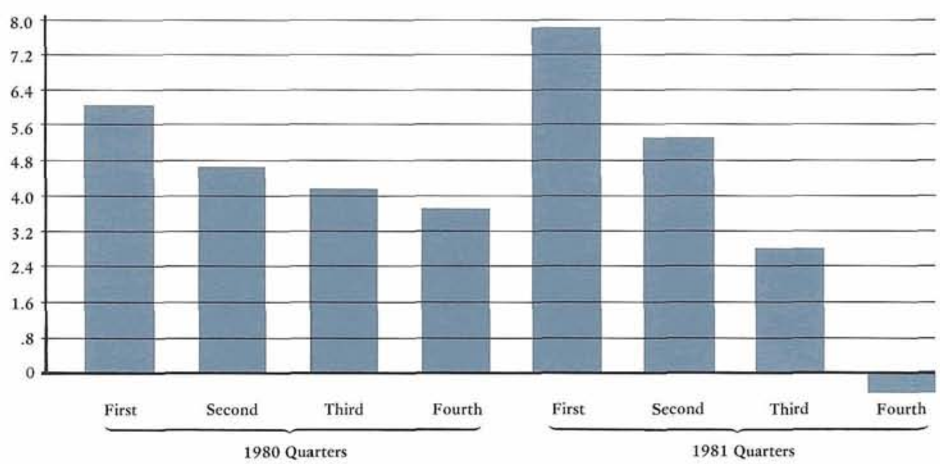
Revenue
in millions of dollars



Year	Quarter	Revenue	Income (Loss) Before Taxes	Income (Loss) Net	Income (Loss) Per Share	Income Margin Before Taxes	Income Margin Net
		(In thousands)	(In thousands)				
1980	First	$63,288	$11,373	$6,108	$.63	18.0%	9.7%
	Second	59,373	8,610	4,725	.45	14.5	8.0
	Third	54,440	7,506	4,156	.39	13.8	7.6
	Fourth	58,753	6,904	3,754	.35	11.8	6.4
1981	First	76,774	14,386	7,886	.68	18.7	10.3
	Second	75,780	9,636	5,416	.46	12.7	7.1
	Third	66,321	3,449	2,813	.24	5.2	4.2
	Fourth	70,812	(1,765)	(445)	(.04)	(2.5)	(.6)

The effect of adopting Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," on the quarterly results above was not significant and such results have not been restated.

Net Income
in millions of dollars



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Division Senior Management

Finance Division

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Market Prices of Common Stock

The Company's Common Stock is listed on the New York Stock Exchange (Symbol TYM), which is the principal market on which the Company's Common Stock is traded. The following table sets forth the high and low closing sale prices of the Company's Common Stock for the periods indicated, as reported by National Quotation Bureau Inc.

		High	Low
1980			
	First quarter	28⅞	21½
	Second quarter	25½	21
	Third quarter	35¾	24⅝
	Fourth quarter	48⅞	32¼
1981			
	First quarter	51	39¾
	Second quarter	55½	41
	Third quarter	43	26¼
	Fourth quarter	30¼	23¼
1982			
	First quarter (through March 19)	28⅞	16

As of March 19, 1982, the number of holders of record of the Company's Common Stock was 3,584.

The Company has not paid dividends on its Common Stock since incorporation and anticipates that for the foreseeable future it will continue to retain its earnings for use in its business.

Shareholders are entitled to receive, without charge and upon written request, a copy of the Company's Form 10-K Report for the year ended December 31, 1981, which has been filed with the Securities and Exchange Commission.

**Address requests to:
Robert A. Holub,
Vice President and Treasurer,
Tymshare Corporate Headquarters.**

The annual meeting of shareholders will be held at 10 a.m., Thursday, May 13, 1982, at Tymshare Corporate Headquarters, 20705 Valley Green Drive, Cupertino, California.

TYMSHARE®

Corporate Headquarters
20705 Valley Green Drive
Cupertino, CA 95014
408-446-6000

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