CONVERSATIONS

WITH MANAGEMENT

Tymshare Annual Report 1982

Our Company

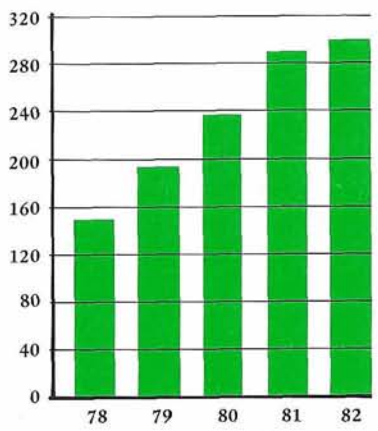
Tymshare is a major international corporation participating in the expanding information industry. Established in 1966, the company provides high value systems and services that assist individuals, institutions, and corporations in the vital tasks of getting and using information. Primary functions performed are electronic interchange of information and the automatic, often remote, processing of data into meaningful information. Tymshare professionals develop and combine advanced communications technology with powerful computing and software resources, either on a shared or dedicated basis, to serve its worldwide marketplace.

Tymshare, initially recognized for its pioneering role in computer timesharing, today offers a broad platform of capability, highlighted by: integrated information systems development and operation; domestic and international data and message communications; accounting and banking software and systems support; computerized income tax processing; and point-of-sale (POS) transaction services for financial institutions and retail organizations. The company also markets specialized equipment, such as Tymnet Engines and the Scanset™ product line.

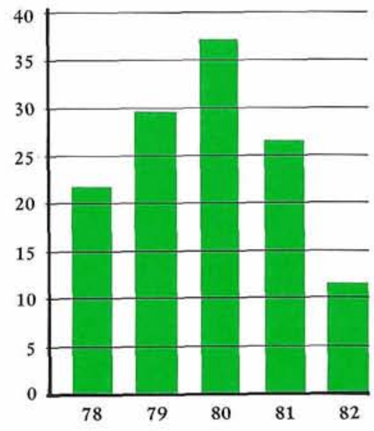
Revenues of the company approached $300 million in 1982 from U.S. and affiliated operations in other parts of the world. Tymshare entered 1983 with an employee strength of approximately 3,500 information professionals of rare talent and dedication.

Five-Year Highlights

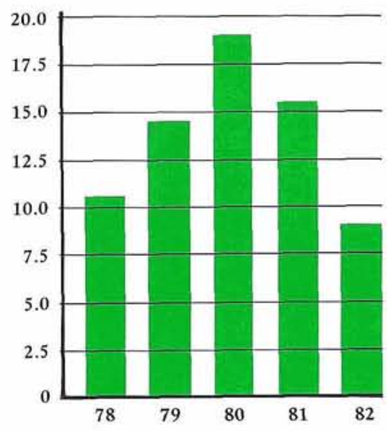
Revenue
in millions of dollars



Income From Operations
in millions of dollars



Net Income
in millions of dollars



	Year Ended December 31, (In thousands, except earnings per share)				
	1978	**1979**	**1980**	**1981**	**1982**
Revenue	$149,559	$193,092	$235,854	$289,687	$297,025
Income from operations	21,318	29,574	37,040	26,452	11,812
Net income	10,594	14,644	18,743	15,670	8,809
Earnings per share	$ 1.15	$ 1.53	$ 1.81	$ 1.33	$ .73
Shareholders' investment	$ 53,124	$ 70,931	$140,319	$160,954	$171,873

To Our Shareholders:

During the latter part of 1982 our business suffered from two related factors: prolonged economic recession and widespread lack of confidence among management clients in large companies about near-term economic recovery. This lack of confidence manifests itself in large firms as budget cutbacks for outside services such as ours. Despite excellent progress in several sectors of our business, the result for us was a full-year revenue level far short of our 1982 target. Even with stringent cost curtailment everywhere possible, lower revenue levels produced down earnings for our second year in a row.

This recession has lasted much longer than earlier ones, which we and others weathered with just a temporary slowdown in growth rates. This one cut our real growth in some divisions to near zero for five quarters through year-end 1982.

Today, Tymshare is participating in a market and a competitive climate geared to a society not just using information, but one based on information. And, we have a dual focus. First, making sure that we have effective cost-control measures in place as the recession subsides. Second, pursuing long-range programs of new product and business development with an eye on the horizon of the mid-decade and beyond.

Here are some specifics about 1982—what we did, why we did it, and why we chose not to do other things.

First, we sold two ongoing business operations—medical services and bank card processing. Their combined revenues in 1981 were in excess of $25 million, but prospects were for declining revenue and profits. We saw little hope that we could attain significant financial improvement or improve market share and product leadership without considerable additional management energy and investment of funds. Medical was sold in April; bank card operations September 30. The absence of their full-year revenues account for some of our revenue growth rate decline. We also reduced employment, primarily because of these transactions, by about 500–600 people.

We also closed down our Southern California experiment with shared Automatic Teller Machine (ATM) services for savings and loans. The turmoil in the S & L business clearly indicated that termination was the most prudent choice.

Every other variable cost we could control was trimmed to the greatest degree possible without impairing our ability to bounce back at the earliest signs of a recovery. Our expenses for people, computing resources, and communications leave little margin for cutback—believing as we do, that slower markets will improve and demand our full capability again.

We have spent many years building a base of people talent, applied technology, and service delivery systems of superior caliber. When demand returns, we will hear again about the scarce pool of really qualified people. And we will hear the chants of users who need answers fast and cannot get them fast enough from overburdened in-house systems and resources. We are going to be prepared to respond, as we always have, by maintaining a prudent watch on the prospects for an upturn in the economy.

Perhaps hidden from the general view in the 1982 record is some very solid progress. Our communications services revenues, with Tymnet being the major contributor, grew again at about 50 percent. We prepared for network expansion in 1983 at a record pace, both in access locations and in access node sophistication. You will read more about this later in our report. Despite our acknowledged leadership in network technology and value-added features, we cannot rest on reputation alone, not with the changes coming during the next several years. TYMNET's equipment and protocol flexibility—which has for years permitted transparent linkage of disparate machines and interface processes—is rapidly being incorporated into designs for planned new networks. It is no mystery why, since standards will always vary and new machines and new technologies are endless. The communications highway must be able to accept and offer transit for all forms of vehicles carrying all manner of data, messages, and intelligible information.

Continued development and expansion is needed to maintain our leadership, and we are going about that job. Tymnet's growth has been impressive, in geographic coverage, advanced technology, and profitable revenues. It requires aggressive and continuing development to maintain it. One example of this commitment is the recently announced acquisition of an international record carrier (IRC), FTC Communications, Inc.

Our check acceptance activity through TeleCheck®, and our related point-of-sale (POS) activities in automated credit authorization—retail counter terminals connected directly to computers—is moving nicely from a modest to a meaningful revenue base ahead of expectations.

Several specialized new applications products established themselves in their remote services market sectors in 1982. Growth in our small banking systems software products unit was right on target, giving rise to considerations of possible expansion of this current product line and customer base. Three models in our new Scanset™ personal information terminal product line reached the market in 1982, generating interest among prospects and the nation's news media that frankly outpaced our expectations and resulted in sales that more than met our objectives for the year.

Our work with telephone companies, which is directed at helping former Bell operating units during their transition to independent operation, produced good revenue results. We feel we can come out of the transition with stronger customer alliances than before the separation if we do our jobs properly, and we did very well last year.

Our focus on energy firms in 1982 had lower than hoped for return based on slackening demand for oil products, but this is not seen as a lasting condition. We now have the basis for a gradually enlarging line of products and services for information needs of energy firms. This growing product line should be widely used in growth economies.

An author on important trends speaks of this current era as the time of the parenthesis, a time in-between what was and what is not yet here. Our economic recession has, I believe, focused attention on such a transition time. It is a time when some aspects of our business, our industry, and our global society will be left behind, and new features will become part of our more complex profile. This is a complicated environment in which we live, and do business. Our company, which attempts to respond with ever better and more useful information systems and services, mirrors much of that complexity and change.

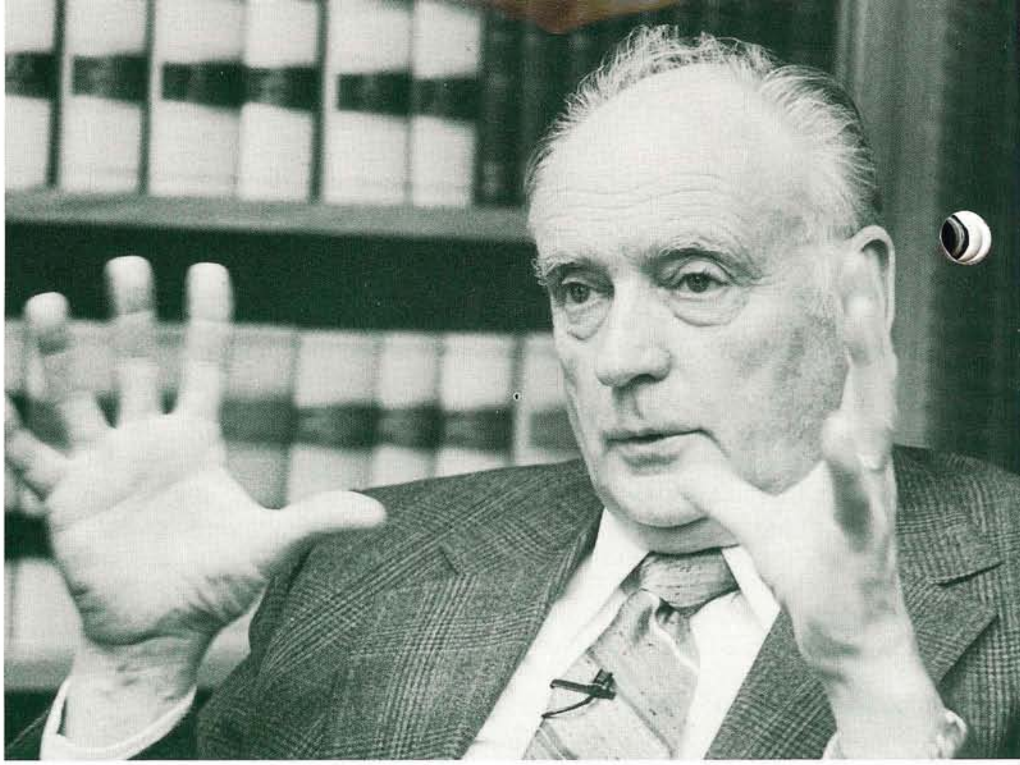
Tymshare's past has been successful and dynamic, only partly because of the times and trends. Our future will depend on more than economic ups and downs, although we are clearly more tied to such shifts than we were. Our basic strengths endure —the ability to manage at the frontier of change, a breadth of technological know-how that makes integration of multiple technologies practical in compressed time periods, and a population of resourceful, talented people unmatched in number or commitment to success. But our products and services are more intricate and intertwined today, our development and sales cycles are lengthening, and the stakes are higher. So, too, are the rewards. We believe we are very well positioned to ensure our participation in those rewards.

What follows in this report is a look in on parts of many conversations among management about our status and our objectives for Tymshare and its 3,500 unique and dedicated employees.

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

"We are now entering the third major revolution in our business . . ."

—Tom O'Rourke



Tymshare is managed by the president and his five fellow officers, three executive staff vice presidents, and division-level vice presidents and managers reporting to the company officers. The primary direction of Tymshare stems from this team's plans, decisions, and actions.

The culture of Tymshare is also shaped by this team. This culture was noted by an authoritative observer, who said that "it seems quite objective and open . . . politics do not dominate decisions . . . ideas flow, are debated . . ." For this report, we have tried to capture some of this debate via important, direction-setting comments obtained in many interviews and discussions. We present here the resulting conversations with management, highlighted by statements from company officers. Unseen are the many names of other senior managers who contributed ideas, commentary, and insights, which are interspersed in the narrative commentary.

But first, meet Tymshare's corporate officers:

Tom O'Rourke, president and chairman of the board, has been chief executive officer since Tymshare's founding more than 17 years ago. Previously with the General Electric Company for a similar period, he has been known both as pioneer and practical innovator in the commercial application of information handling and processing capabilities.

Ron Braniff, group vice president, Computer Services, was with IBM before becoming the first sales professional hired into Tymshare and rising through the years to be one of its senior executives. His Computer Services group is the company's largest revenue segment and has approximately 50 percent of the total Tymshare employment.

Alden Heintz, group vice president, International and Corporate Operations, is another long-term member of Tymshare's officer team. Formerly with Control Data Corporation, he has directed Tymshare's expansion into major markets of the world during the past 15 years. The company's administrative, human resources, and corporate communications services also fall within his responsibility.

Warren Prince, group vice president, Network Systems, joined Tymshare's top management team in 1971. He counts 10 years with GE earlier in his extensive management career. He also served as president of the timesharing company, Call-A-Computer, and was a vice president of Harris Trust & Savings in Chicago. His current role is in the dynamic arena of communications technology and services, with responsibility for Tymnet, Inc., Microband®, and all related development and manufacturing.

Laszlo Rakoczi, group vice president, Computer Technology, is in his tenth year in Tymshare's top management group. He directs all computer technology development, computer operations and maintenance, and specialized office automation programs. He formerly founded and ran Standard Computing Corporation, and earlier had participated in advanced computer engineering with GE and RCA.

Vincent Titolo, senior vice president and chief financial officer, has been the architect of increasingly sophisticated systems for asset and financial management for the company. Newest member of the executive group, he came from his position as vice president and treasurer of Ampex Corporation in October 1980.

"Productivity is the name of the game in the '80s."

—Laz Rakoczi

His earlier positions in corporate finance and banking were with United States Steel Corporation and the New York City operations of Chase Manhattan Bank.

And now their conversations. The focus is Tymshare's outlook, certainly for this year, but against a marketplace and an opportunity that stretches far beyond.

O'Rourke: "The difference now is that all of the things we have been talking about in this business for years are starting to happen. We are going to be putting it all together . . . blending communications and data processing into a total, meaningful package. Our customers' in-house management now can do a pretty good job handling much of their own data base management, but it will not likely be economic or convenient for them to duplicate the blend of value-added information capability we will be offering to support them. We are entering the third major revolution in our business—from raw sharing of computing cycles, to specialized, value-added applications, and now to sharing of large, integrated systems and services. The new timesharing era of the next eight to ten years has begun."

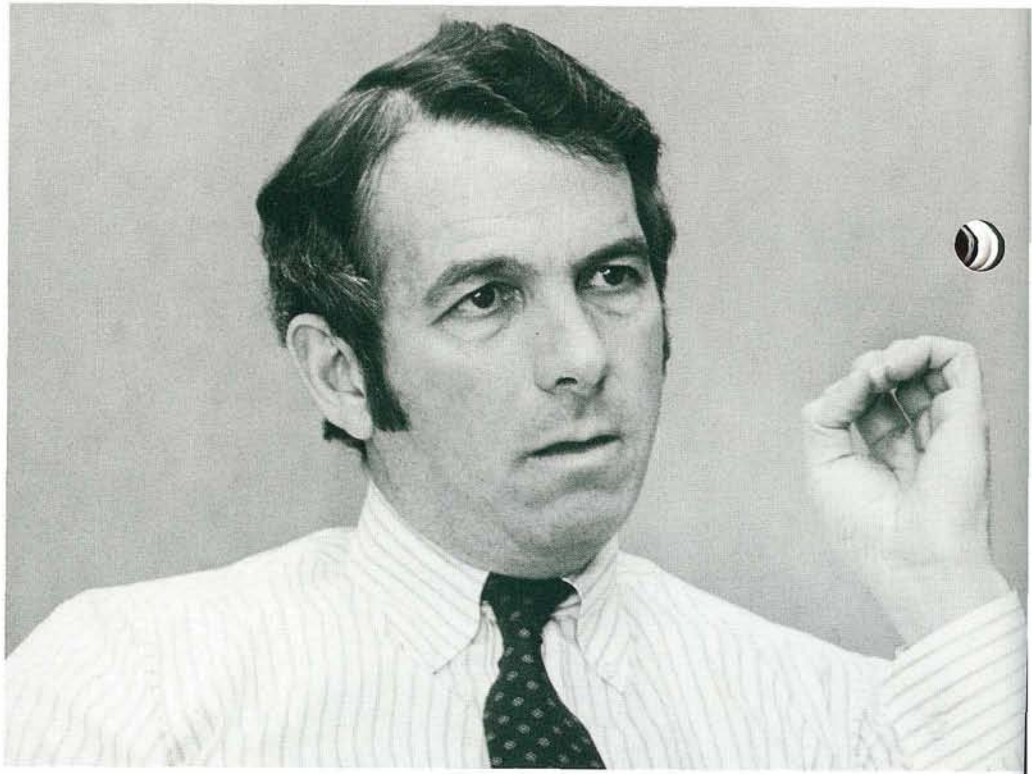
Rakoczi: "There is absolutely no rationale for large organizations to look at the computing and communications functions separately anymore . . . economics disallow it, end user (information worker) productivity requirements demand it, and applications and technological complexity would make it obsolete to perpetuate. In-house data processing (DP) and communications professionals need and want help in interacting with, and catering to, their exploding internal population of information workers using workstations such as personal computers, terminals, etc. The information-center managers now recognize the value of selective interchange of data to build consolidated reports and to exchange automated operating procedures. Can we do it? We're farther along in the practical technology than anyone. We've done some interchange applications that span a whole industry. We know how truly complex this kind of job really is. I don't think anybody else can provide them on a commercial scale before us. We're in a better position to help in-house DP and communications managers cater to their information-worker end users than either AT&T or IBM."

Braniff: "Because of the endless number of potential opportunities in our business, we have to concentrate on the best . . . that means ones offering a significant share of a big market, and it also means best for our special value-adding capabilities. Providing large organizations with very complex, integrated computing/communications/special-software systems is a big future market and it fits us. We are already out there, calling on these organizations, and we have earned a reputation with their management for fast, effective computing and communications service solutions. Over the past couple of years we have been shifting our sales and consulting emphasis to address the top information systems executive in an organization."

O'Rourke: "We're calling on the large organization client in a different fashion, in a different part of the organization . . . the vice president of data processing, or the vice president of communications, or the senior vice president whose role combines all these functions. In the past, we dealt mostly with the functional people—in marketing, finance, and manufacturing, for instance. Companies are into a new ballgame as they figure out how to serve more diverse, more expansive information needs, with increasing numbers of employees and

". . . complex, integrated systems . . . a big future market and it fits us."

—Ron Braniff



managers pecking away at their own personal computers or terminals. We are ready to take advantage of that opportunity with whole new value-added service leverage."

Prince: "We are coming to the point of offering a personal packet network node . . . fully intelligent and economical for the user with no more than a half dozen devices hooked to it. Think what that means in the context of a growing, spread-out organization and its needs for moving other information and software programs among managers and professionals. We can hook up single users, or several clusters of them, within their organization in a private network. The outside world of data and people is just as accessible, by tapping from their own node into the public TYMNET®. . . it's the same technology, with a whole different scale of data and communications power and potential—for applications, raw data, electronic messaging. We have arrived at another milestone in value-added service and sharing of information resource. In 1983, we're just at the threshold of this opportunity."

Heintz: "Our multinational customers continue to be the driving force in the growth of our business in the international marketplace. Nevertheless, each of our affiliates overseas has built a solid base of local national customers as the foundation of their business operations. Last year was a year of extremes: several of our overseas affiliates achieved record revenue and profit levels in 1982 . . . others had mediocre performance. Trends affecting demand and acceptance of technology, in the markets where our affiliates operate, are closely aligned with U.S. trends . . . situations that our affiliates deal with are relatively similar to those we see here."

The enthusiasm about the market for integrated systems and services is tempered by the lingering effects of recession. Large organizations' expenditures for outside services remain tight. Costs must be carefully adjusted, to reflect slower sales, to avoid further erosion of profits. This is a concern for our business and the businesses of our customers.

Titolo: "During the last couple of years, every item of cost that isn't fixed into the fabric of a company's business has been carefully scrutinized. That self-examination of cost factors in our business isn't going to disappear with the recession here at Tymshare. This long and deep period of economic decline has reminded business of some of the basic virtues, such as frugality. Of course, some companies can pull their variable costs down in parallel with revenue declines more easily than others. In our own business, we don't have very much that is variable, other than people, and they're the life blood. In any business, two things are increasingly important: minimizing the costs of dealing with information and making the people who use information more productive. And that's where our newer systems and services are aimed."

Rakoczi: "One of the ways we will help in-house data processing executives is to help them deal with their end users, the information worker —the manager, salesperson, technical professional, etc.—of which there are some 40–45 million in the U.S. Computers and communications coupled together in an integrated systems environment can help the information worker do the job more effectively and more productively. And productivity is the name of the game in the '80s. I think an important role for us is to help automate the applications for the information worker

"We are coming to the personal packet network node . . ."

—*Warren Prince*

who needs to talk directly to a data base, a computer, or a computing procedure inside or outside the company. This role is that of the intermediary information expert for our client companies."

Tymshare management also sees another dimension to the intermediary role.

O'Rourke: "A report made to our board of directors late last year referred to the intermediary role in terms of some new work we are doing in Electronic Data Interchange. The client is the entire industry, not just a single company. In this case, we serve as an unbiased industry intermediary, providing data transfer and processing for a need that is common to all firms in the industry. We think the middle and latter half of the 1980s will see substantial growth in this industry intermediary function. We think our work to date puts us ahead here."

Heintz: "As a service business, particularly a high technology service business, our most important assets don't show on the balance sheet—they're our people. To attract and maintain high caliber technical, marketing, and management people, often the most critical factor is the working environment itself. We must be attuned to the importance of maintaining stimulating challenge, delegating meaningful responsibility . . . but probably the most important factor of all to high caliber people is to be among others who also are tops in their field. To stay abreast in our business, people always have to be improving. We find it imperative to expand ongoing development and training in several areas: management skills, professional and technical skills, project planning and management, as well as an expanded set of sales, marketing, and customer-support learning activities."

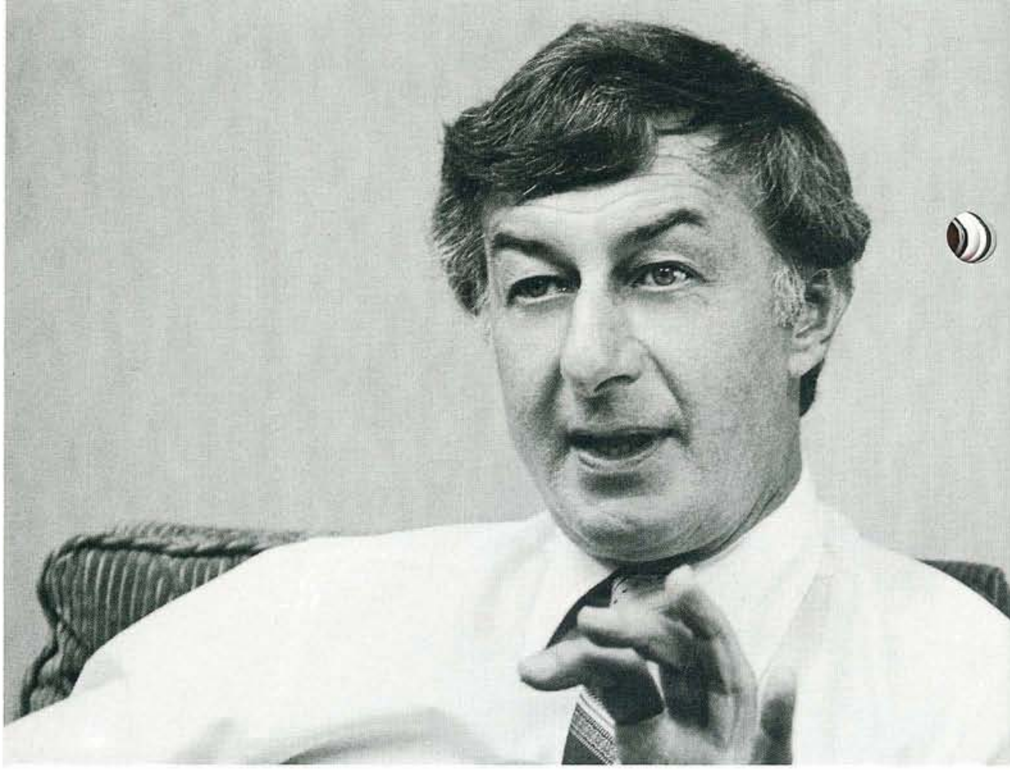
O'Rourke: "As we redirect the efforts of this company—both in R&D and in marketing—this means a fair amount of retraining, reorientation of people . . . in new marketing approaches, certainly in new sales strategies and techniques. Tymshare management, all down the line, will be expected to show increasing flexibility, expand their ability to adjust and to cope with a new set of circumstances, a new set of parameters."

Rakoczi: "Tymshare's integrated computer/communications delivery system and our abilities to operate and manage it, are second to none. In this time of so many uncertainties, our end-to-end facilities resources and expertise is a significant and proven strength. In my view, and among several large customers who should know, our computer/communications delivery system is the most efficient and flexible for interchange and processing requirements of today . . . and we are making enhancements for tomorrow."

Prince: "In January 1983, we began to install the first nodes in our expansion of TYMNET to more than 400 cities . . . by mid-year we will be able to provide local-call access to the nation's largest and most advanced packet data communications network from some 430 cities in this country, plus the 35 non-U.S. access countries. And, as always, this geographic growth stems from the improved economics of new equipment that springs from the new technology we develop ourselves. The family of Engines, which provides processing power in the network nodes, has been expanded to include a new Micro-Engine, which lowers the cost of putting a new node out in medium- and smaller-size cities. This technology, hence economic, hence geographic progress, will put TYMNET intelligent service at the beck and local call of anyone in virtually any U.S. city with a population of 85,000 or more."

"Our most important assets don't show on the balance sheets—our people."

—Alden Heintz



Later this year or early 1984, another Engine development will begin to appear. The highest power Engine yet will debut in locations of greatest volume and speed requirements. Skeptics of the 1970s who misunderstood the flexibility of Tymshare technology in networking—a value-added implementation combining circuit and packet-switching techniques—have watched with surprise the steady stream of new developments over the past dozen years. Some saw limits in TYMNET design. It now is clearly the prototype for the networks at the frontier of communications. The Tymshare network team, which has been together through more than a decade of advances, never saw limits, only possibilities beyond the current frontier. Skeptics have been replaced by imitators.

Braniff: "Our network technology and processing and software developments combine to give us the backbone of the newer integrated systems and servicing power that meets what our market is telling us is needed for the next decade. Not to be overlooked is the 'over the air' communications capability settling into place, growing out of our own experimentation and the specialized technology of our Microband subsidiary. Information services flowing from this capability for the balance of the 1980s include: more custom systems; new software tools; electronic messaging; and electronic interchange systems for major companies and progressive industries. Similarly, point-of-sale (POS) systems will expand and embrace larger needs. We also see controlled broadening of Tymshare software products for commercial and international banking, as well as steady progress in special-purpose processing services such as our tax and cable TV processing offerings —both of which had their biggest year ever in 1982."

Prince: "Nearly every person in the future will use some sort of information device sometime, whether the machine has intelligence like the micro or personal computer, or is just a so-called dumb terminal. They all will have a job to do. To do it, these machines have to communicate with data, with other people, and with processing power beyond their local level. That's where our communications sophistication comes in. Those machines also will need more problem-solution power or computer power in back of them, which is where the computer service side comes in."

Rakoczi: "We used to sell computing, with a network connection being the convenience to get to it. Now, and even more in the future, we'll sell networking with the computer enhancing its worth and value. We used to have people who either had computing knowledge or communications knowledge . . . now everybody has to learn the other side. This is part of the people training and development that is so important to our future. And that, I think, is going to be a very interesting—and exciting —challenge for all of us."

Braniff: "What we do is fill a special gap, one that's becoming wider every day. The gap is between what someone buys and what that someone needs in order to solve a problem. They all need this gap filled—our traditional end user, as well as the organization's highest level manager of data processing and communications facilities. The bigger and more complex the problem and the organization, the bigger the gap."

"We're paying attention to the right things."

—Vincent Titolo

O'Rourke: "The things people must do to run productive, profitable businesses or institutions in the new information-based society just can't be done by buying hardware and pushing buttons. They need consultive expertise, applications expertise, technical expertise, and overall systems integrating know-how. The special types of software they need won't be available from the equipment manufacturer, nor from the computer store. Special network services won't either. That's where Tymshare fits, even more so in the mid- and later-eighties. We tie together tens of thousands of scattered users, diverse hardware, and applications. We manage data pulled from internal and outside sources. We even put into the user's hands special-purpose terminal or data access equipment when it's needed—from a Scanset to a micro."

Titolo: "Most people looking at this industry know the opportunities are there for strong, well-managed companies. What they're asking is whether Tymshare has the financial horsepower and the awareness of the key management challenges to play the game and win. No one questions our grasp of the technology. Well, we have also done our homework on the requirements for success in an economy that probably isn't going to bounce back in a single surge. We have spent more than two years refitting this company with the information and financial control systems suited to a company growing from \$300 million to a billion dollars or more. I can also tell you that this company is in outstanding financial condition. At the end of 1981, our long-term debt was \$25 million; at year-end 1982—\$5.4 million. In the same period we reduced our accounts receivable from \$68.2 million to \$60.7 million. This is a company with a net worth of \$172 million that owes \$5 million. We have the assets to succeed and we are managing those assets better and better. We projected \$2.1 million in interest payments for 1982 . . . the actual was \$54,000. We're paying attention to the right things."

What does this all add up to for Tymshare, its shareholders, and its employees? Tom O'Rourke sums it up:

O'Rourke: "Tymshare is a company in one of the best growth industries of our time, a company and an industry that can grow steadily over the balance of this decade. Tymshare, even with two disappointing earnings years, has averaged nearly 20 percent compound revenue growth over the past five years, an average that was 30 percent before 1982. Despite the toughest national economy since the 1930s, Tymshare was a profitable company in 1981 and 1982. Tymshare is a company that is not losing ground to new economics and new technologies, but one adapting to these changes. Tymshare is a company that has found an expanding horizon in the larger markets of the world. We feel we're still an exciting company, still growing, still learning, and still able to recover from our mistakes. We expect to recover a lot in the next two years, but we don't control everything that affects us. We've learned some patience, and we think we'll need it. We also think Tymshare is a great company with great people and great positioning for growth far into the future."

Tymshare, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 1982 and 1981

Assets

	1982	1981
	(In thousands)	
Current assets:		
Cash and cash investments	**$ 6,296**	$ 7,542
Accounts receivable, less allowance of $5,408,000 in 1982 and $3,200,000 in 1981 for doubtful accounts	**60,653**	68,207
Refundable income taxes	**496**	9,620
Inventories	**24,546**	19,457
Prepaid expenses and deposits	**3,276**	3,372
Total current assets	**95,267**	108,198
Property and equipment, at cost:		
Land and buildings	**10,312**	10,168
Computer systems	**69,318**	72,107
Terminal and communications equipment	**108,514**	83,573
Purchased software	**8,213**	6,531
Furniture, fixtures and other equipment	**13,052**	14,223
Leasehold improvements	**9,954**	8,609
	219,363	195,211
Less — Accumulated depreciation and amortization	**87,645**	75,289
	131,718	119,922
Other assets:		
Cost in excess of net assets acquired	**20,632**	14,298
Investment in affiliates	**7,388**	7,091
Deferred charges	**3,464**	1,638
	31,484	23,027
	$258,469	$251,147

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

Liabilities and Shareholders' Investment

	1982	1981
	(In thousands)	
Current liabilities:		
Current portion of long-term debt	$ 232	$ 1,339
Accounts payable	33,352	22,974
Accrued payroll liabilities	4,554	3,685
Other accrued liabilities	7,631	4,973
Accrued and current deferred income taxes	10,245	14,179
Total current liabilities	56,014	47,150
Deferred taxes:		
Deferred investment tax credits	9,797	8,547
Deferred income taxes	15,324	9,655
	25,121	18,202
Long-term debt, net of current portion	5,461	24,841
Commitments and contingencies	—	—
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 — 11,941,843 shares in 1982 and 11,755,622 shares in 1981	80,968	78,460
Retained earnings	90,905	82,494
	171,873	160,954
	$258,469	$251,147

Tymshare, Inc. and Subsidiaries
Consolidated Statements of Income

For the Years Ended December 31, 1982, 1981 and 1980

	1982	1981	1980
	(In thousands, except earnings per share)		
Revenues from services and sales	**$297,025**	$289,687	$235,854
Costs and expenses:			
Cost of revenues	**185,033**	171,280	122,116
Selling, general and administrative	**81,574**	75,951	64,466
Technical development	**18,606**	16,004	12,232
	285,213	263,235	198,814
Income from operations	**11,812**	26,452	37,040
Interest expense	**1,111**	1,953	3,409
Interest income	**(1,057)**	(1,207)	(762)
Income before provision for income taxes	**11,758**	25,706	34,393
Provision for income taxes:			
Federal	**1,732**	7,668	12,600
State	**1,217**	2,368	3,050
	2,949	10,036	15,650
Net income	**$ 8,809**	$ 15,670	$ 18,743
Earnings per share	**$ .73**	$1.33	$1.81

The accompanying notes are an integral part of these consolidated financial statements.

Tymshare, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Investment

For the Years Ended December 31, 1982, 1981 and 1980

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
		(In thousands)		
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
Sale of common stock:				
Employee stock option plans	63	683	—	683
Employee stock purchase plan	60	724	—	724
Tax benefit related to employee shares	—	71	—	71
Shares issued in connection with acquisitions	63	1,030	—	1,030
Net income	—	—	8,809	8,809
Translation adjustments	—	—	(382)	(382)
Other	—	—	(16)	(16)
Balance, December 31, 1982	11,942	$80,968	$90,905	$171,873

The accompanying notes are an integral part of these consolidated financial statements.

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

For the Years Ended December 31, 1982, 1981 and 1980

	1982	1981	1980
		(In thousands)	
Working capital provided from (used for):			
Net income	$ 8,809	$ 15,670	$ 18,743
Add (deduct) items not requiring the use of working capital:			
Depreciation and amortization	26,866	22,951	16,023
Deferred investment tax credits and deferred income taxes	6,919	5,496	3,203
Increase in equity of undistributed earnings of affiliates	(387)	(637)	(476)
Working capital provided from operations	42,207	43,480	37,493
Increase (decrease) in long-term debt	(19,380)	23,247	(22,883)
Net book value of assets sold	6,877	—	—
Sale of common stock	1,407	4,604	49,567
Issues of stock related to acquisitions	1,030	25	805
Tax benefit related to employee shares	71	877	273
Additions to property, net:			
Related to acquisitions	(151)	(2,807)	(698)
Computer systems	(5,909)	(11,583)	(8,924)
Terminal and communications equipment	(30,034)	(30,582)	(13,666)
Other	(5,790)	(11,018)	(9,651)
Increase in cost in excess of net assets acquired	(8,719)	(3,455)	(5,986)
Increase in deferred charges	(3,026)	(858)	(318)
Decrease (increase) in investment in affiliates	20	471	(669)
Translation adjustments	(382)	(774)	—
Other	(16)	233	—
Increase (decrease) in working capital	$(21,795)	$ 11,860	$ 25,343
Working capital increase (decrease) represented by:			
Increase (decrease) in current assets:			
Cash and cash investments	$ (1,246)	$ (9,428)	$ 11,451
Accounts receivable	(7,554)	19,721	7,925
Refundable income taxes	(9,124)	9,620	—
Inventories	5,089	5,104	7,172
Prepaid expenses and deposits	(96)	(353)	1,407
Decrease (increase) in current liabilities:			
Current portion of long-term debt	1,107	(653)	3,674
Accounts payable	(10,378)	(1,438)	(6,128)
Accrued liabilities	(3,527)	(1,059)	626
Accrued and current deferred income taxes	3,934	(9,654)	(784)
Increase (decrease) in working capital	$ (21,795)	$ 11,860	$ 25,343

The accompanying notes are an integral part of these consolidated financial statements.

Tymshare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 1982

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 three subsidiaries are not significant in amount.

The investment in minority-owned affiliates is accounted for on the equity method, and the Company's share of the affiliates' earnings ($387,000 in 1982, $637,000 in 1981, and $512,000 in 1980), 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 $2,425,450 at December 31, 1982.

The Company applies Statement of Financial Accounting Standards No. 52 for purposes of translating foreign currency financial statements. Under the Statement, foreign currency assets and liabilities are translated into dollars at the year-end rate of exchange. Income and expense amounts are translated at average exchange rates experienced during the year. Translation gains and losses resulting from the translation of foreign currency financial statements are deferred and classified as adjustments to retained earnings as shown below (in thousands):

Cumulative translation adjustments — December 31, 1981	$ (980)
Translation adjustments during fiscal 1982	(382)
Cumulative translation adjustments — December 31, 1982	$(1,362)

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, technical manuals, tax preparation and other data processing supplies, and terminals and related equipment for resale.

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 in 1971 and thereafter is being amortized generally over 40 years. The excess cost ($1,739,000) associated with acquisitions prior to 1971 is not being amortized because management believes there has been no diminution in 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.

Reclassifications

Certain items in the December 31, 1981 and 1980 financial statements have been reclassified to conform to classifications in 1982. These classifications had no effect on previously reported net income.

Earnings per Share

Earnings per share have been computed based on the weighted average number of common shares and common equivalent shares outstanding during each period. The weighted average number of common shares and common equivalent shares used in the computation was 12,039,000 in 1982, 11,827,000 in 1981 and 10,383,000 in 1980. Earnings per share assuming full dilution were substantially the same as reported earnings per share.

2. ACQUISITIONS, INVESTMENTS AND DIVESTITURES

1982

During 1982, in three separate transactions, the Company acquired the operations of a microwave communications company, a company which markets microcomputer-based travel agent accounting systems, and a check authorization service. Additionally, the Company entered into two joint ventures, one to extend its computerized airline reservation service and the other to market terminal equipment. Total payment for the above consisted of cash payments of $1,775,000; 63,000 shares of the Company's common stock; and, for one of the acquisitions, contingent annual payments based on operating performance through 1985. The three acquisitions were accounted for as purchases, and the operating results, since the dates of acquisition, are included in the accompanying financial statements. The Company's investment in the computerized airline reservation service joint venture has been accounted for using the equity method. The terminal equipment marketing operation is consolidated. If the acquisitions had taken place at the beginning of 1980, the effect upon the results of operations for 1980, 1981 and 1982 would not have been significant.

During 1982, in three separate transactions, the Company divested itself of its credit card processing operation, its medical information service, and a check authorization service, which were all part of the computer information service business. Additionally, the Company's Automated Teller Machine service was discontinued. An aggregate net pretax gain of approximately $3,400,000 was recognized on these divestitures, and has been included as a reduction in cost of revenues.

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 and 122,000 shares of the Company's common stock. For one of the acquisitions, payment also consisted of contingent annual payments based on operating results through 1987. However, in 1982, amendments were made to the acquisition agreement, whereby these contingent annual payments were eliminated in exchange for cash payments aggregating $7,000,000 and warrants to purchase 175,000 shares of the Company's common stock at $20 per share, expiring in May, 1987. Four of the five acquisitions in 1981 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 1980, the effect upon the results of operations for 1980 and 1981 would not have been significant.

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 1980, the effect upon the results of operations for 1980 would not have been significant.

3. CREDIT AGREEMENTS

The Company has separate credit agreements with several banks which provide for borrowings at various interest rates. The agreements 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, 1982. A borrowing of $5,000,000 under one of these agreements, at an interest rate of 11½% as of December 31, 1982, was included in long-term debt.

4. LONG-TERM DEBT

The long-term debt as of December 31, 1982 consisted of:

	Current	Long-Term
	(In thousands)	
Borrowings under credit agreements (Note 3)	$ —	$5,000
Mortgages payable	80	357
Other	152	104
	$ 232	$5,461

The mortgages are payable at various times through 1998 and bear interest from 7½% to 11¼%.

Future annual payments of long-term debt as of December 31, 1982 were:

Fiscal Year	Amount
	(In thousands)
1983	$ 232
1984	5,072
1985	115
1986	33
1987	31
1988–98	210
	$ 5,693

5. LEASES

The Company has operating leases for computers, related equipment and office and computer facility space expiring through 1997. Approximate future annual lease payments as of December 31, 1982 were:

Years	Equipment	Facilities
	(In thousands)	
1983	$ 3,971	$10,771
1984	3,702	9,251
1985	2,431	7,252
1986	11	5,406
1987	8	4,176
1988–98	2	20,095
Total commitments	$10,125	$56,951

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

	1982	1981	1980
		(In thousands)	
Equipment	$11,188	$11,461	$11,367
Facilities	10,946	9,791	6,870
	$22,134	$21,252	$18,237

6. COMMON STOCK

As of December 31, 1982, the Company had reserved 790,950 shares of its common stock for issuance under employee stock option plans, including 228,450 shares which were available for future granting of options. Options have been granted 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 within ten years from the date of grant.

As of December 31, 1982, options for 824,671 shares ranging in price from $9.00 to $19.00 per share (average price of $15.37) and expiring within ten years were outstanding (including options for 207,406 shares which were exercisable). Options were exercised as follows:

Year	Number of Shares	Option Price per Share
1980	165,069	$3.62 to $19.00
1981	209,762	7.25 to 24.88
1982	63,378	9.00 to 19.00

As of December 31, 1982, the Company had reserved 96,109 shares 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 1982, 59,916 shares were issued to participants at $12.01 per share. At December 31, 1982, payroll deductions for the offering period ending June 30, 1983 amounted to approximately $1,348,000 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 $12.01 per share.

7. INCOME TAXES

The provision for income taxes consisted of the following:

	1982	1981	1980
		(In thousands)	
Current portion	$ 155	$ 2,702	$12,386
Refundable income taxes	(31)	(10,875)	—
Increase in deferred investment tax credits	1,250	2,122	1,890
Increase in noncurrent deferred income taxes	5,669	3,374	1,313
Decrease in prepaid income taxes	—	1,213	61
Increase (decrease) in current deferred taxes	(4,094)	11,500	—
Total provision for income taxes	$ 2,949	$10,036	$15,650

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:

	1982	1981	1980
Federal provision at statutory rate	46%	46%	46%
State tax provision, net of federal benefit	5	5	5
Capital gains benefit	(6)	—	—
Investment and Research and Development credits	(22)	(13)	(5)
Other	2	1	—
	25%	39%	46%

8. CONTINGENCIES

The Company and its subsidiaries are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. In the opinion of management, these contingencies will not have a material effect upon the financial position of the Company or its results of operations.

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 manufacture of communications equipment and 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, 1982:				
Sales to unaffiliated customers	$232,937	$ 63,701	$ 387	$297,025
Intersegment revenues	8,325	21,783	(30,108)	—
Total revenues	$241,262	$ 85,484	$(29,721)	$297,025
Operating profit	$ 8,177	$ 8,994	$ —	$ 17,171
Equity in earnings of affiliates				387
General corporate expenses				(5,746)
Income from operations				$ 11,812
Identifiable assets	$150,251	$ 94,038	$ —	$244,289
Investment in affiliates				7,388
Corporate assets				6,792
Total assets at December 31, 1982				$258,469
Depreciation and amortization	$ 18,643	$ 8,223	$ —	$ 26,866
Capital expenditures	$ 25,989	$ 23,689	$ —	$ 49,678
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	$166,022	$ 60,872	$ —	$226,894
Investment in affiliates				7,091
Corporate assets				17,162
Total assets at December 31, 1981				$251,147
Depreciation and amortization	$ 18,086	$ 4,865	$ —	$ 22,951
Capital expenditures	$ 32,010	$ 20,245	$ —	$ 52,255

	Computer Information Services	Tele-communications Services	Eliminations and Adjustments	Consolidated
	(In thousands)			
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	$134,280	$ 30,697	$ —	$164,977
Investment in affiliates				7,018
Corporate assets				16,970
Total assets at December 31, 1980				$188,965
Depreciation and amortization	$ 13,375	$ 2,648	$ —	$ 16,023
Capital expenditures	$ 31,918	$ 10,866	$ —	$ 42,784

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 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.

This information is viewed as being 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 realized, 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 the Year Ended December 31, 1982 (In thousands of average 1982 dollars)

Net income as reported in the primary financial statements	$ 8,809
Adjust depreciation and amortization effect of changing prices	(4,948)
Net income adjusted for general inflation (constant dollar)	3,861
Adjustments to reflect difference between effect of general inflation and changes in specific prices on depreciation and amortization	5,899
Net income adjusted for changes in specific prices (current cost)	$ 9,760
Purchasing power gain on net monetary liabilities	$ 123
Effect of increase in general price level	$15,964
Increase in current cost of property held during year, net of accumulated depreciation and amortization[1]	(2,810)
Excess of increase in general prices over increase in specific prices	$13,154

[1] At December 31, 1982, the current cost of Property and Equipment, net of Accumulated Depreciation, was $134,528,000. Aggregate depreciation expense was $24,459,000 on a current cost basis, and $30,358,000 on a constant dollar basis.

Table 2

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (In thousands of average 1982 dollars, except net income per share)

	Year Ended December 31,				
	1978	1979	1980	1981	1982
Revenues from services and sales	$221,277	$256,775	$276,278	$307,447	$297,025
Historical cost information adjusted for general inflation:					
Net income				$ 10,750	$ 3,861
Net income per share				$ .91	$ .32
Net assets at year end				$184,727	$187,885
Current cost information:					
Net income				$ 17,195	$ 9,760
Net income per share				$ 1.45	$ .81
Excess of increase in general prices over increases in specific prices				$ 16,977	$ 13,154
Net assets at year end				$167,750	$174,731
Purchasing power gain (loss) on net monetary assets				$ (1,534)	$ 123
Cash dividends declared per common share	$ —	$ —	$ —	$ —	$ —
Market price per common share at year end	$ 19.42	$ 32.46	$ 54.41	$ 29.40	$ 17.55
Average consumer price index	195.4	217.4	246.8	272.4	289.1

Auditors' Report

To Tymshare, Inc.:

We have examined the consolidated balance sheets of Tymshare, Inc. (a California corporation) and subsidiaries as of December 31, 1982 and 1981, 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, 1982. 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, 1982 and 1981, 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, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

San Jose, California,
February 9, 1983

QUARTERLY FINANCIAL INFORMATION
(Unaudited)

	Quarters 1st	2nd	3rd	4th	Total
	(In thousands, except earnings per share)				
Revenues:					
1982	$ 85,234	$ 78,369	$ 68,115	$ 65,307	$297,025
1981	$ 76,774	$ 75,780	$ 66,321	$ 70,812	$289,687
Income (loss) before provision for income taxes:					
1982	$ 8,120	$ 6,613	$ 3,062	$ (6,037)	$ 11,758
1981	$ 14,386	$ 9,636	$ 3,449	$ (1,765)	$ 25,706
Net income (loss):					
1982	$ 4,790	$ 4,048	$ 2,279	$ (2,308)	$ 8,809
1981	$ 7,886	$ 5,416	$ 2,813	$ (445)	$ 15,670
Earnings (loss) per share:					
1982	$.40	$.34	$.19	$(.19)	$ .73
1981	$.68	$.46	$.24	$(.04)	$1.33

Operating results of companies acquired during 1982 and 1981 are included since the dates of acquisition. If these acquisitions had taken place at the beginning of 1981, the effect upon the above quarterly financial information would not have been significant.

Virtually all of the net income for the third quarter of 1982 was attributable to the gain on the sale of the Company's credit card transaction processing operations.

Five-Year Summary of Selected Financial Data

	1982	1981	1980	1979	1978
	Year Ended December 31, (Amounts in thousands, except earnings per share)				
Revenues from services and sales	$297,025	$289,687	$235,854	$193,092	$149,559
Costs and expenses:					
Costs and expenses	285,213	263,235	198,814	163,518	128,241
Interest, net	54	746	2,647	3,510	1,924
Income before provision for income taxes	11,758	25,706	34,393	26,064	19,394
Provision for income taxes	2,949	10,036	15,650	11,420	8,800
Net income	$ 8,809	$ 15,670	$ 18,743	$ 14,644	$ 10,594
Earnings per share	$.73	$1.33	$1.81	$1.53	$1.15
Weighted average number of common shares and common equivalent shares used to compute earnings per share	12,039	11,827	10,383	9,586	9,180
Total assets	$258,469	$251,147	$188,965	$136,645	$107,161
Working capital	$ 39,253	$ 61,048	$ 49,188	$ 23,845	$ 20,875
Total debt	$ 5,693	$ 26,180	$ 2,280	$ 28,837	$ 29,317
Long-term debt	$ 5,461	$ 24,841	$ 1,594	$ 24,477	$ 25,741
Shareholders' investment	$171,873	$160,954	$140,319	$ 70,931	$ 53,124
Current ratio	1.70	2.29	2.43	1.75	1.93

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

Tymshare, Inc. and its subsidiaries had significant increases in revenues from 1978 through 1981 primarily due to growth of the Company's computer information services and the data communications services of its subsidiary, Tymnet, Inc. In 1982, however, revenues increased only 3 percent due to the effects of planned divestitures of the medical information service and credit card transaction processing operations, and reduced computer information services revenue. The data communications services revenue growth rate was approximately the same as in 1981. Net income declined about 16 percent in 1981 as compared with 1980 due to substantial increases in telephone rates by the Bell Telephone System, decreased revenues and earnings from the credit card processing operations, and reduced growth rate in computer information services. Net income in 1982 declined further, primarily due to reduced revenues in the computer information services business.

The principal capital expenditure requirements in 1981 and 1982 were for terminals and data communications equipment for Tymnet, computer systems and expanded facilities and acquired operations.

Results of Operations

Total revenue for 1982 increased to $297,025,000 from $289,687,000 in 1981. Revenue of the computer information services segment from unaffiliated customers decreased from $246,518,000 in 1981 to $232,927,000 in 1982, or 6 percent. The telecommunications services segment's revenue from unaffiliated customers increased from $42,532,000 in 1981 to $63,701,000 in 1982, or 50 percent. Total revenue in 1981 increased 23 percent over 1980 with a 17 percent growth in the computer information services segment and a 75 percent growth in the telecommunications services segment (including revenues of Microband, acquired in January 1981). The primary reasons for the decrease in revenue in the computer information services segment in 1982 were the divestitures of the medical information services business in April 1982 and the credit card transaction processing services in September 1982, and lower revenues in the interactive data processing services. The primary reasons for increases in revenues in the telecommunications services segment were greater penetration of services in established markets, opening new markets as a result of an expanded and enhanced data communications network and price increases for certain services.

Costs and expenses increased 8 percent in 1982 as compared with 1981, and 32 percent in 1981 as compared with 1980. Such increases were the result of increases in the Company's business as reflected in the growth of overall 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. Increases in telephone, occupancy and depreciation expenses were primarily responsible for higher overall costs and expenses in 1982 as compared with 1981.

The operating profit margin of the computer information services segment was 3 percent in 1982 as compared with 10 percent in 1981. The operating profit margin of the telecommunications services segment was 11 percent in 1982 as compared with 9 percent in 1981. Increased operating expenses as well as the decline in revenues were responsible for the lower operating profit margin of the computer information services segment. Increases in telecommunications services revenues were primarily responsible for the increase in profit margin of the telecommunications segment in 1982.

Interest expense (net) decreased by \$692,000 in 1982 as compared with 1981 due to the reduction of bank indebtedness from proceeds of the sale of the medical information services and credit card transaction services businesses, and the reduction of certain receivable balances in 1982, including refundable income taxes.

The Company's decrease in pretax income margins from 9 percent in 1981 to 4 percent in 1982 was due to the same factors which impacted operating profit margins.

The effective tax rate decreased from 39 percent in 1981 to 25 percent in 1982 as a result of lower long-term capital gain rates on the gain on the sale of the credit card transaction services business and, to a lesser extent, research and development and investment tax credits. The effective tax rate decreased from 46 percent in 1980 to 39 percent in 1981, primarily as a result of the effects of the research and development and investment tax credits.

Liquidity and Financial Resources

The major changes in financial condition for 1982 resulted primarily from a reduction of receivable balances stemming from improved collections and a revenue growth slowdown, and continued capital expenditures connected with the Company's expansion of its data communications network. Total capital expenditures were partially offset by certain assets sold in connection with divestitures occurring during 1982 (see Note 2 to Consolidated Financial Statements).

The Company's capital resource commitments at December 31, 1982 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 1983.

The Company's continued needs for working capital are primarily to finance its capital resource commitments. These needs for working capital can be met by cash generated from operations and through borrowings under available credit agreements. During 1982, the Company's weighted average borrowing rate was 1.88 percent below the prevailing prime rate. See Notes 3 and 4 to Consolidated Financial Statements for further information concerning the Company's bank credit agreements and long-term debt.

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Equipment Marketing Division

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
1981			
	First quarter	$51	$39¾
	Second quarter	55½	41
	Third quarter	43	26¼
	Fourth quarter	30¼	23¼
1982			
	First quarter	28⅞	16
	Second quarter	21⅞	14¼
	Third quarter	20¾	12½
	Fourth quarter	26¼	17
1983			
	First quarter (through March 10)	25	18

As of March 10, 1983, there were 3,470 record holders of the Company's Common Stock, as shown on the records of the Company's transfer agent.

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, 1982, 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., Tuesday, May 10, 1983, at Tymshare Corporate Headquarters, 20705 Valley Green Drive, Cupertino, California.

TYMSHARE®

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

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