

Tymshare Annual Report

1970

1971

1972

1973

1974

1975

1976

1977

1978

1979

On the Cover:

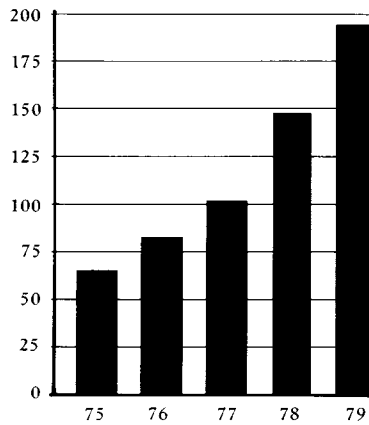
Only ten years have elapsed since Tymshare's first Annual Report. It's been a decade of growth in terms of revenues, profitability, people and experience.

It's been a decade of success.

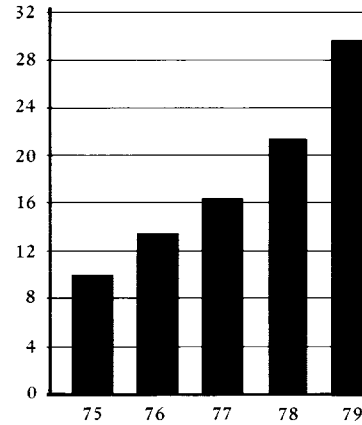
The resources and capabilities established over these years will enable Tymshare to take advantage of the opportunities of the 80s, a period when information will play an increasingly important role in the world we live in.

Five-Year Highlights

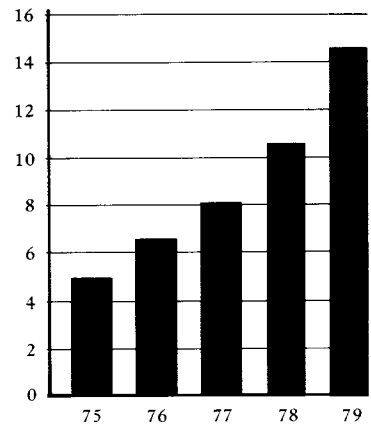
Revenue
in millions of dollars



Income From Operations
in millions of dollars



Net Income
in millions of dollars



	Year Ended December 31				
	(In thousands, except earnings per share)				
	1975	1976	1977	1978*	1979*
Revenue	\$ 64,412	\$ 81,837	\$101,174	\$149,559	\$193,092
Income from operations	10,006	13,559	16,503	21,318	29,574
Net income	5,094	6,713	8,008	10,594	14,644
Earnings per share					
Before extraordinary item	\$ 1.19	\$ 1.55	\$ 1.82	\$ 2.31	\$ 3.06
Net income	\$ 1.22	\$ 1.55	\$ 1.82	\$ 2.31	\$ 3.06

* Quarterly breakdowns of revenues and income for 1979 and 1978 are presented on page 27 in chart and tabular form.

To Our Shareholders:

Ten years ago I addressed my first annual message to the initial group of Tymshare public shareholders. We took considerable pride in reporting that in 1970 we had met our planned goal of a profitable year, the first in our short history. Our 1970 net income was just under \$100,000, on revenues of about \$10.2 million. There were 255 of us in the whole Company.

Recession clouded the economy. Many were still questioning whether time sharing was anything more than a fad. But we were very excited about our progress and the potential of remote computing services. We forged ahead to develop new tools which would extend the use of our services to the business professional and to deploy our new communications network to link customers to Tymshare computational and software resources from across the country.

The intervening decade has dramatically changed our Company and our industry. Laid side by side, some key figures for the first and last year of the seventies tell quite a story about what has happened to Tymshare and the computer services industry in just 10 years:

- Tymshare annual revenues between 1970 and 1979 multiplied almost 20 times to more than \$193 million.
- Our annual net income grew from less than \$100,000 to \$14.6 million.
- Tymshare full time employment rose more than tenfold to exceed 3100 people.
- Earnings per share went from five cents in 1970 to \$3.06 in 1979.
- Shareholders' equity increased from \$4.0 million to \$70.9 million.
- Meanwhile, total computer services industry revenues climbed from about \$1.3 billion to \$8.2 billion.

The decade of the seventies was capped by a very successful year for Tymshare in 1979, with revenues increasing over the prior year by 29 percent, and net income up 38 percent over 1978. It was a year of solid, cumulative progress. Here are some 1979 highlights affecting several sectors of our business:

- Under a long term contract signed late in 1978 with Crocker National Bank—an award that consolidated all of Crocker's credit card transaction processing with Tymshare Transaction Services—TTS began processing both the bank's Visa and Master Charge transactions.
- We made our first sales and began installing our private communications networks for large corporations.
- TYMNET[®], the public communications network operated by our common carrier subsidiary Tymnet, Inc., grew in size to 500 network access nodes serving nearly 200 cities. Important new features were announced that can accommodate the large base of installed IBM 3270 cathode ray tube (CRT) display terminals, and similar equipment made by others, as part of TYMNET's continuing rapid expansion.
- We began installing a new, minicomputer-based international banking information system (IBIS) for large financial institutions.
- We started deliveries of our new Model 1100 series intelligent terminal equipment products, designed for distributed data processing applications.
- We announced plans for a 1980 pilot program in Southern California to develop a shared automated teller machine (ATM) network, providing electronic funds transfer services.
- Preparations were completed for the early 1980 installation of the first modules of our TYMCARE[®] hospital information system at customer sites.

■ We completed two acquisitions: the Validata division of TRW to accelerate our automated credit authorization program; and the small systems lease and maintenance activities of Lockheed Electronics Corporation, to expand our Equipment Support Division's third party computer maintenance operations.

Our basic computing resources were expanded to handle continued growth in processing volume. New equipment includes advanced systems from IBM and more powerful models of Digital Equipment Corporation PDP-10 computers. Our large mainframe computer population now stands at approximately 50 complete systems. We also have additional mid-range and minicomputer systems for special-purpose data processing, message switching services, and new product and service development programs.

In addition, we manufactured and deployed last year more than 300 Tymnet Engines—our own special communications processors for TYMNET public network service and private network customers.

Our growth in 1979 was distributed across all of our major target markets, which were described in detail in last year's annual report.

Tymshare's fundamental strength is the cumulative expertise of our technical professionals in rapidly assimilating and packaging new technology, and of our marketing professionals who apply the technological output to meet the changing product and service needs of our dynamic marketplace. This ability, which allows us to move quickly to exploit new opportunities, is probably our greatest asset in the information business of 1980 and beyond.

Our report this year recaps highlights of the past decade, discusses ways in which our resources have grown and are changing, spotlights important trends, and takes a brief look into the future.

Tymshare today is planning for the challenges and exciting opportunities of the eighties, confident that our previous pattern of growth and success will continue. We have expanded both the scope and the sophistication of our strategic planning process to explore future opportunities. Our one- and five-year business plans are being complemented by far-reaching strategic scenarios looking ahead 10–15 years, when information will be the most vital commodity in our economy and information handling will be the primary responsibility of the majority of the U.S. work force.

We greet the 1980s with a readiness to move aggressively and successfully through the new decade, as our record shows we have done in the past 10 years. On behalf of more than 3100 Tymshare people, whose talent and dedication is the foundation of our Company's progress, past and future, let me thank you for your continued support. We are excited about the future for the information business, and we think you will be too.



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



Tymshare Resources— Flexing to Meet Changing Needs

In September 1979, a major new Tymshare computer center in Dallas swung into initial operation. The new Dallas center will be the Company's largest processing facility. Sitting in the midst of the new center's initial computer complex is a new IBM 3033 system, the latest and most powerful IBM large-scale system. Another 3033 was installed halfway across the country at our Valley Forge computer center.

At another major center in Cupertino, California, additional equipment resource expansion took place. Two new Digital Equipment Corporation (DEC) PDP-10 computers, equipped with significantly increased processing power, were brought in during the year.

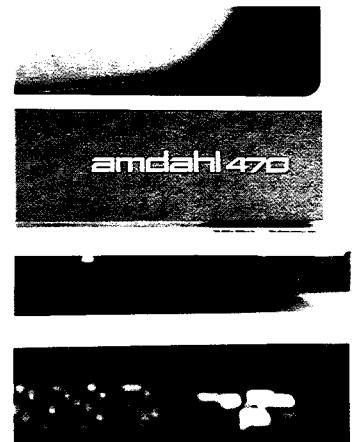
New generation midi- and mini-computers added to our equipment complex are being used initially for new product and service development, and subsequently for specialized customer applications in several market sectors. Two models of the new IBM 4300 series of mini-computers are scheduled for installation beginning in mid-1980.

Similar dynamics were at work in 1979 in our communications facilities. The number of TYMNET nodes grew from 380 to 500 by year-end, and 180 new customer computers were successfully linked to the network. Eight new overseas countries were given access to the U.S. TYMNET network. By year-end, 27 overseas nations were using our equipment to access U.S. computers and data bases connected and accessible via the network.

Tens of thousands of IBM 3270 and Burroughs polled terminals will now be able to traverse TYMNET, providing this large user population with the advanced features of public packet communications. Innovative features of our Advanced Communications Technology (ACT) make it possible to accommodate the very specialized communications protocol characteristics of such terminal equipment. Major network software development work initiated in 1979 also will soon provide expanded electronic mail and electronic funds transfer capability over TYMNET.

Such significant changes in our technological and service capability cannot be made in a vacuum—work must go on. It is the essence of our business to be competent in this difficult, but vital process.

1970 Tymshare goes public with September stock sale . . . reports first profitable year . . . major change in direction, aimed at business, commercial, financial customers . . . Dial-Data acquisition broadens base of computer resources, customers, technical capability . . . CEGOS-Tymshare startup as joint venture with prestige partners is first wedge into international marketplace . . . visionary internal development effort capped by initial deployment of TYMNET, destined to be the new breed of data network.





1971 Tymshare's computer centers, sales offices, and customer locations merged into fully integrated system via TYMNET, under central control of the unique supervisory software which we developed . . . big boost in business and commercial markets with introduction of new family of business application languages: IML, TYMTAB, RETRIEVE, STATPAK . . . Tymshare purchases time sharing operations of Graphic Controls, further strengthening marketing and technical people depth, service coverage, as well as bringing to Tymshare its initial Digital Equipment Corporation (DEC) PDP-10 computing power.



Computers . . . maxi, midi, mini, in different colors and shapes are tools of the information business. But it is Tymshare people who represent the fundamental resource of the Company . . . operating the machines, graduating from training sessions armed with new product and applications knowledge, testing new equipment . . . at Tymshare people make it happen.

Key Trends Affecting Our Business . . .

. . . Industrywide

Growth will still be very much with us through the 1980s. U.S. computer service industry revenues in 1979 were in the \$8 to \$9 billion range and industry market research firms expect continued growth at an average annual rate of 17-18 percent, which means about a doubling of industry revenues by the mid-eighties.

Total electronic data processing (EDP) industry expenditures amounted to some \$52 billion last year. Computer services portion of the total EDP spending pie amounted to about 17 percent last year. But the most significant fact is that the computer services portion is growing faster than the whole by about two percent per year. Service is, obviously, becoming a more favored and accepted alternative by those who influence expenditures for information solutions, systems, and services.

Companies in the computer services industry offer basically four classes of capability—processing services, software products, professional programming support, and facilities management. In many cases firms specialize in one or another of these four classes of service. Major firms such as Tymshare provide a multi-service capability often spanning all four classes, in varying degrees, to furnish the most effective solution to a customer.

Currently, Tymshare's major revenues are derived from the two principal processing services applications—problem solving and transaction processing—and from provision of communications services through our Tymnet, Inc. subsidiary. Proprietary data base inquiry is an application category which has promising potential as more people in business, government, and society come to depend on computerized files of information. It is an area which we are examining carefully to see how best to increase our participation. Currently, Tymnet, Inc. provides the communications link between data base suppliers and their users. We also maintain on our computers several data bases, such as those of stock information, information on public companies, and external economic data.

. . . In Problem Solving

Early time sharing brought the scientist and engineer a personal, powerful, flexible-cost computational resource, direct to the laboratory or office. Remote computing of the early seventies focused on the business professional's need for information tools to help budget, forecast, analyze, and report. Sophisticated languages and systems followed, allowing technologically unsophisticated users to work in a complex information management environment with relative ease. As the seventies progressed, highly specialized applications software was developed to fit the precise needs of specific industries and management functions.

Today's problem solving environment is marked by yet another important application of advanced information technology and business consulting expertise—support of the dynamic, top-level management decision process itself. Decision Support Systems (DSS) are the key to rapid review and analysis by senior management of precisely relevant information when vital choices must be made. Decision support tools let senior executives select quickly, from mountains of routine operational data, only that information which bears on the specific, current decisions of strategic or key tactical importance. Operations data takes on a whole new value.

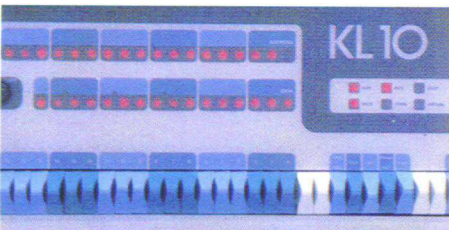
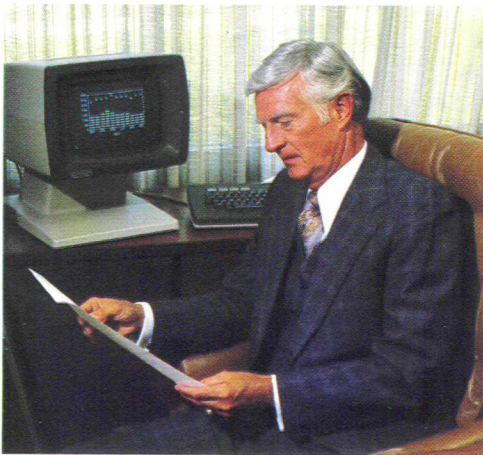
Within our industry, Tymshare is pioneering in the application of the DSS concept. We provide the consulting expertise to assist client

1972 Now have 23 XDS 940 computer systems, major business decision made to purchase all systems to significantly reduce future computer costs . . . services broaden with move of PDP-10 computers to Cupertino computer center to complement 940 service . . . big year for TYMNET, as National Library of Medicine becomes first of many non-Tymshare users sharing the network, and as TYMNET extends to Europe . . . acquired Computer Complex, marking our entry into the promising petrochemical market sector.

management and information systems professionals with an objective analysis of current information requirements and communication procedures. This is the vital first step in effective DSS design. We then help define what types of information—both from internal and external sources—top managers will need from the new system to address key decisions affecting the future. We also provide the means to present this information to management in relevant reports, visual displays, and meaningful charts and graphs.

Once the information requirements and system design are established, Tymshare brings to bear decision support tools for "what if" analysis of key alternatives. Our relationship with a DSS client can extend far beyond initial system development and operation. Tymshare gives the DSS management client the expertise needed on a continuous basis to adapt the system to changing internal and external factors.

Distributed Data Processing (DDP) is another factor of growing importance in our marketplace. DDP is essentially a shift in the hardware technology designed to allow more economic processing capability at the



1973 Tymshare becomes IBM compatible as first 370/158 is installed, making us most versatile service company . . . purchased Valley Computer to provide support internally for large XDS systems base . . . extensive growth in business software capability with Business Information and Decision Systems (BIDS) library of programs . . . TYMNET now serving 74 cities here and abroad . . . year concludes with agreement on joint venture with Unilever for new affiliate to serve United Kingdom and Republic of Ireland markets.

INCOME STATEMENT (1/2)

INTERNATIONAL MANUFACTURING
INCOME STATEMENT
1973
For the quarter ending March 31, 1973

Commodity	Chemical	Electrical	Machinery	Textiles	Electronics
Net Sales	2,442	12,020	2,724	4,927	1,490
Cost of Goods Sold	4,820	1,218	1,248	2,000	238
Material	1,228	247	228	228	238
Direct Labor	897	253	228	228	238
Other Manufacturing Costs	6,795	718	792	5,344	1,500
Total Cost of Goods Sold	12,412	3,193	3,268	7,800	2,474
Gross Profit	1,230	8,802	1,476	2,927	1,252
Selling Expenses	257	895	378	255	175
General and Administrative	15	478	87	20	42

Executives rely more than ever on modern Decision Support consulting and systems expertise of Tymshare professionals, our powerful new computers equipped with special software programs, and customer information terminals with intelligence and varied display capabilities. Decision data presented to executives is not only timely, it is tailored to the precise matter being considered, and reported in the form management wants to see it.

1974 *United Data Centers enters the fold, major move to bring us batch data processing capability, plus an important entry product for tax processing, DYNATAX[®], and products serving cable TV and fuel oil dealer markets . . . second IBM 370 on stream and existing systems' capacity upgrades . . . now have 37 on-line computer systems . . . new Valley Forge computer center opens . . . new information management and analysis tools debut as R & D effort expands . . . terminal product line broadened . . . Tymshare U.K. formally established . . . CEGOS-Tymshare grows, now serving Switzerland, new office in Brussels.*

end user location. Effective DDP requires several elements—intelligent terminals or small computers at end user locations, reliable and flexible communications, powerful central computers, and specialized software and languages.

DDP affects not only how we work with customers in the problem solving setting, but also the future patterns of transaction data processing and communications. Ideally, DDP puts the proper amount of processing power at the local user site, while preserving the link to the main data processing center for large-scale, organization-wide information control and consolidated reporting.

The economics and complexity of emerging information applications such as Decision Support Systems, and techniques such as Distributed Data Processing, favor use of shared data, networks, and specialized applications software—software that is increasingly complex and costly for a single organization to develop. The integrated application of shared data, network resources, and specialized applications software is precisely what Tymshare offers businesses.

Trends in the problem solving sector of our business clearly favor a company such as Tymshare, with its unique combination of computing, communications, and end user business applications expertise, offered to customers on a shared, flexible cost, service basis.

During the 1970s, use of outside services grew phenomenally. In the 1980s, general management and data processing management will increasingly find our services supportive and complementary to their job of solving complex, organization-wide information needs across the country and around the globe.

. . . In Transaction Processing

Transaction data processing differs from problem solving, in that transaction processing is a "production" function (versus analysis). It involves repetitive processing of large volumes of similar input data, historically in the form of paper documents. Transaction data processing output takes the forms of accounting records, invoices, paychecks, insurance or tax forms, and similar documents.

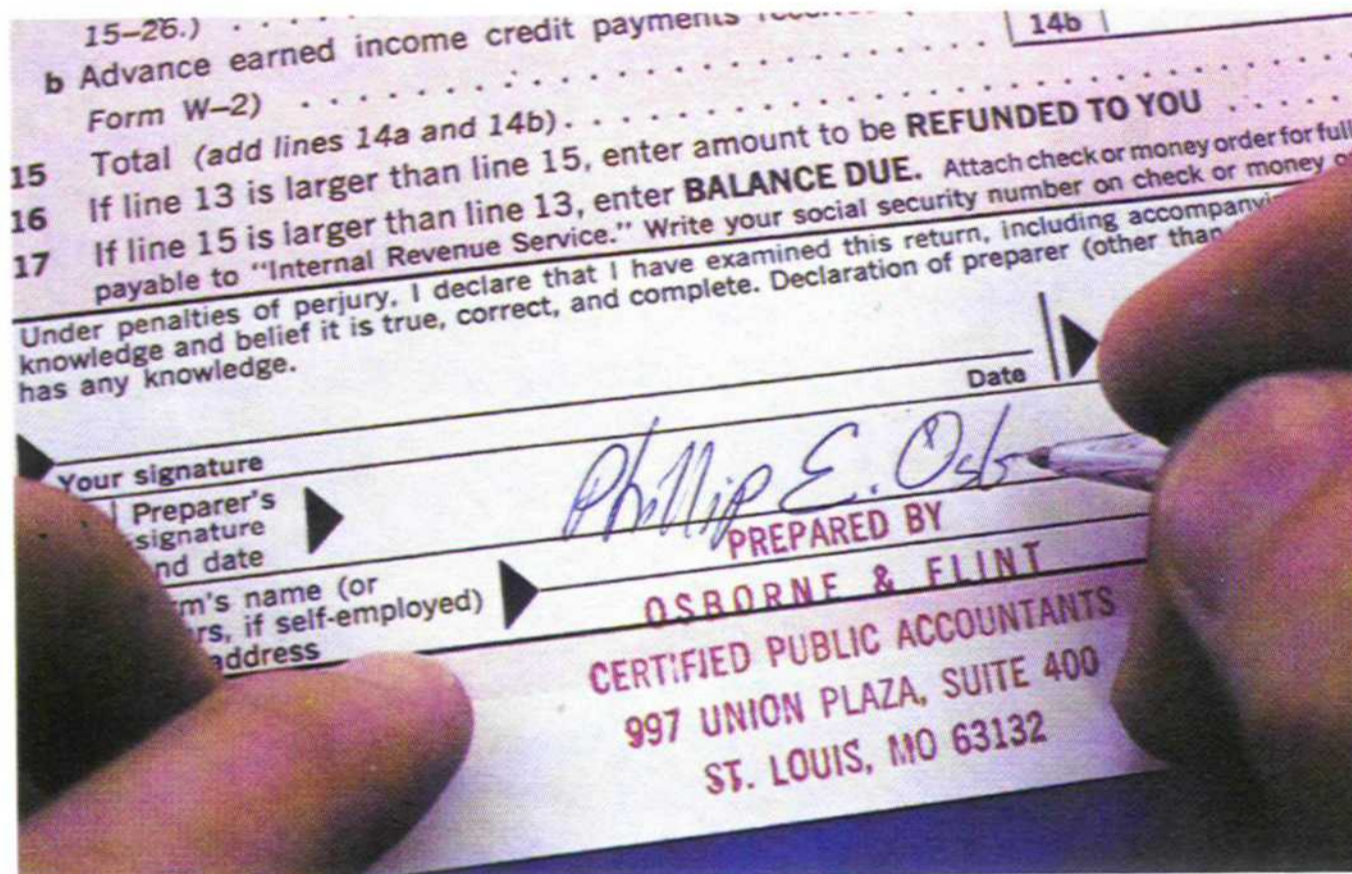
Another important distinguishing aspect of this service is the way it is priced. The customer pays for the number of transaction units processed, rather than for computer-communications resources used, as is the basis for charges to our time sharing users who call on us to help solve management information problems.

Our credit card processing activity is a classic transaction processing application. So is our processing of income tax returns, hospital and patient records data, and the processing of accounting and operational control data performed for smaller manufacturing clients by our MANUFACTYS[®] product.

Tymshare's transaction processing activity is a large and fast-growing service in our business. As Tymshare Transaction Services expands geographically, as computerized tax processing penetrates further into its huge potential market, as hospitals and manufacturing firms feel more and more pressure to improve their efficiency in handling and communicating vital accounting and operations data, transaction processing volumes are certain to play a larger role in our overall growth.

The transaction environment is bubbling with experimentation and innovation, which will result in gradual displacement of paper-based information instruments with electronic signals. In banking, the age of the

Transactions take many forms in modern living . . . getting cash after hours, automatic authorization of credit card purchases, processing tax returns, or maintaining electronic files of hospital patient information for immediate visual reference . . . Tymshare plays an increasingly important role in supporting such activities.



1975 *New product march continues, highlight is revolutionary MAGNUM[®], industry's first commercial system applying "relational" approach to data base management . . . 30 percent increase in computer capacity with installation of another IBM 370/158, plus other equipment and operating improvements . . . Uninterruptible Power Supply (UPS) systems go in at Cupertino, Valley Forge centers . . . acquire Quelex, Leasco Response . . . UDC integration going smoothly, name changed to Data Centers Division. CEGOS-Tymshare becomes CEGI-Tymshare.*

debit card is approaching, signaling a gradual leveling in volumes of checks in use and reducing the need to physically handle some half-million credit card slips through our TTS processing center each day.

Automated terminal devices in merchant locations, shopping centers, hospital departments, and manufacturing shop floors should proliferate. Linked through electronic switching centers via powerful communications networks, these devices will transmit transaction data directly from machine to machine for processing, posting to records and files, and automatically recording credits and debits to individual and organization accounts.

Tymshare has the basic ingredients and resources to participate profitably in the transactions processing marketplace as this transition unfolds. We are positioned well, with our advanced computer and communications expertise, and our understanding of the customer's present environment and future information processing requirements.

. . . In Communications

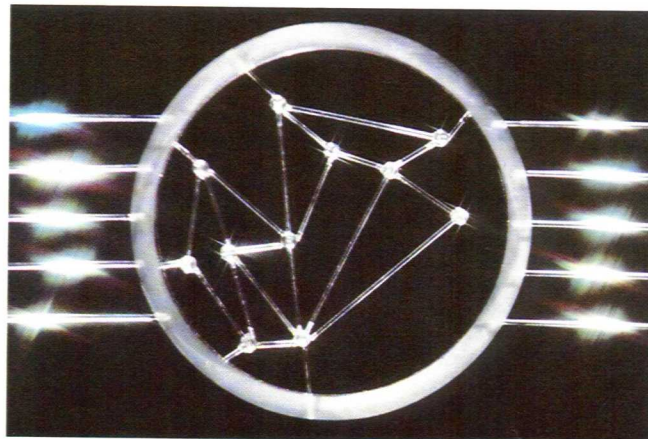
Tymshare's Strategic Planning group recently conducted its regular long range planning session of several days duration with top management of the Company. A provocative scenario had been drawn up depicting a day in the life of a hypothetical business executive near the turn of the century. As expected, there was lively debate and differing opinions on the outlook presented in the scenario, but one fundamental characteristic of our world two decades hence went unchallenged.

The world, figuratively, will be wired.

Versatile, omnipresent communications will be the underpinning of a global, information-based community in the next generation. Information, the most precious commodity, will be available and communicable to and from virtually anywhere, in whatever form is required at home, at work, at play, and enroute from place to place.

We see the clear trends today. Long haul communications, via satellite and microwave, are edging into the picture, broadening the communications "pipe" to deal more effectively with transmission of things other than voice signals and data. Facsimile. Dynamic graphics. Live images of people for long distance conferencing.

1976 *Acquisitions spotlight on Unitax and Medical Data Systems, broadening tax service base and providing entry vehicle for new, high-potential hospital services market . . . Tymnet, Inc., newly formed, requests and gets approval to operate as communications common carrier, ushering in new era for communications services . . . specialized applications products and services start flowing from development in manufacturing, personnel areas . . . agreements with new international partners lead to formation of West German affiliate, and plans for a Japanese affiliate . . . stronger position in France with SLIGOS investment, larger share of ownership in CEGI-Tymshare.*



Symbolic depiction of dynamic data and message flow through one of more than 500 nodes in the public TYMNET. Network specialists monitor the network's performance around the clock. The exclusive Tymnet Engine manufacturing line is housed at our Cupertino facilities. Finished Engines serve as node processors in the public network and in private networks.

Experiments involving use of fiber optics, radio frequencies for local broadcast, and two-way communication are in place in the U.S. even now. Practical, economic, large scale application of these innovations may be close at hand. Results of this research and experimentation represent new resources that we can apply.

Tymshare has a solid foundation from which to expand its participation as a supplier of communications systems and services. We serve the public communications market through Tymnet, Inc. and its established TYMNET network, which is the largest public packet network in operation. The technology which is used both in TYMNET and in our private networks for large organizations has an excellent reputation in the U.S. and overseas. By year-end 1979, customers in 27 nations had selected and installed TYMNET hardware and software in their countries to link their businesses with U.S. computers and data.

In addition, we believe we are in a position as a services company to anticipate and understand the changes in our customers' information and communications needs and desires. We are constantly in touch with the information/communications user at the end of the line—the person with the problem. We feel that this end user orientation will continue to provide valuable insight for our development and direction of new services for the future as it has in the past.

Our communications services, just as with our information services, must evolve to meet the needs of the future. We fully intend to pursue that evolution in a way that capitalizes on our present strengths and holds out the most promise for Tymshare's profitable participation in the "wired" world of the future.

. . . In Foreign Markets

Tymshare, Inc. participates in computer services markets overseas through joint venture affiliates in Western Europe and Japan. Several of these affiliate companies are heavily involved in selling our time sharing/problem solving products and services in their markets, based on their use of our U.S. computer/communications resources via transoceanic communications cables. This overseas activity showed continued gains last year for Tymshare.

CEGI-Tymshare (C-T), which has completed its tenth year of operation as a Tymshare affiliate, provides time sharing services over a broad territory covering several countries in addition to France, where C-T is based. C-T has subsidiaries based in Amsterdam and Brussels which provide services in Holland, Belgium, and Switzerland. Tymshare owns 45 percent of CEGI-Tymshare. Credit Lyonnais, the major French bank, is our partner in C-T.

Tymshare is a two-thirds owner of Tymshare U.K. (TUK), serving the United Kingdom and the Republic of Ireland. TUK, in operation since 1974, is jointly owned with Unilever, Ltd.

Taylorix-Tymshare (T-T), based in Frankfurt, offers our time sharing products and services in West Germany. T-T was established about three years ago with Taylorix, a business services company of long standing. Tymshare has a 63.7 percent ownership position in Taylorix-Tymshare.

Last year was the first full year of operation for Kokusai Tymshare, Ltd. (KTL), based in Tokyo with an office in Osaka. Ownership in KTL is shared by Tymshare, with 45 percent, and Marubeni Corporation, the large Japanese trading firm.

1977 Sales top \$100 million
 stock listed on New York Stock Exchange under TYM symbol
 Tymnet, Inc. recognized as leading public packet network supplier in first year as common carrier
 PERS™, automated human resources information system, launched
 Tymshare approved to offer American Institute of Certified Public Accountants (AICPA) library of software programs nationwide via TYMNET and our acquisition in October of the credit card processing activity of Western States Bankcard Association (WSBA), our biggest to date in terms of new revenue, and a solid basis for broader-based financial services.

1978 *More acquisitions, Japan startup, communications dominate scene . . . Autotax business helps boost Tymshare to leading position as tax return processor . . . Medical Information, Inc. broadens hospital service market coverage to more than half of the nation . . . Kokusai Tymshare finally comes on stream following 16-month wait for Japanese government approval of communications connection . . . Tymnet earns widespread attention in network field with "new generation" ACT features and flexibility . . . MANUFACTS, for manufacturing firms, and PERVAL™, for investment fund managers, latest indications of product/service emphasis on specialized industry and application requirements.*



We also have 20 percent ownership in another French computer services firm, SLIGOS, S.A., which is heavily oriented to transaction data processing.

Tymshare Canada (1977) Ltd. is our wholly owned Canadian subsidiary, operating out of Toronto.

The application of Decision Support Systems capability for top management, and of the Distributed Data Processing concept, fits the trend in overseas markets in much the same way as in the U.S. These newer applications could develop well overseas and find increasing acceptance there.

Tymshare's role in the international market for communications is one of supplying our network node hardware and software for installation and use by international record carriers, national communications administrations, and private industry. This role presents significant potential revenue and profit opportunities for Tymshare because of the superior features of our communications equipment.

In 1979, we added to our established European presence through creation of a new, wholly owned communications consulting subsidiary, Tymshare Network Systems Consulting S.A., (TNSC), based in Paris and staffed entirely by Europeans. TNSC will provide systems consulting, training, and equipment maintenance in support of foreign communications administrations, international carriers, private industry, and our European affiliates. TNSC is our response to the rapidly growing market for communications expertise in Europe.

Another area of increasing promise is in joint sales and support of computing applications for multinational firms which have offices here and abroad. A growing number of Tymshare and affiliate client organizations have need to process and support the same application in two or more locations in different countries. This need translates into a growing opportunity in which we and our affiliates can share.

In the following section of this report, we take a brief look ahead to the information industry evolution in the new decade. Many of the factors of influence—technological, economic, and social—apply both to the U.S. and to the international scene. Perhaps the pace of change, the mix of service need and service response, will vary from country to country, but the underpinnings will be seen throughout our national and international markets.



MAGNUM

● マグナム
MAGNUMは、最も優秀な国際標準規格のデータフォーマットである「MAGNUM」を採用し、日本独自の「MAGNUM」の開発と、システム上の信頼性の高い「MAGNUM」の概念を取り入れた画期的なシステムです。このMAGNUMの出現は、大規模システムへのコスト削減を目的としたTSS活用促進の第一歩、実現段階に入、コストを意味します。

● システム開発の大幅なスピード
MAGNUMの4つのキーポイント
● システム開発の大幅なスピード
MAGNUMの特徴

Paris, London, Tokyo, Frankfurt . . . focal points for activities of major Tymshare affiliates through whom our services are offered in the United Kingdom, throughout Western Europe, and in Japan.

The Information Business—A Changing Profile for the 80s

Poised as we are at a pivotal vantage point—the turn of a decade—we can look back at the 1970s as years of tremendous change in our business. Our Company matured from a fledgling firm pioneering in the unproven time sharing business to international prominence as one of the world's leading suppliers of computer services. Our industry took shape, solidified, and helped change the perception of how computers and data networks could be used to manage and move information.

Success and growth became synonymous with computer services, as the industry compounded its growth each year by nearly 20 percent. Tymshare more than kept pace with the industry as a whole, reflecting polished competence in applying information technology, resourceful management, and aggressive marketing focused on the industry's premium growth sectors.

The profile of the 80s is just now beginning to take shape, but one thing is certain. The pace of change will not abate.

We know that the demand for information—hence for the systems to deliver information in usable form—will multiply. Indeed, planners contend that information will become the most vital force driving our economy. They speak of the United States as already being in the transition to an "information-based" economy.

The forces at work seem to support such a view. Our society faces increasingly complex problems. Inflation remains a major force in the economy. Depletion of our basic national resources points to a supply driven economy. Cost of physical distribution (printed matter, human travel) keeps climbing. Services increasingly dominate our economy, rather than goods. Human productivity, particularly among the white collar "information worker," is declining. At the same time, the technology that would support an information-based economy is ever more affordable and available.

In such an emerging scenario, the prospects for companies in the information business are exciting to contemplate, but that excitement is tempered by the recognition that, with its great promise, the future for our industry brings new challenges. The fundamental challenge will be to adapt readily to dynamic changes, both in what the technology can provide and in what the information user will demand and can afford to buy.

It is in precisely this arena that we believe the computer service company of today, and specifically our Company, has an advantage. Integrating multiple resources to deliver an information product or service, fitted to the specialized need of the information user, is the key. And this is what we do, very well, we believe.

We sit as the "information professional" between the technology and the user's problem or the need. We package and present to our user a solution tailored to his problem, to his need for relevant information on the spot, when he wants it. We have the professional applications expertise needed to integrate computers, communications delivery systems, software, and the diverse data that must come together to prepare a plan, examine alternatives, and support a key business decision.

Tymshare, Inc. and Subsidiaries
Consolidated Balance Sheet

December 31, 1979 and 1978

Assets	1979	1978
	(In thousands)	
Current assets:		
Cash and cash investments	\$ 5,519	\$ 3,480
Accounts receivable, less allowance of \$1,750,000 in 1979 and \$1,300,000 in 1978 for doubtful accounts	40,561	31,316
Inventories (Note 1)	7,181	6,532
Prepaid expenses and deposits (Note 6)	2,318	1,892
Total current assets	<u>55,579</u>	<u>43,220</u>
Property and Equipment , at cost (Notes 1 and 4):		
Land and buildings	4,751	1,869
Computer systems	53,597	46,457
Terminal and communication equipment	38,652	22,619
Purchased software	2,528	1,345
Furniture, fixtures and other equipment	7,592	5,881
Leasehold improvements	3,031	5,890
	<u>110,151</u>	<u>84,061</u>
Less—Accumulated depreciation and amortization	<u>(42,304)</u>	<u>(32,696)</u>
	<u>67,847</u>	<u>51,365</u>
Other assets (Notes 1 and 2):		
Cost in excess of net assets acquired	5,299	4,872
Investment in affiliates	5,956	5,405
Deferred charges	1,964	2,299
	<u>13,219</u>	<u>12,576</u>
	<u>\$136,645</u>	<u>\$107,161</u>

The accompanying notes are an integral part of this balance sheet.

Liabilities and Shareholders' Investment

	1979	1978
	(In thousands)	
Current Liabilities:		
Notes payable to bank (Note 3)	\$ 600	\$ 600
Current portion of long-term debt and obligations under capital leases	3,760	2,976
Accounts payable (Note 5)	15,408	11,636
Accrued liabilities	8,225	5,613
Accrued income taxes (Note 6)	3,741	1,520
Total current liabilities	<u>31,734</u>	<u>22,345</u>
Deferred income taxes and credits (Note 6)	<u>9,503</u>	<u>5,951</u>
Long-term debt and obligations under capital leases, net of current portion (Notes 3 and 4)	<u>24,477</u>	<u>25,741</u>
Commitments (Note 4)		
Shareholders' investment (Notes 2 and 5):		
Preferred stock, \$10 par value:		
Authorized—2,000,000 shares, none issued	—	—
Common stock, no par value:		
Authorized—10,000,000 shares		
Outstanding—4,665,113 shares in 1979 and 4,504,583 shares in 1978	22,309	19,146
Retained earnings	48,622	33,978
	<u>70,931</u>	<u>53,124</u>
	<u>\$136,645</u>	<u>\$107,161</u>

Tymshare, Inc. and Subsidiaries
Consolidated Statement of Income

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In thousands, except earnings per share)	
Revenue from services and sales (Note 1)	<u>\$193,092</u>	<u>\$149,559</u>
Costs and expenses:		
Operating expenses and cost of revenue	98,520	74,141
Selling, general and administrative	55,406	45,876
Technical development	<u>9,592</u>	<u>8,224</u>
	<u>163,518</u>	<u>128,241</u>
Income from operations	29,574	21,318
Interest expense , less interest income of \$477,000 in 1979 and \$403,000 in 1978	<u>3,510</u>	<u>1,924</u>
Income before provision for income taxes	<u>26,064</u>	<u>19,394</u>
Provision for income taxes (Note 6):		
Federal	9,575	7,365
State	<u>1,845</u>	<u>1,435</u>
	<u>11,420</u>	<u>8,800</u>
Net income	<u>\$ 14,644</u>	<u>\$ 10,594</u>
Earnings per share (Note 7)	<u>\$3.06</u>	<u>\$2.31</u>

The accompanying notes are an integral part of this statement.

Tymshare, Inc. and Subsidiaries

Consolidated Statement of Shareholders' Investment

For the Years Ended December 31, 1979 and 1978

	Common Stock		Retained Earnings	Total
	Shares	Amount		
	(In thousands)			
Balance, December 31, 1977	4,348	\$ 16,673	\$ 23,384	\$ 40,057
Sale of common stock:				
Employee stock option plans	50	517	—	517
Employee stock purchase plan	61	950	—	950
Income tax benefit resulting from early disposition of shares issued under stock options	—	84	—	84
Shares issued in connection with acquisitions	46	922	—	922
Net income	—	—	10,594	10,594
Balance, December 31, 1978	4,505	19,146	33,978	53,124
Sale of common stock:				
Employee stock option plans	79	994	—	994
Employee stock purchase plan	64	1,349	—	1,349
Income tax benefit resulting from early disposition of shares issued under stock options	—	308	—	308
Shares issued in connection with acquisitions	17	512	—	512
Net income	—	—	14,644	14,644
Balance, December 31, 1979	<u>4,665</u>	<u>\$ 22,309</u>	<u>\$ 48,622</u>	<u>\$ 70,931</u>

The accompanying notes are an integral part of this statement.

Tymshare, Inc. and Subsidiaries

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In thousands)	
Working capital provided from (used for):		
Net income	\$ 14,644	\$ 10,594
Add (deduct) items not requiring the use of working capital:		
Depreciation and amortization	13,851	10,874
Deferred income taxes and deferred tax credits	3,552	2,760
Increase in equity in undistributed earnings of affiliates, net	(644)	(634)
Working capital provided from operations	<u>31,403</u>	<u>23,594</u>
Changes in long-term debt:		
Increase related to acquisitions	—	673
Borrowings (reductions), net	(1,264)	7,018
Sale of common stock	2,343	1,467
Issues of stock related to acquisitions	512	922
Other equity transactions	308	84
Additions to property, net:		
Related to acquisitions	(1,673)	(1,829)
Computer systems	(8,573)	(10,050)
Terminal and communication equipment	(16,420)	(7,640)
Other	(2,817)	(3,354)
Increase in cost in excess of net assets acquired	(526)	(1,333)
Decrease (increase) in deferred charges, net	(323)	111
Net increase in working capital	<u>\$ 2,970</u>	<u>\$ 9,663</u>
Working capital increase represented by:		
Increase (decrease) in current assets:		
Cash and cash investments	\$ 2,039	\$ (408)
Accounts receivable	9,245	9,812
Inventories	649	2,088
Prepaid expenses and deposits	426	(619)
Decrease (increase) in current liabilities:		
Notes payable	—	1,400
Current portion of long-term debt and capital leases	(784)	413
Accounts payable	(3,772)	(2,885)
Accrued liabilities	(2,612)	(2,338)
Accrued income taxes	(2,221)	2,200
Net increase in working capital	<u>\$ 2,970</u>	<u>\$ 9,663</u>

The accompanying notes are an integral part of this statement.

Tymshare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

The investments in minority-owned affiliates are accounted for on the equity method and the Company's share of the affiliates' earnings (\$684,000 in 1979 and \$634,000 in 1978) is included in revenue. 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 \$2,383,000 at December 31, 1979.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of computer parts and equipment, 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 useful lives:

Buildings	10 to 40 years
Computer systems	3 to 10 years
Terminal and communication 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

Maintenance and repairs are charged to expense as incurred. The cost of renewals or betterments that increase the useful life of the property is capitalized and depreciated over the estimated remaining useful life of the property. The net gain or loss on property retired or otherwise disposed of is credited or charged to income, and the asset cost and related accumulated depreciation are removed from the accounts.

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 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 1978, the effect upon the results of operations for 1978 and 1979 would not have been significant.

Acquisitions in 1978

During 1978, the Company acquired Autotax, Inc. for 45,455 shares of the Company's common stock and acquired Medical Information, Inc. for \$1,907,000 in cash. In connection with the Autotax, Inc. acquisition, the Company was to issue additional shares based upon Autotax, Inc.'s gross receipts during the two annual periods ending April 30, 1979 and 1980. A total of 15,696 shares have been issued based upon the results of the Autotax, Inc. operations through April 30, 1979. Both acquisitions were accounted for as purchases and the cost in excess of net assets acquired of approximately \$1,300,000 has been capitalized and is being amortized. The operating results of the acquired companies since the dates of acquisition are included in the consolidated financial statements. If these acquisitions had taken place at the beginning of 1978, the effect upon the results of operations for 1978 would not have been significant.

3. BANK LINES OF CREDIT AND LONG-TERM DEBT

Bank Lines of Credit

The Company has separate unsecured lines of credit with eight banks which expire from April 1980 through December 1981. At December 31, 1979, the unused portion of the lines was \$78,240,000, including \$63,830,000 which the Company can 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, 1979.

During 1979, the average month end borrowings were \$3,871,000, the maximum borrowings were \$6,450,000, the average interest rate was 12.2%, and the year end balance was \$600,000. During December 1979, short-term borrowings of \$1,950,000 were converted to long-term debt. During 1978, the average month-end borrowings were \$4,458,000, the maximum borrowings were \$8,900,000, the average interest rate was 9.0%, and the year-end balance was \$600,000. During December 1978, short-term borrowings of \$8,300,000 were converted to long-term debt.

At December 31, 1979, the current and long-term portions of debt and capital lease obligations were:

	<u>Current</u>	<u>Long-Term</u>
	(In thousands)	
Debt	\$ 2,644	\$ 23,291
Capital lease obligations (Note 4)	1,116	1,186
	<u>\$ 3,760</u>	<u>\$ 24,477</u>

Long-Term Debt

The outstanding long-term debt at December 31, 1979 consisted of:

	<u>Amount</u> <u>(In thousands)</u>
Notes payable to banks, with interest rates varying from prime at December 31, 1979 to prime plus ½% over the term of the notes	\$ 24,169
Obligation of \$3,020 to member banks of WSBA due in October 1981, plus interest at prime, less certificate of deposit of \$2,400	620
Other debt with interest rates of 6% to 9%	1,146
	<u>25,935</u>
Less—Current portion	(2,644)
	<u><u>\$23,291</u></u>

The future maturities of long-term debt as of December 31, 1979 are:

<u>Payable During</u>	<u>Amount</u> <u>(In thousands)</u>
1980 (current portion)	\$ 2,644
1981	5,109
1982	6,386
1983	5,761
1984	3,812
1985–1998	2,223
	<u><u>\$ 25,935</u></u>

4. LEASES

In 1978, the Company retroactively changed its method of accounting for certain leases entered into prior to January 1, 1977 to comply with Statement of Financial Accounting Standards No. 13. At December 31, 1979 and 1978, \$6,015,000 and \$10,710,000, respectively, of equipment under capital leases has been included in computer systems in the accompanying consolidated balance sheet.

The Company leases computers, related equipment and office and computer facility space for periods to 1995. Approximate future lease commitments under these leases as of December 31, 1979 were:

<u>Years</u>	<u>Capital Equipment Leases</u>	<u>Operating Leases</u>	
		<u>Equipment</u> <u>(In thousands)</u>	<u>Facilities</u>
1980	\$ 1,198	\$ 4,041	\$ 5,481
1981	685	3,826	4,382
1982	749	3,361	3,704
1983	—	2,082	3,022
1984	—	20	2,359
1985–89	—	—	8,185
1990–95	—	—	5,565
Total commitments	<u>2,632</u>	<u>\$ 13,330</u>	<u>\$ 32,698</u>
Amounts representing interest (6.1% to 12.8%)	(330)		
Present value of capital lease obligations	<u>2,302</u>		
Less—Current portion	(1,116)		
	<u><u>\$ 1,186</u></u>		

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

	<u>1979</u>	<u>1978</u>
	(In thousands)	
Equipment	\$ 9,329	\$ 8,088
Facilities	5,362	4,793
	<u>\$ 14,691</u>	<u>\$ 12,881</u>

5. COMMON STOCK

During 1979, the Company authorized an additional 150,000 shares of common stock for issuance under the employee stock option plans. As of December 31, 1979 and 1978, the Company had reserved 500,757 and 439,737 shares of its common stock for issuance under employee stock option plans. 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, 1978, options for 351,302 shares were outstanding at prices ranging from \$5.75 to \$24.00 and aggregating \$5,694,000. During 1979, options for 145,500 shares at prices ranging from \$34.50 to \$38.00 were granted; options for 79,019 shares were exercised at prices ranging from \$5.75 to \$24.00 and options for 16,562 shares were cancelled. At December 31, 1979, options for 401,221 shares were outstanding at prices ranging from \$7.25 to \$38.00 and aggregating \$9,925,000. Options for 79,267 shares at prices ranging from \$7.25 to \$24.00 and aggregating \$1,357,000 became exercisable during 1979.

As of December 31, 1979 and 1978, the Company had reserved 208,988 and 123,343 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. During 1979 an additional 150,000 shares were authorized for issuance under the plan. In July 1979, 64,355 shares were issued to participants at \$20.97 per share. At December 31, 1979, payroll deductions for the offering period ending June 30, 1980, amounted to \$1,038,000 and have been included in accounts payable in the accompanying consolidated balance sheet. At the beginning of the current offering period, 85% of the fair market value was \$29.00 per share.

The proceeds received upon exercise of stock options or in connection with stock purchase plans are credited to common stock. No compensation amounts have been reflected in the income statement with respect to stock option or stock purchase plans.

6. INCOME TAXES

Income tax expense for 1979 and 1978 consisted of the following components:

	<u>Federal</u>	<u>State</u> (In thousands)	<u>Total</u>
Year Ended December 31, 1979:			
Current portion	\$ 7,735	\$ 1,721	\$ 9,456
Increase in deferred investment tax credits	1,031	—	1,031
Deferred income taxes	1,356	224	1,580
Prepaid income taxes	(547)	(100)	(647)
	<u>\$ 9,575</u>	<u>\$ 1,845</u>	<u>\$ 11,420</u>
Year Ended December 31, 1978:			
Current portion	\$ 5,176	\$ 1,281	\$ 6,457
Increase in deferred investment tax credits	1,454	—	1,454
Deferred income taxes	864	157	1,021
Prepaid income taxes	(129)	(3)	(132)
	<u>\$ 7,365</u>	<u>\$ 1,435</u>	<u>\$ 8,800</u>

Prepaid income taxes and deferred income taxes result from timing differences in the recognition of certain revenues and expenses (primarily depreciation) for financial and tax reporting purposes. Deferred investment tax credits result from reporting investment tax credits on the deferral method for financial reporting purposes.

Prepaid expenses and deposits include prepaid income taxes of \$1,061,000 and \$617,000 at December 31, 1979 and 1978, respectively. Deferred income taxes and credits are comprised of the following:

	<u>December 31,</u>	
	<u>1979</u>	<u>1978</u>
	(In thousands)	
Deferred income taxes	\$ 4,968	\$ 2,447
Deferred investment tax credits	4,535	3,504
	<u>\$ 9,503</u>	<u>\$ 5,951</u>

The Federal income tax provision for 1979 and 1978 differs from the amount computed by applying the statutory income tax rate to income before taxes, primarily because of the amortization of investment tax credits of \$1,168,000 in 1979 and \$944,000 in 1978.

7. 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 4,793,000 in 1979 and 4,590,000 in 1978. Earnings per share assuming full dilution were substantially the same as reported earnings per share.

8. BUSINESS SEGMENT INFORMATION

The Company and its subsidiaries operate in the computer information services industry and the data communications network 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 data communications network services industry include the providing of facilities which enable customers to transmit data between their own computers and terminal devices and transmit business messages between the customers own terminals.

	<u>Computer Information Services</u>	<u>Data Communications Services</u>	<u>Eliminations and Adjustments</u>	<u>Consolidated</u>
	(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	<u>\$182,762</u>	<u>\$ 23,916</u>	<u>\$ (13,586)</u>	<u>\$193,092</u>
Operating profit	<u>\$ 29,100</u>	<u>\$ 3,118</u>	<u>\$ —</u>	<u>\$ 32,218</u>
Equity in earnings of affiliates				684
General corporate expenses				(3,328)
Income from operations				<u>\$ 29,574</u>
Identifiable assets	<u>\$112,930</u>	<u>\$ 12,175</u>	<u>\$ —</u>	\$125,105
Investment in affiliates				5,956
Corporate assets				5,584
Total assets at December 31, 1979				<u>\$136,645</u>
Year ended December 31, 1978:				
Sales to unaffiliated customers	\$138,494	\$ 10,431	\$ 634	\$149,559
Intersegment revenues	6,036	6,060	(12,096)	—
Total revenues	<u>\$144,530</u>	<u>\$ 16,491</u>	<u>\$ (11,462)</u>	<u>\$149,559</u>
Operating profit	<u>\$ 21,882</u>	<u>\$ 1,274</u>	<u>\$ —</u>	<u>\$ 23,156</u>
Equity in earnings of affiliates				634
General corporate expenses				(2,472)
Income from operations				<u>\$ 21,318</u>
Identifiable assets	<u>\$ 90,467</u>	<u>\$ 7,763</u>	<u>\$ —</u>	\$ 98,230
Investment in affiliates				5,405
Corporate assets				3,526
Total assets at December 31, 1978				<u>\$107,161</u>

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 in each industry. Corporate assets are principally cash and cash investments.

9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
	(In thousands, except earnings per share)				
Revenues:					
1979	\$ 50,685	\$ 48,130	\$ 44,990	\$ 49,287	\$193,092
1978	<u>38,076</u>	<u>36,605</u>	<u>35,724</u>	<u>39,154</u>	<u>149,559</u>
Income before taxes:					
1979	\$ 8,800	\$ 6,602	\$ 5,748	\$ 4,914	\$ 26,064
1978	<u>6,611</u>	<u>4,996</u>	<u>4,041</u>	<u>3,745</u>	<u>19,394</u>
Net income:					
1979	\$ 4,750	\$ 3,602	\$ 3,368	\$ 2,924	\$ 14,644
1978	<u>3,361</u>	<u>2,646</u>	<u>2,261</u>	<u>2,325</u>	<u>10,594</u>
Earnings per share:					
1979	\$1.00	\$.76	\$.70	\$.60	\$3.06
1978	<u>.75</u>	<u>.58</u>	<u>.48</u>	<u>.50</u>	<u>2.31</u>

Operating results of companies acquired during 1979 and 1978 are included since the dates of acquisition. If these acquisitions had taken place at the beginning of 1978, the effect upon the above quarterly financial information would not have been significant.

Auditors' Report**To the Shareholders and the Board of Directors of Tymshare, Inc.:**

We have examined the consolidated balance sheet of Tymshare, Inc. (a California corporation) and subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income, shareholders' investment and changes in financial position for the years then ended. 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.

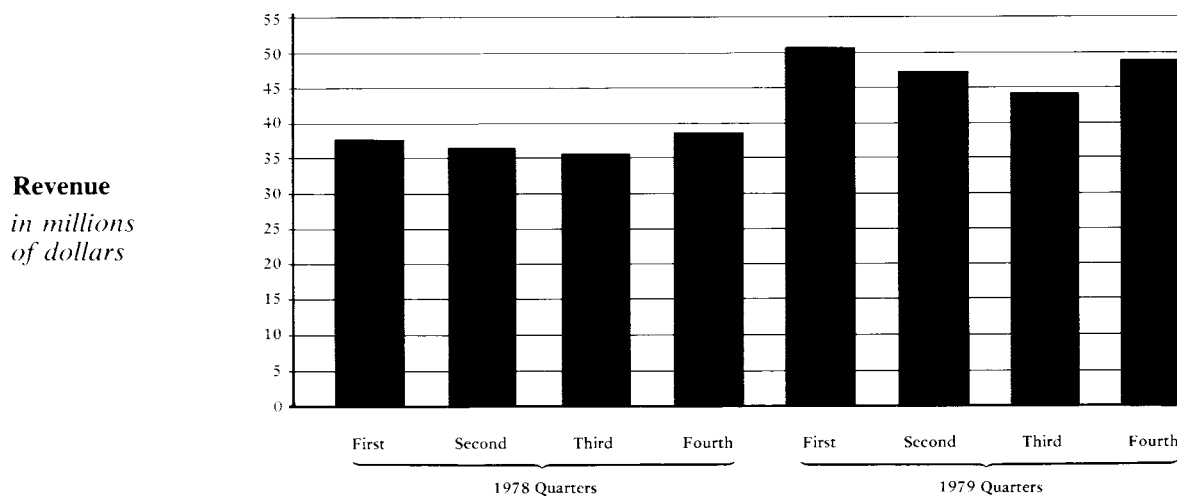
In our opinion, the financial statements referred to above present fairly the financial position of Tymshare, Inc. and subsidiaries as of December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

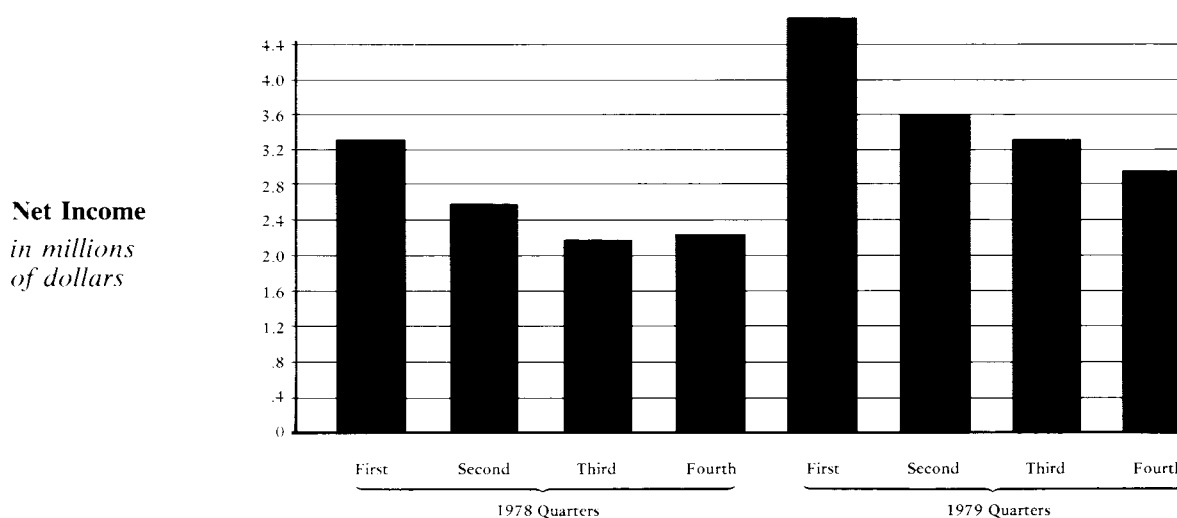
San Jose, California
February 16, 1980

1979 and 1978 Quarterly Highlights

The following consolidated financial information is unaudited.



Year	Quarter	Revenue (In thousands)	Income (In thousands)		Income Margin	
			Before Taxes	Net	Before Taxes	Net
1978	First	\$38,076	\$6,611	\$3,361	17.4%	8.8%
	Second	36,605	4,996	2,646	13.6	7.2
	Third	35,724	4,041	2,261	11.3	6.3
	Fourth	39,154	3,745	2,325	9.6	5.9
1979	First	50,685	8,800	4,750	17.4	9.4
	Second	48,130	6,602	3,602	13.7	7.5
	Third	44,990	5,748	3,368	12.8	7.5
	Fourth	49,287	4,914	2,924	10.0	5.9



Five-Year Consolidated Summary of Operations

	Year Ended December 31,				
	1979	1978	1977	1976	1975
	(In thousands, except earnings per share)				
Revenue from services and sales	<u>\$193,092</u>	<u>\$149,559</u>	<u>\$101,174</u>	<u>\$ 81,837</u>	<u>\$ 64,412</u>
Costs and expenses:					
Cost of revenue and operating expenses	163,518	128,241	84,671	68,278	54,406
Interest	<u>3,510</u>	<u>1,924</u>	<u>695</u>	<u>396</u>	<u>148</u>
	<u>167,028</u>	<u>130,165</u>	<u>85,366</u>	<u>68,674</u>	<u>54,554</u>
Income before provision for income taxes	26,064	19,394	15,808	13,163	9,858
Provision for income taxes	<u>11,420</u>	<u>8,800</u>	<u>7,800</u>	<u>6,450</u>	<u>4,889</u>
Income before extraordinary item	14,644	10,594	8,008	6,713	4,969
Extraordinary item —Federal income tax reduction from carryforward of prior years' losses	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>125</u>
Net income	<u>\$ 14,644</u>	<u>\$ 10,594</u>	<u>\$ 8,008</u>	<u>\$ 6,713</u>	<u>\$ 5,094</u>
Earnings per share:					
Income before extraordinary item	\$ 3.06	\$ 2.31	\$ 1.82	\$ 1.55	\$ 1.19
Extraordinary item	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>.03</u>
Net income	<u>\$ 3.06</u>	<u>\$ 2.31</u>	<u>\$ 1.82</u>	<u>\$ 1.55</u>	<u>\$ 1.22</u>
Weighted average number of common shares and common equivalent shares used to compute earnings per share	<u>4,793</u>	<u>4,590</u>	<u>4,409</u>	<u>4,337</u>	<u>4,159</u>

Management's Discussion and Analysis of the Consolidated Summary of Operations

General

The consolidated summary of operations for Tymshare, Inc. and subsidiaries shows increasing revenue and net income for each year of the five-year period shown. Management believes that the principal reasons for such continued growth were:

(1) greater penetration of the Company's products and services within established markets and through internal growth and acquisitions into new markets, (2) the continued diversification of the Company's capabilities and services, (3) the expansion and enhancement of the data communications network and Tymnet's offering of common carrier network services commencing in 1977, (4) the addition of new computer systems and the enhancement of installed systems, and (5) certain economies of scale.

1979 Compared with 1978

Revenues for 1979 increased by approximately \$43.5 million (29%) compared with 1978. Of this increase, approximately \$38 million (25%) was due to the continued growth of the Company's computer information services and of Tymnet's data communications services. The remaining growth of approximately \$5.5 million was attributable to acquisitions made by the Company in mid-1978 and during 1979, all of which were accounted for as purchases. The Company estimates that price increases for its services made in 1979 did not account for more than 5% of the total increase in revenues.

Total cost of revenue and operating expenses for 1979, excluding interest, increased by approximately \$35.3 million (27.5%) compared with 1978.

The increase in such expenses was primarily due to the continued growth in the Company's business as reflected in the corresponding 29% increase in revenue. The Company achieved an operating profit margin of 15.3% of revenues for 1979 as compared with 14.3% in 1978; this increase was due in part to the profitable operations of Tymshare Transaction Services in 1979 which did not contribute significantly to net income in 1978.

Net interest expense increased by approximately \$1.6 million (82%), due primarily to increases in the prevailing prime interest rate and to increased borrowings made within 1979 for the acquisition of capital equipment in connection with general business growth. (See Note 3 to Consolidated Financial Statements.) Notwithstanding the increase in net interest expense, the Company's pre-tax income margin for 1979 was approximately 13.5% of total revenues as compared with approximately 13% in 1978.

1978 Compared with 1977

Revenues for 1978 increased by approximately \$48.4 million (48%) compared with 1977. The results for 1978 include the full year of operations of Tymshare Transaction Services (TTS), the credit card processing operations acquired from Western States Bankcard Association (WSBA) in October 1977. TTS contributed approximately \$25.2 million in revenues for 1978 compared with \$6.1 million in revenues contributed in the fourth quarter of 1977, with no

significant effect upon net income in 1978 or 1977. Excluding the revenues from TTS for both years, 1978 revenues grew by \$29.3 million (31%). Management attributes such increase principally to continued internal growth and market acceptance of its services and products and the increase in revenues from Tymnet's network services.

The total cost of revenue and operating expenses for 1978, excluding interest, increased by approximately \$43.6 million (51%) compared with 1977, producing an operating profit margin of 14.3% of revenue compared with 16.3% in 1977. The operations of TTS (which impacted all of 1978 but only the fourth quarter of 1977) did not contribute significantly to net income, and consequently reduced the 1978 operating profit margins. The remaining increase in costs was primarily due to the corresponding increase in revenues and, excluding the results of TTS, operating profit margins remained approximately the same for 1978 and 1977.

The increase in interest expense (net) from approximately \$695,000 in 1977 to \$1,924,000 in 1978 was primarily associated with the WSBA acquisition, increases in the prevailing prime interest rate, and to borrowings for the purchase of additional computer and communications equipment.

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Market Prices of Common Stock

Tymshare stock is traded on the New York Stock Exchange under the symbol TYM. Shown below are the quarterly high and low closing prices of Tymshare common stock as traded on the New York Stock Exchange from the first quarter of 1978 through the first quarter of 1980:

	High	Low
1978		
First quarter	22 ⁷ / ₈	18 ¹ / ₈
Second quarter	27 ³ / ₈	19
Third quarter	33 ¹ / ₈	24 ³ / ₄
Fourth quarter	29 ¹ / ₄	22 ¹ / ₈
1979		
First quarter	40 ¹ / ₂	28 ⁵ / ₈
Second quarter	41 ¹ / ₈	34 ¹ / ₄
Third quarter	46 ³ / ₈	33 ⁷ / ₈
Fourth quarter	53 ³ / ₄	38
1980		
First quarter	57 ⁵ / ₈	43 ¹ / ₂

These quotations do not include retail mark-up, mark-down, or commission, and may not represent actual transactions. The Company has never paid dividends.

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, 1979, which has been filed with the Securities and Exchange Commission.

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