

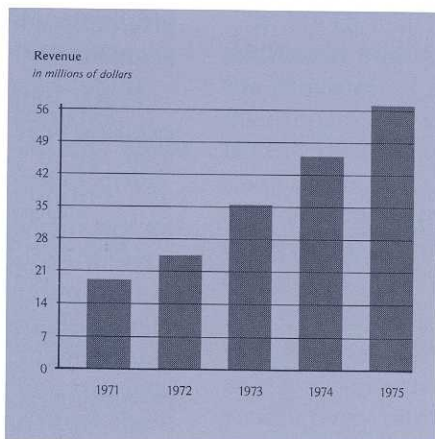
Tymshare
Annual Report
1975



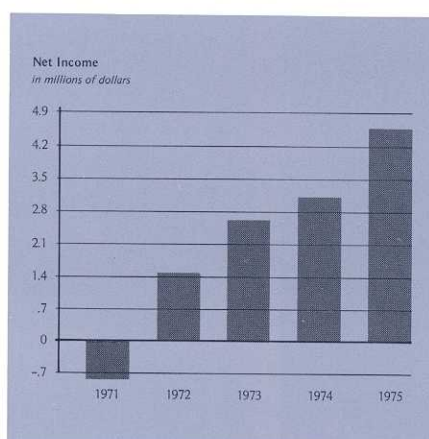
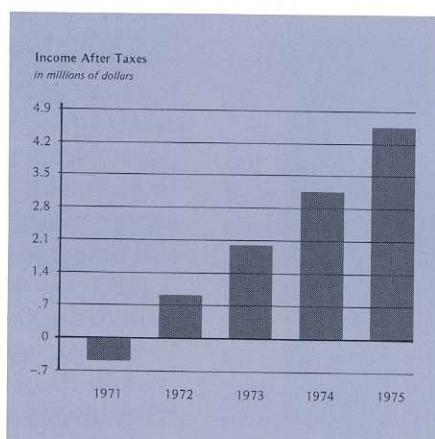
On the Cover

People, different as the tasks they undertake, have been the fundamental resource throughout Tymshare's first decade. Growth and success depend on the integration of many talents and skills, such as those represented on our cover: technologists applying their expertise to the development of useful new ways to make computers serve the exploding need for information service, marketing professionals who understand the customer's world as well as our own, and experienced operations specialists who are the guardians of Tymshare computer and communications facilities around the clock and on two continents.

The result is a delicate blend, with the efforts and talents of Tymshare people so closely interwoven that it is difficult to say where one leaves off and another begins. As a team, they have produced a record 1975 and a decade of progress which has seen Tymshare evolve from an infant firm to a world leader in our industry.



Five-Year Highlights



(In Thousands of Dollars)	Years Ended December 31,				
	1971	1972	1973	1974*	1975*
Revenue	\$19,431	\$24,242	\$35,200	\$46,455	\$56,443
Income (loss) after taxes	(488)	896	2,043	3,148	4,597
Net income (loss)	(754)	1,531	2,654	3,298	4,722

*Quarterly breakdown of revenues and income for 1975 and 1974 is presented on page 25 in chart and tabular form.



To Our Shareholders



Your Company continued to grow and mature during 1975, our tenth anniversary year in business, in spite of the sluggish recovery of the overall economy from inflationary and recessionary influences.

The following financial highlights of 1975 provide specific measurements of our progress during the year:

- Revenues increased to \$56.4 million over the 1974 revenues of \$46.5 million, an increase of approximately \$10 million for the year.

- Net income reached \$4.7 million, or \$1.22 per share, compared with 1974 figures of \$3.3 million, or \$.89 per share. After-tax per share earnings before tax loss carryover benefits rose to \$1.19 in 1975 from \$.85 the prior year. This after-tax comparison shows a 40 percent improvement in 1975 over 1974.

- Shareholders' investment rose to \$20.9 million by year end, an increase of 37 percent over 1974. Our strong cash position and capitalization means Tymshare can continue to actively pursue additional business development

internally and consider compatible acquisitions.

It was indeed a rewarding and exciting year for Tymshare in several ways, all of which contributed to our continuing progress. Several important new products and services were introduced and are directed at high-potential applications and market sectors such as data base management, marketing research and analysis, and securities and investment reporting and analysis. Our computing capacity was increased again in 1975, with the addition of new IBM 370/158 and Digital Equipment PDP-10 systems, bringing our total on-line computer complement to 39 systems in our major U.S. remote-access centers. Significant hardware and software enhancements took place in our international data communications network, TYMNET, to increase volume and speed capacity and to assure even better reliability for the greater requirements being placed on the network as our business grows.

It was also a very productive year for our Data Centers Division, the former United Data Centers, Inc. organization, which is being integrated smoothly into Tymshare. Not only has this acquisition placed us in solid new markets, but Tymshare's network and remote-access technology has fostered beneficial changes and cost savings in the process of serving customers in these new markets.

Toward year end, we completed two other complementary acquisitions. Quelex Data Systems, Inc., was acquired and combined

with our Valcomp Division, creating the major independent organization providing depot-level support services for computer and other digital equipment installations. These services extend from re-engineering obsolete circuits, to complete computer mainframe, drum, and peripherals refurbishment, through parts replacement and equipment brokerage. In another move late in the year, we acquired the U.S. time-sharing operations of Leasco Response, Inc., an operation which adds to our customer base and fits well with our existing business and service facilities.

Among other developments during 1975 were:

- An expansion of our Tymshare Applications and Systems Consultants (TASC) operation. TASC personnel develop specialized applications software under contract for Tymshare customers for implementation on our computing and network systems.

- The installation of Uninterruptible Power Supply (UPS) systems, which assure smooth power supplies to our computers despite fluctuations in the public power, was completed at both of our major on-line computer centers in Cupertino, California, and Valley Forge, Pennsylvania.

- Preparations were begun late in 1975 to extend Tymshare service via TYMNET into Canada's prime business centers, to Hawaii, and to Mexico City. These links were established early in 1976, as was the connection of our East and West Coast remote-access computer centers via the domestic satellite WESTAR.


- We formally began to pursue additional business opportunities in the provision of computer maintenance services for outside organizations, a move which takes advantage of Tymshare experience and capability developed in servicing our own complex of computers.

- Our employee population rose to more than 1250 persons by year end with an overall increase in productivity per employee beyond our goals.

Your Company's performance in 1975 brings an interesting point into sharp focus. We have now lived through two major recessions in our first decade as a business, each time coming out stronger financially and with an improved ability to serve our rapidly growing and diversifying marketplace. Not only have we thrived in times of economic prosperity, but we have seen our services find heightened utility and acceptance when budget and personnel constraints are

tight. At such times, management in our customer and prospect organizations is even more careful to wring maximum value out of every dollar spent to process, analyze, and make use of information.

In the following pages, you will see highlights of our 1975 activities in development, marketing, operations, and other areas aimed at continually improving the "added value" Tymshare delivers to its customers. Basically, this review reveals how Tymshare people are preparing and responding to our changing, growing marketplace in ways that prove useful to customers and which each year spell new levels of success for Tymshare. Without their dedicated professionalism, and your continued interest, the progress of the past year and of our first decade would have been impossible.



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

Tenth Year In Focus

Tymshare spent some \$2.4 million in 1975 to develop new products and enhance existing services, but the real key isn't dollars. It's the special expertise of the people in developmental work that produces truly innovative and practical new tools and capability for the customer. They know the real potential of the technology and they also know how to apply it. Talent like this is scarce, but our environment attracts, challenges, and retains this rare breed of technology applier.

The new Tymshare product that attracted the most attention in our industry, and in the marketplace, during 1975 was MAGNUM, a data base management system that implements an entirely new technological approach in the design, development, and use of centralized information systems for management. MAGNUM, introduced in October after more than three years of development and testing, is the first commercially available *relational* data base management system. Its advantages over earlier systems are that MAGNUM is not only far simpler for the user to work with, but it reduces the time and costs associated with creating, using, and maintaining systems of this type. Additional savings and user satisfaction result from MAGNUM's unique ability to evolve with the customer's growing need to manage and control greater volumes and diversity of information.

The market for such a system appears to us to be enormous. Its acceptance in the first months following official release was greater than for any new product in Tymshare history. MAGNUM applies to the widespread need to assemble, control, and use a centralized pool of dynamic operating data, a need which exists in organizations of almost any size or type.

MAGNUM usage already spans many different types of applications. Present uses include salary survey reporting, insurance policyholder tracking, centralized data collection for billing purposes, multi-division profit planning, portfolio management, project

tracking, and comprehensive sales order entry applications. More than a score of installations have already taken place in banking, government, insurance, manufacturing, financial management firms, service industries, and others.

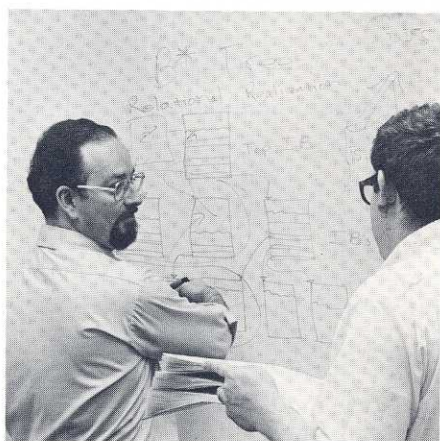
Relational technology has been the subject of study and experimentation in research and academic circles for more than five years. In September 1972, a small cadre of Tymshare technology and market applications experts began to seriously explore the commercial potential of relational concepts. This group, although it was expanded when approval was given for full development project status, never grew beyond a fairly small team of systems designers, senior programming personnel, and data base applications specialists. Truly innovative commercial product development rarely results from sheer numbers. A few quality people with that rare talent for practical innovation, turned on to the unique challenge of extending the frontier in the real world of the everyday user, is what produces important new developments in our business. In 1975, introduction of MAGNUM once again demonstrated Tymshare's ability to produce such milestone achievements.

Tymshare also completed development and brought to market a new, on-line market research service called SURVEY, for processing and analyzing data obtained from questionnaire surveys of consumer attitudes, public opinion,

and test marketing projects. Present and potential users of SURVEY include consumer product companies, industrial firms, market research consultants, advertising agencies, and many branches of federal and state government.

Tymshare also continued in 1975 to offer specialized new services developed in cooperation with applications experts outside the Company, where such joint efforts provide timely entry into a new market sector without committing major internal development resources. Such a new service for professionals in the investment and securities business is TYMQUOTE, a time-sharing data base containing extensive historical and current-by-day information on more than 23,000 securities available for on-line access by investment bankers, securities advisors and analysts, and portfolio managers.

Not all of Tymshare's development effort and resources show up as new products in the marketplace. The most comprehensive and continuous development program in our history has been associated with the creation and ongoing enhancement of our international data communications network, TYMNET. A major, two-year TYMNET enhancement was completed in 1975, resulting in the installation of a new and more powerful network supervisor program making use of state-of-the-art minicomputer equipment. The TYMNET supervisor program operates, controls, and monitors the network as it performs its role in linking Tymshare and customer computers and user terminals.



DEVELOPMENT—Tymshare technical professionals . . . probing the future potential of technology . . . bringing the new relational technology to data base management . . . discussing ways to make computers more productive. In 1975, the results of their dedicated development of new and enhanced services and facilities was dramatically evident.

Centralized network control by means of the TYMNET supervisor, made even more powerful and flexible with the new hardware and software technology incorporated this past year, was part of the original and unique design of Tymshare's network. Because of its basic design and constant improvement through evolutionary enhancements, TYMNET remains the most efficient and sophisticated example of commercial network technology.

Tenth Year In Focus

In our business, marketing is the continuous process of broadening our knowledge of the information problems and requirements of customers and prospects. Selling is the process of sitting down with a customer to help him apply very sophisticated technology in a way that is easy for him and means real value to his organization. We are always learning, and helping the customer to learn, in our business.

A group of nearly 40 young men and women new to the Tymshare field marketing organization recently settled themselves into a classroom in our California headquarters building to begin two weeks of schoolwork. But their education as Tymshare sales representatives and applications consultants is really only beginning here. Most are still in their twenties, and many have already earned advanced degrees. Despite their relative youth, they average several years of experience in the business world, much of that experience involved with the application of computers and information technology to business functions.

This new employee training class is conducted two or three times each year as the basis for a marketing career with Tymshare. It is here that they begin to learn how to apply our complex, rapidly changing technology to the real world problems which face management and technical professionals every day. They are students of a particular process—the art of discovering solutions.

Tymshare's sustained success in the marketplace in 1975, and throughout the Company's first decade, stems from a commitment to professional marketing, which means professional training in products, applications, and the many skills involved in selling and applying service solutions. Introduction of MAGNUM alone in 1975 was accompanied by three different levels of training, beginning last spring at Cupertino, continuing in U.S. field sales locations,

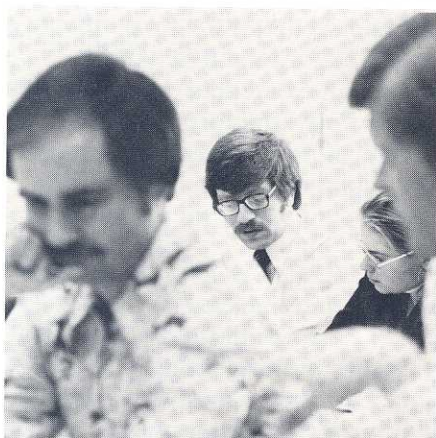
and then overseas for marketing personnel in our CEGOS-Tymshare and Tymshare U.K. affiliates.

Internal training sessions range from one-day update programs to several days. Sessions cover new products, specialized industry applications, and new demonstration techniques for existing and new products on several different types of data terminals. Tymshare believes its marketing people, new and veterans alike, are the best trained in the industry.

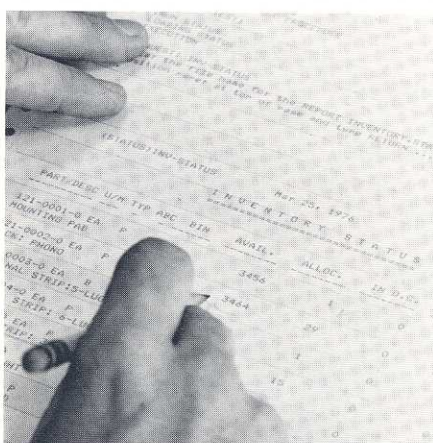
Supplementing formal training is practical field experience under the expert direction of Tymshare's experienced headquarters and field marketing management, most of whom have come up through the ranks from customer support, through sales, and into their management positions. Tymshare's continued growth has enabled the Company to provide the opportunities in management which are vital to the retention of high-caliber professionals.

Tymshare also conducts an extensive program of customer classes and seminars to orient our users to the latest advances in products, applications, and software and language enhancements in a practical, workshop environment. An average of more than 400 customer personnel per month participated in such Tymshare-sponsored seminars during 1975.

The proof of the pudding is in the reaction of user after user. Asked why



MARKETING—New employees in the marketing organization learn about customer problems and Tymshare's tools of solution . . . we show our wares at a recent data processing management conference . . . the end product of our effort, an inventory status report that helps managers operate more effectively and make decisions based on current data.



as high growth areas. Tymshare now has increased specialized product and applications marketing expertise for the accounting profession, telephone industry, government organizations, banking and financial institutions, fuel oil distributors, petroleum industry, and manufacturing organizations. This emphasis on specialized solutions for specialized needs is a growing trend in our industry and in our business. Understanding these needs, and learning new and better ways to meet them, is perhaps the most important priority of Tymshare marketing professionals.

they chose to work with us, users comment in very similar fashion, saying in effect, "Tymshare people just seem to understand my situation better than other people we've talked to, and they make it easy for me to do what I need to do."

1975 saw Tymshare's professional marketing force grow to approximately 400 people, with only

about 10 percent of this number in staff support positions. Tymshare services are now provided through more than 60 sales and data center locations serving most sectors of the United States, as well as through facilities in Canada and the expanding operations of our overseas affiliates.

1975 was also a year of increasing penetration into specialized market sectors identified by Tymshare

Tenth Year In Focus

Reliability of the information plant Tymshare depends on to deliver its remote information services is approaching the irreducible minimum. Last year was the best ever in availability of Tymshare computers and network for customer service. Achieving ever better performance and reliability in systems operation is the tough job of more than 200 specialists in Tymshare's unusual information factory.

Approximately 450,000 on-line conversations took place in the final month of 1975 between Tymshare users and our computing resources, an increase of more than 100,000 interactive sessions over the monthly volume handled by Tymshare facilities at the end of 1974. When a customer dials into our international complex of computer and communications facilities, he has at his disposal an array of 40 complete remote-access computer systems. He is connected to the computers from his personal information terminal by local phone call in approximately 100 metropolitan locations. Tymshare's continuing goal is to assure the customer a smooth, trouble-free on-line conversation every time he calls on our service.

The smoothly functioning delivery system behind Tymshare's \$56 million business in 1975 represents a very skillful blend of hardware, software, and people in one of the most unusual, and unusually reliable, information factories in the world. It is composed of four major U.S. on-line

computer centers; the most advanced commercial interactive data network in existence; custom design, test, and manufacturing facilities for critical network equipment and components; and the best team of professionals in the business.

The role of this Tymshare organization has many facets. It is here that all network hardware is designed and either built or modified from standard state-of-the-art equipment purchased from several different suppliers. This organization also operates and maintains all time-sharing computer systems and network equipment, excluding only the three IBM 370/158 computers, for which maintenance is supplied by the manufacturer. Data Centers Division batch computers are not maintained by Tymshare.

Special procedures and software also are developed here to analyze and monitor performance of the computers and the network in order to balance work load and allocate available computing and communications resources in the optimum fashion. For example, a computer needing scheduled or special maintenance can be relieved of its work load by shifting this work to alternate machines in a way that is invisible to customers. The network supervisor program, which controls all TYMNET traffic flow, simply selects the optimal path between the user and his computer automatically,

OPERATIONS—*Planning for expansion of our data communications network, TYMNET, to meet the growing needs of Tymshare's remote computing services business . . . a computer operator in California changes a disk pack capable of storing some 200 million characters of data . . . the control panel for uninterruptible power supply systems installed in 1975 at Cupertino and Valley Forge computer centers. Together, they spell increased capacity and efficiency in our computer/communications facilities.*

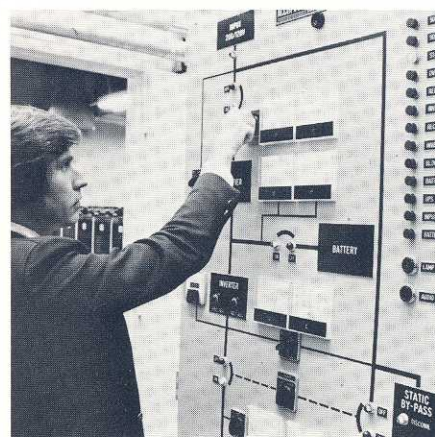


without disruption of maintenance or customer service. Maintenance and repairs to computers and network components proceed in parallel with provision of customer service, assuring maximum system efficiency at all times and continuity of service to customers.

This organization is also continually expanding network size and capacity, as well as the throughput of computers in Tymshare's information facilities.



Installation of more powerful minicomputers at major network nodes and the implementation of the new network supervisor control program increased TYMNET capacity approximately 50 percent. With the new supervisor, TYMNET can now be easily expanded to four or five times its present capacity simply by adding and upgrading nodes on the network. Also in 1975, the addition of new computers and higher performance disk memory equipment, as



well as operating efficiencies, contributed to a 30-percent increase in computing capability by year end.

These improvements in the Tymshare information factory during 1975 were accomplished while continuing to service an expanding customer work load with unprecedented responsiveness and reliability.

Tenth Year In Focus

In its first ten years, Tymshare has evolved from a highly specialized supplier of time-sharing computer services to become one of the major international multi-service corporations in the information services industry. There are many different avenues to future growth and diversification of our Company and its capability. Management is alert to the tremendous opportunities ahead and to the means of participating in the growth which these opportunities represent.

New growth opportunities are virtually without limits for Tymshare and our industry. Established markets constantly require more powerful tools, more specialized applications solutions, and improved cost-effectiveness in dealing with information needed to manage and control modern organizations. What was once a single application rapidly becomes another whole market segment with special requirements. And auxiliary products and support develop into significant tools for customers and hence become important potential new business opportunities for us as a by-product of our primary service scope and capability.

For several years, management has pursued favorable acquisitions, joint ventures, and mergers as a means of entering or strengthening our position in important market sectors. Joint ventures overseas have been the basis for our international expansion in Great Britain and in Western Europe. Both Tymshare U.K. and CEGOS-Tymshare continue to make excellent progress in their markets through facilities in London, Paris, Brussels, and Lausanne. CEGOS' most recent expansion overseas was the opening of a facility in The Hague in the fall of 1975.

The merging of United Data Centers into Tymshare late in 1974 provides us with new services and revenues and significantly accelerates our timetable for serving the rapidly growing need for remote job entry and remote batch service. Now called the Tymshare Data Centers Division, this operation

provides specialized data processing services to the accounting profession, the fuel oil distribution industry, banks, and many other commercial organizations. Our remote processing technology also has benefitted the Data Centers operation dramatically. For example, we have been able to centralize all processing related to tax services by feeding the data from remote batch terminals at the data centers to our IBM 370/158 computers in Palo Alto and Valley Forge.

Acquisition of Quelex Data Systems, whose business has been similar and complementary to that of our Valcomp Division, makes us the strongest independent in the depot-level equipment refurbishment support services. The enlarged Valcomp operation now services more than 20 different types of computer and peripheral equipments and provides parts replacement and re-engineering services for components no longer in production, in addition to equipment brokerage.

We acquired the domestic time-sharing business of Leasco Response, Inc., in 1975 and we are integrating that customer base and processing volume into our facilities and marketing operations.

Tymshare also has expanded its line of information terminal products provided as an additional convenience to our customers. In 1975, we introduced a new portable stand-alone cassette unit that is compatible with currently installed user terminals. Several additional

units are being introduced through the early months of this year.

Provision of on-site computer system maintenance for outside firms is another service which received more emphasis in 1975. Our expertise in maintaining on-line computer installations has been gained in performing this service for our own equipment for several years. Marketability of this expertise appears

very good. We obtained several third-party maintenance contracts during 1975 and we intend to continue to pursue this opportunity as long as it is profitable and consistent with our support services interests.

We continue to find increasing demand for sharing our network capacity with organizations which want to interconnect their own computers and terminals over TYM-

NET. Enabling provisions of existing tariffs allow this form of joint use service. There appears to be excellent business growth potential for this type of service in the future. The capability of our expanding network is well suited to provision of such services.

We are entering our second decade with a strong and well balanced capability to serve the diverse information service needs of our customers. Our product development leadership was once again demonstrated in 1975. Our ability to increase our share of existing markets and penetrate new ones with new products and services produced record sales. Efficiency of our facilities and the productivity of our people reached new heights. We have a stable, experienced, and highly motivated management team. And we have the financial strength to exploit our opportunities in whatever form they appear.

We are well positioned to address the challenge and the rewards of a new year, and new decade.



GROWTH—A CEGOS-
Tymshare sales representative in Paris against the background of the Arc de Triomphe . . . at the Data Centers Division's Wichita Dynatax processing center, completed income tax returns are being printed on tax forms remotely after processing at Tymshare's 370 computer center in Palo Alto, California . . . the Tymshare Model 125, the industry's most portable and lightest weight data terminal, joins the product line.

Tymshare, Inc. and Subsidiaries
Consolidated Balance Sheets

December 31, 1975 and 1974

Assets

	1975	1974
Current assets:		
Cash	\$ 1,834,691	\$ 611,771
Certificates of deposit	2,300,000	3,000,000
Accounts receivable, less allowance of \$555,856 in 1975 and \$584,951 in 1974 for doubtful accounts	10,543,761	8,546,735
Inventories (Note 1)	2,673,940	1,389,048
Prepaid expenses and deposits	1,223,011	711,277
Total current assets	<u>18,575,403</u>	<u>14,258,831</u>
 Property and equipment, at cost (Notes 1 and 3):		
Computer systems	13,697,074	8,880,283
Terminal and communication equipment	7,774,136	6,166,756
Purchased software	547,069	547,069
Furniture, fixtures and other equipment	2,286,770	1,274,384
Land and buildings	1,162,797	1,025,609
Leasehold improvements	1,098,659	968,658
	<u>26,566,505</u>	<u>18,862,759</u>
Less — Accumulated depreciation and amortization	<u>(11,972,673)</u>	<u>(9,335,964)</u>
	<u>14,593,832</u>	<u>9,526,795</u>
 Other assets:		
Cost in excess of net tangible assets acquired (Notes 1 and 2)	3,393,565	2,857,560
Deferred charges	601,007	870,320
Investment in affiliate (Note 1)	140,000	—
	<u>4,134,572</u>	<u>3,727,880</u>
	<u>\$37,303,807</u>	<u>\$27,513,506</u>

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

Liabilities

	1975	1974
Current liabilities:		
Notes payable to banks, unsecured (Note 3)	\$ 800,000	\$ —
Current portion of long-term debt	515,114	1,884,818
Accounts payable	4,974,090	2,846,263
Accrued liabilities	2,037,468	2,165,791
Accrued income taxes	2,396,787	1,780,419
Due to shareholders of Quelex Data Systems, Inc. (Note 2)	1,242,350	—
Total current liabilities	<u>11,965,809</u>	<u>8,677,291</u>
 Deferred tax credits (Note 8)	 <u>1,300,000</u>	 <u>1,070,000</u>
 Long-term debt (Note 3)	 3,648,512	 4,390,454
Less — Current portion shown above	<u>(515,114)</u>	<u>(1,884,818)</u>
	<u>3,133,398</u>	<u>2,505,636</u>
 Commitments (Note 4)		
 Shareholders' investment (Notes 6 and 7):		
Common stock, no par value —		
Authorized — 5,000,000 shares		
Outstanding — 3,753,204 shares in 1975 and 3,671,990 shares in 1974, stated at	12,288,822	11,717,059
Market value of estimated number of shares to be issued under acquisition agreements (Note 2)	350,000	—
Retained earnings	<u>8,265,778</u>	<u>3,543,520</u>
	<u>20,904,600</u>	<u>15,260,579</u>
	<u>\$37,303,807</u>	<u>\$27,513,506</u>

Tymshare, Inc. and Subsidiaries
Consolidated Statement of Income

For the Years Ended December 31, 1975 and 1974

	1975	1974
Revenue from services and sales	\$56,442,669	\$46,455,477
Cost of services and sales	<u>25,223,100</u>	<u>21,631,867</u>
Gross profit	<u>31,219,569</u>	<u>24,823,610</u>
Expenses:		
Selling, general and administrative	19,515,690	16,122,826
Technical development	<u>2,396,790</u>	<u>2,084,445</u>
	<u>21,912,480</u>	<u>18,207,271</u>
Income from operations	9,307,089	6,616,339
Interest expense, less interest income of \$166,469 in 1975 and \$121,069 in 1974	<u>109,831</u>	<u>468,056</u>
Income before provision for income taxes	<u>9,197,258</u>	<u>6,148,283</u>
Provision for income taxes (Note 8):		
Federal	3,702,000	2,467,000
State	<u>898,000</u>	<u>533,000</u>
	<u>4,600,000</u>	<u>3,000,000</u>
Income before extraordinary item	4,597,258	3,148,283
Extraordinary item — Federal income tax reduction from carryforward of prior years' losses (Note 8)	<u>125,000</u>	<u>150,000</u>
Net income	<u>\$ 4,722,258</u>	<u>\$ 3,298,283</u>
Earnings per share (Note 1):		
Income before extraordinary item	\$1.19	\$.85
Extraordinary item	<u>.03</u>	<u>.04</u>
	<u>\$1.22</u>	<u>\$.89</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, 1975 and 1974

	Common Stock		Market Value of Shares to Be Issued (Estimated)	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
Balance, December 31, 1973	3,654,371	\$11,712,031	\$ —	\$ 245,237	\$(233,033)	\$11,724,235
Sale of treasury stock under employee stock purchase plan		(30,009)			69,115	39,106
Sale of common stock —						
Employee stock option plans	7,533	53,599				53,599
Employee stock purchase plan	26,085	169,552				169,552
Expenses related to employee stock option and stock purchase plans		(24,196)				(24,196)
Cancellation of treasury shares	(15,999)	(163,918)			163,918	—
Net income for the year				3,298,283		3,298,283
Balance, December 31, 1974	3,671,990	11,717,059	—	3,543,520	—	15,260,579
Sale of common stock —						
Employee stock purchase plan	5,213	34,948				34,948
Employee stock option plans	75,324	540,513				540,513
Exercise of warrant	677	5,625				5,625
Expenses related to employee stock option and stock purchase plans		(9,323)				(9,323)
Net income for the year				4,722,258		4,722,258
Market value of estimated number of shares to be issued under acquisition agreements			350,000			350,000
Balance, December 31, 1975	<u>3,753,204</u>	<u>\$12,288,822</u>	<u>\$350,000</u>	<u>\$8,265,778</u>	<u>\$ —</u>	<u>\$20,904,600</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, 1975 and 1974

	1975	1974
Financial resources were provided from:		
Operations —		
Income before extraordinary item	\$ 4,597,258	\$3,148,283
Add — Expenses not requiring outlay of working capital in the current period —		
Depreciation and amortization of property and equipment	2,717,276	2,879,879
Amortization of cost in excess of net tangible assets acquired	<u>42,595</u>	<u>41,806</u>
	7,357,129	6,069,968
Extraordinary item	125,000	150,000
Federal income tax benefits applied to cost in excess of net tangible assets acquired	<u>—</u>	<u>153,742</u>
	<u>7,482,129</u>	<u>6,373,710</u>
Financing activities, increase (decrease) in —		
Notes payable to banks	800,000	(250,000)
Accounts payable, accrued liabilities and accrued income taxes	2,615,872	2,598,441
Deferred tax credits	230,000	795,000
Long-term debt —		
Borrowings	2,437,188	553,113
Repayments	(3,179,130)	(2,260,259)
Due to shareholders of Quelex Data Systems, Inc.	<u>1,242,350</u>	<u>—</u>
	<u>4,146,280</u>	<u>1,436,295</u>
Proceeds from sale of common stock and treasury stock, net of related expenses	<u>571,763</u>	<u>238,061</u>
	<u>4,718,043</u>	<u>1,674,356</u>
	<u>\$12,200,172</u>	<u>\$8,048,066</u>

(Continued on following page)

	1975	1974
Financial resources were used for:		
Purchase of Quelex Data Systems, Inc. —		
Cash payment	\$ 280,275	\$ —
Amount due Quelex shareholders	1,242,350	—
Total purchase price	1,522,625	—
Purchase price assigned to net assets included elsewhere herein —		
Inventories	(1,044,285)	—
Property and equipment	(188,000)	—
Other assets, net	(30,088)	—
Cost in excess of net tangible assets acquired	260,252	—
UDC acquisitions in 1973 (Note 2) —		
Cost in excess of net tangible assets	318,348	134,346
Market value of shares to be issued (estimated)	(350,000)	—
	(31,652)	134,346
Increase in assets —		
Cash and certificates of deposit	522,920	1,827,067
Accounts receivable	1,997,026	2,027,277
Inventories	1,284,892	519,866
Property and equipment —		
Computer systems	4,870,385	786,175
Terminal and communications equipment	1,618,967	1,334,185
Furniture, fixtures and other equipment	1,026,931	380,888
Land and buildings	137,188	555,609
Other	130,842	212,022
Prepays, deposits and deferred charges	242,421	270,631
Investment in affiliate	140,000	—
	11,971,572	7,913,720
	<u>\$12,200,172</u>	<u>\$8,048,066</u>

The accompanying notes are an integral part of this statement.

Tymshare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 1975

1. SUMMARY OF ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Tymshare, Inc. and its subsidiaries after elimination of intercompany accounts and transactions. The accounts of foreign subsidiaries (which are not significant in relation to the consolidated financial statements) have been translated into U.S. dollars at current or historical rates of exchange, as appropriate. There is a minority interest in one foreign subsidiary, not significant in amount.

The Company accounts for its 20% interest in an affiliated French corporation on the equity method. At December 31, 1974, the Company's share of the affiliate's losses equalled its investment and had been recognized in the financial statements in prior years. The Company's share, \$140,000, of the affiliate's income in 1975 is included in revenue from services and sales.

Inventories

Inventories are stated principally at the lower of cost (first-in, first-out) or market and are comprised of computer parts and equipment used for maintenance or held for resale, technical manuals, and other data processing supplies.

Software Development

The cost of software developed by the Company is charged to expense as incurred.

Depreciation and Amortization

Depreciation and amortization are provided using the following estimated useful lives:

Computer systems*	3 to 10 years
Terminal and communication equipment	4 to 7 years
Purchased software	5 to 6 years
Furniture, fixtures and other equipment	5 to 10 years
Buildings	10 to 40 years
Leasehold improvements	Life of lease

*Certain computer systems are depreciated using the sum-of-the-months-digits method, and all other property and equipment is depreciated on the straight-line method.

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 Tangible Assets Acquired

Costs associated with acquisitions in 1971 and thereafter are being amortized generally over 40 years; costs associated with acquisitions in prior years are not being amortized. Tax benefits resulting from the use of acquired companies' operating loss and investment tax credit carryovers have been applied as a reduction of these costs (see Note 2).

Earnings Per Share

Earnings per share have been computed based on the average number of common shares and common equivalent shares (stock options, warrants, and employee stock purchase plans) outstanding during each period. The average number of shares used in the computation was 3,876,190 in 1975 and 3,717,975 in 1974. Earnings per share assuming full dilution are substantially the same as earnings per share shown.

2. ACQUISITIONS

In December 1975, the Company acquired the business and assets of Quelex Data Systems, Inc. (Quelex) for \$1,522,625. This acquisition has been accounted for as a purchase. On the date of acquisition, the purchase price exceeded the fair value of net tangible assets acquired by \$260,252, which has been included in cost in excess of net tangible assets acquired. The acquisition agreement also provides for additional payments based upon earnings resulting from the acquisition over the next three years. If this acquisition had taken place at the beginning of 1974, the effect upon results of operations for 1974 and 1975 would be insignificant.

In December 1974, the Company acquired United Data Centers, Inc. (UDC) in exchange for 652,435 shares of the Company's common stock. This acquisition was accounted for as a pooling of interests and prior period financial statements were restated to give effect to the pooling.

In February 1976, the Company announced that it had reached an agreement in principle to acquire the business and operations of Medical Data Systems, Inc. for 82,000 shares of the Company's common stock. This acquisition is subject to the execution of a definitive agreement and the approval of the Medical Data Systems, Inc. shareholders.

Acquisitions in 1975 and prior years have given rise to costs in excess of net tangible assets acquired as follows:

	<u>1975</u>	<u>1974</u>
Balance beginning of year	\$2,857,560	\$2,918,762
Additional payments accrued resulting from two UDC acquisitions in 1973* —		
Payable in cash	(31,652)	134,346
Payable in common stock (estimated)	350,000	—
Acquisition of Quelex	260,252	—
Less — Amortization charged to expense	(42,595)	(41,806)
Federal tax benefits applied	<u>—</u>	<u>(153,742)</u>
Balance end of year	<u>\$3,393,565**</u>	<u>\$2,857,560</u>

*These relate to earn-out agreements, one of which expired April 30, 1975 and the other December 31, 1975. The number of shares to be issued under one of these agreements is being negotiated.

**Includes costs of \$1,738,617 not being amortized, net of tax benefits applied.

3. BANK LINE OF CREDIT AND LONG-TERM DEBT

Bank Line of Credit

Under the Company's bank line of credit, \$10,000,000 is available for unsecured short-term borrowings through March 31, 1977 at $\frac{1}{4}\%$ above the bank's prime interest rate. The Company has the option to convert any advance under the line within 45 days to a secured, five year term loan. All amounts converted are repayable in 20 equal quarterly installments including interest at $\frac{1}{2}\%$ above the prime rate and reduce the remaining availability under the unsecured line.

The line of credit and credit agreements relating to advances converted to term loans provide that the ratio of current assets to current liabilities must be at least 1.25 to 1, total unsubordinated liabilities may not exceed 1.3 times tangible net worth, and quarterly consolidated income before provision for income taxes must be at least \$1,500,000. The line of credit contains certain negative covenants relating to pledging of assets.

Prior to July 1975, borrowings under the Company's line of credit were nominal and no balances were outstanding at any month-end. Subsequent to July 1975, average month-end balances were \$1,267,000, maximum borrowings were \$1,600,000, and the average interest rate was 7.8%.

Long-Term Debt

	1975	1974
Notes payable to a bank —		
Five-year term loan due April 1981, payable \$115,000 quarterly plus interest at prime plus ½% (7¾% at December 31, 1975)	\$2,300,000	\$ —
Installment note originally due July 1976, interest at 2% over prime, paid during 1975	—	3,000,000
Real estate mortgages —		
Variable interest rate (7¾% at December 31, 1975) due in 1985 payable \$8,281 monthly including interest	642,440	553,109
7½%, payable \$2,217 monthly including interest through 1998	286,825	291,716
6% note payable to former shareholder of a company acquired by UDC, secured by pledge of common stock of the acquired company, payable \$4,000 monthly plus interest through June 1979	172,000	220,000
7% note payable for acquisition by UDC of treasury stock, payable \$4,786 monthly including interest through 1979	181,565	224,641
Other, due in varying amounts to 1979	65,682	100,988
	3,648,512	4,390,454
Less — Current maturities	515,114	1,884,818
	<u>\$3,133,398</u>	<u>\$2,505,636</u>

Property and equipment with an original cost of approximately \$3,583,000 has been pledged to secure certain of the above indebtedness.

The maturities of long-term debt as of December 31, 1975, are:

Payable During	Amount
1976	\$ 515,114
1977	638,116
1978	645,891
1979	597,458
1980	536,195
Thereafter	715,738
	<u>\$3,648,512</u>

4. COMMITMENTS

The Company leases computers and related equipment, and office and computer facility space for periods to 1985 with options to renew. Approximate future lease commitments under these leases as of December 31, 1975, are:

Years	Computers and Equipment	Office and Computer Space	Total
1976	\$ 3,700,000	\$1,475,000	\$ 5,175,000
1977	2,855,000	1,287,000	4,142,000
1978	2,090,000	1,122,000	3,212,000
1979	1,230,000	987,000	2,217,000
1980	710,000	671,000	1,381,000
1981–1985	650,000	1,518,000	2,168,000
	<u>\$11,235,000</u>	<u>\$7,060,000</u>	<u>\$18,295,000</u>

In the opinion of management, the leases of the computers and the majority of the related equipment generally provide the lessors with recovery of their investments over the lease terms, and accordingly are considered to be "finance" type leases. Facility leases and certain equipment leases are "operating" type leases. Rental expense by type of lease was:

<u>Year</u>	<u>Finance Leases</u>	<u>Operating Leases</u>	<u>Total</u>
1975	\$3,123,000	\$4,496,000	\$7,619,000
1974	<u>2,556,000</u>	<u>3,406,000</u>	<u>5,962,000</u>

The finance lease rentals contain finance charges, or interest, ranging from 5.0% to 13.7%. The present values of the future commitments on finance leases, discounted at the interest rates implicit in the leases, were:

<u>December 31,</u>	<u>Present Value</u>	<u>Average Interest Rate</u>
1975	\$9,227,000	9.9%
1974	<u>8,830,000</u>	<u>9.4</u>

If the finance leases were capitalized, the related assets amortized on a straight-line basis and the interest cost accrued in relation to the outstanding lease obligations, the effect upon results of operations would not be significant.

5. LITIGATION

The Company is a party to certain litigation and other proceedings arising from its business activities. In the opinion of management, the outcome of these matters will not significantly affect the Company's financial position or results of its operations.

6. COMMON STOCK

In February 1976, the Board of Directors approved, subject to shareholder approval, increasing the authorized number of common shares from 5,000,000 to 10,000,000.

The Company has reserved 651,334 shares of its common stock at December 31, 1975 for the following:

	<u>Number of Shares</u>
Stock options	472,091
Employee stock purchase plans	108,612
Warrants	50,631
Shares to be issued under acquisition agreements (estimated)	<u>20,000</u>
	<u>651,334</u>

In connection with certain long-term bank debt, the Company issued to the bank warrants to purchase 42,500 shares of the Company's common stock at \$7 per share expiring December 1, 1976 (5,000 shares) and December 1, 1977 (37,500 shares). The warrants were valued at \$71,625, which is being amortized over the terms of the notes.

The Company has assumed outstanding stock purchase warrants of UDC for the purchase of 8,131 shares of the Company's common stock at \$11.07 per share, expiring in 1977.

7. EMPLOYEE STOCK OPTIONS AND STOCK PURCHASE PLANS

Options have been granted generally at 100% of the fair market value on the date of grant. However, the 1975 Stock Option Plan permits 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 granted.

The status of stock options is:

Options Outstanding as of December 31,	Number of Shares	Option Price		Fair Value at Date of Grant	
		Per Share	Total	Per Share	Total
1975	316,900	\$ 6.87 to 16.75	\$2,892,764	\$ 6.87 to 16.75	\$2,903,639
1974	324,209	4.43 to 14.39	2,426,490	4.43 to 14.39	2,426,490
Options Which Became Exercisable During the Year Ended December 31,	Number of Shares	Option Price		Fair Value When Exercisable	
		Per Share	Total	Per Share	Total
1975	86,716	\$ 5.75 to 14.39	\$656,242	\$ 9.62 to 19.08	\$1,314,682
1974	94,263	6.87 to 14.39	724,570	5.53 to 10.80	786,029
Options Exercised During the Year Ended December 31,	Number of Shares	Option Price		Fair Value When Exercised	
		Per Share	Total	Per Share	Total
1975	75,324	\$ 4.43 to 14.39	\$540,513	\$ 9.62 to 19.08	\$1,312,525
1974	7,533	4.43 to 8.75	53,599	7.00 to 10.80	70,796

During 1975, options for 94,300 shares were granted at \$7.25 to \$16.75 per share (aggregate—\$1,518,576) and options for 26,285 shares were cancelled.

Under the employee stock purchase plan as amended in May 1975, eligible employees may elect to purchase shares of common stock at 85% (100% prior to amendment) of the lower of the fair market value at the beginning or end of a 12-month offering period. In October 1974, 26,085 shares were issued to participants at \$6.50 per share, which was the fair market value at the end of the second offering period. At December 31, 1975, payroll deductions for the third offering period ending June 30, 1976, amounted to \$359,615. At the beginning of this offering period, 85% of the fair market value was \$16.58 per share.

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

8. INCOME TAXES

Income tax expense for 1975 and 1974 is made up of the following components:

	U.S. Federal	State	Total
Year ended December 31, 1975:			
Current portion	\$3,385,000	\$879,000	\$4,264,000
Tax benefits from operating loss carryforwards applied to income	125,000	—	125,000
Increase in deferred tax credits	230,000	—	230,000
Prepaid tax expense	(38,000)	19,000	(19,000)
	<u>\$3,702,000</u>	<u>\$898,000</u>	<u>\$4,600,000</u>

Year ended December 31, 1974:

Current portion	\$1,737,000	\$589,000	\$2,326,000
Tax benefits from operating loss carryforwards applied —			
To income	150,000	—	150,000
To cost in excess of net tangible assets acquired	59,000	—	59,000
Tax benefits from investment tax credits applied —			
To deferred tax credits	795,000	—	795,000
To cost in excess of net tangible assets acquired	95,000	—	95,000
Prepaid tax expense	<u>(369,000)</u>	<u>(56,000)</u>	<u>(425,000)</u>
	<u>\$2,467,000</u>	<u>\$533,000</u>	<u>\$3,000,000</u>

The Company accounts for investment tax credits using the deferral method. Deferred tax credits represent investment tax credits reported for tax purposes in excess of credits reported for book purposes to December 31, 1975.

Prepaid tax expense results from timing differences in the recognition of certain costs and expenses for financial and tax reporting purposes. The sources of the timing differences and their tax effects were:

	<u>1975</u>	<u>1974</u>
Balance beginning of year	<u>\$782,000</u>	<u>\$357,000</u>
Tax effect of changes during the year —		
Book depreciation in excess of (less than) tax depreciation	(168,000)	150,000
Provisions for state taxes not deductible currently for federal purposes	128,000	84,000
Other costs and expenses	<u>59,000</u>	<u>191,000</u>
	<u>19,000</u>	<u>425,000</u>
Balance end of year	<u>\$801,000</u>	<u>\$782,000</u>
Balance sheet classification —		
Amount applicable to current items included in prepaid expenses and deposits	\$606,000	\$295,000
Amount applicable to non-current items included in deferred charges	<u>195,000</u>	<u>487,000</u>
	<u>\$801,000</u>	<u>\$782,000</u>

Total tax expense for 1975 and 1974 differs from the amount computed by applying the prevailing rates to income before taxes. The reasons for these differences are:

	<u>1975</u>	<u>1974</u>
Computation at prevailing rates —		
Federal	\$4,402,000	\$2,945,000
State, net of federal income tax benefits	<u>467,000</u>	<u>288,000</u>
Total	4,869,000	3,233,000
Share in income of affiliated company	(67,000)	—
Investment tax credits applied	(340,000)	(275,000)
Non-deductible merger costs	11,000	90,000
Other, net	<u>127,000</u>	<u>(48,000)</u>
Total expense	<u>\$4,600,000</u>	<u>\$3,000,000</u>

The Internal Revenue Service is conducting an examination covering the federal income tax returns of Tymshare, Inc. and its subsidiary Tymshare East, Inc. for the years 1973 and 1974. The examining agent has issued no report but the issues being discussed could give rise to assertions that additional taxes are payable for those years. Management intends to contest any proposed adjustments relating to the issues being discussed and is of the opinion that resolution of the issues will not significantly affect working capital or results of operations.

Auditors' Report

To the Shareholders and the Board of Directors of Tymshare, Inc.:

We have examined the consolidated balance sheets of Tymshare, Inc. (a California corporation) and subsidiaries as of December 31, 1975 and 1974, and the related consolidated statements of income, shareholders' investment, and changes in financial position for the years then ended. Our examination was 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, 1975 and 1974, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

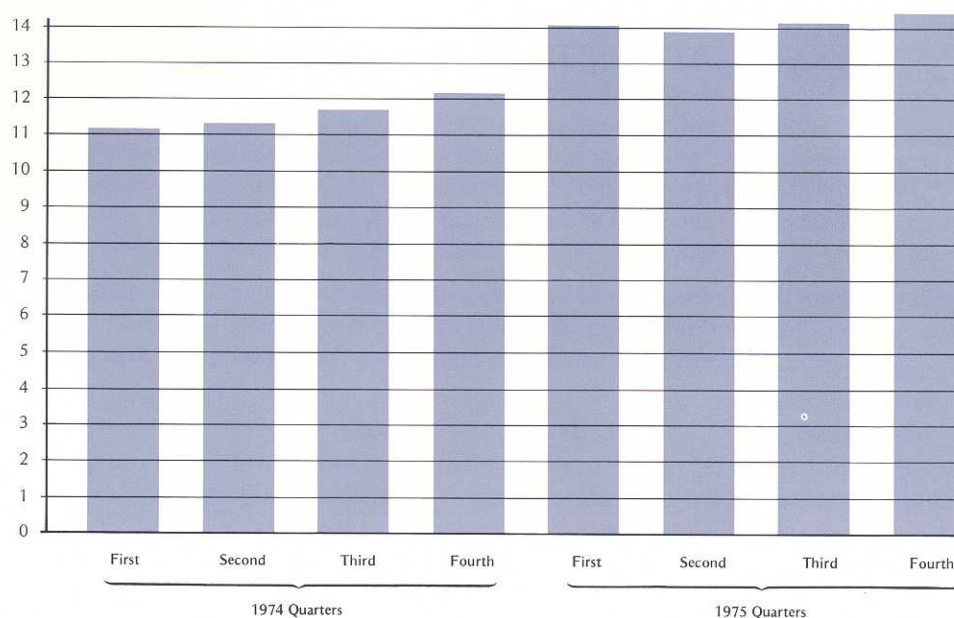
Arthur Andersen & Co.

San Jose, California,
February 20, 1976.

1975 and 1974 Quarterly Highlights

The following consolidated financial information is unaudited.

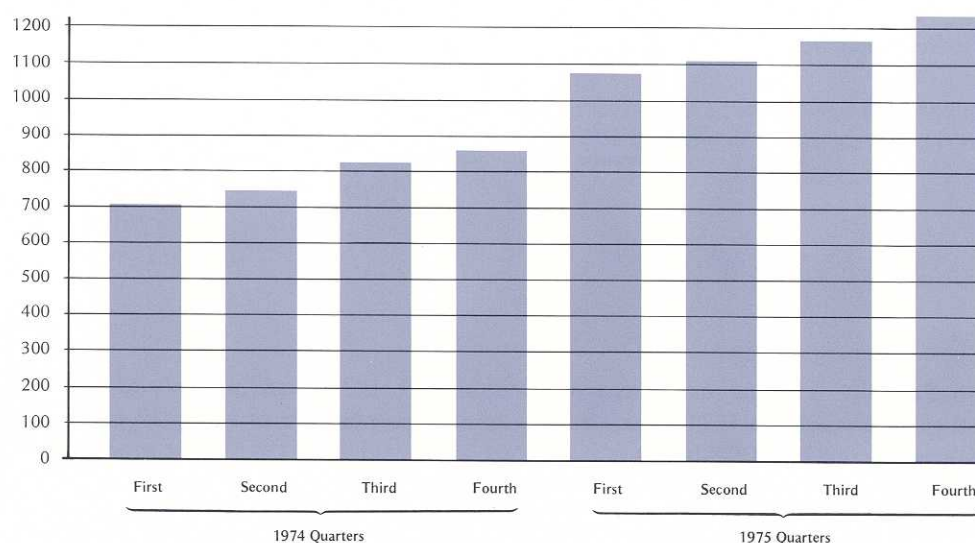
Revenue
*in millions
of dollars*



(In Thousands of Dollars)

Year/Quarter	Revenue	Income			Income Margin %	
		Before Taxes	After Taxes	Net	Before Taxes	After Taxes
1974 — First	\$11,213	\$1,398	\$ 703	\$ 789	12.5%	6.3%
Second	11,383	1,473	756	791	12.9	6.6
Third	11,756	1,595	824	846	13.6	7.0
Fourth	12,103	1,682	865	872	13.9	7.1
1975 — First	14,035	2,152	1,085	1,185	15.3	7.7
Second	13,959	2,224	1,116	1,141	15.9	8.0
Third	14,064	2,352	1,173	1,173	16.7	8.3
Fourth	14,385	2,469	1,223	1,223	17.2	8.5

**Income
After Taxes**
*in thousands
of dollars*



Five-Year Consolidated Summary of Operations

(In Thousands of Dollars)	Year Ended December 31,				
	1975	1974	1973	1972	1971
Revenue from services and sales	<u>\$56,443</u>	<u>\$46,455</u>	<u>\$35,200</u>	<u>\$24,242</u>	<u>\$19,431</u>
Costs and expenses:					
Cost of revenue and operating expenses	47,135	39,839	30,702	22,065	19,272
Interest	<u>110</u>	<u>468</u>	<u>620</u>	<u>289</u>	<u>331</u>
	<u>47,245</u>	<u>40,307</u>	<u>31,322</u>	<u>22,354</u>	<u>19,603</u>
Income (loss) from continuing operations before provision for income taxes	9,197	6,148	3,878	1,887	(172)
Provision for income taxes	<u>4,600</u>	<u>3,000</u>	<u>1,835</u>	<u>991</u>	<u>316</u>
Income (loss) from continuing operations	4,597	3,148	2,043	896	(488)
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(182)</u>
Income (loss) before extraordinary items	4,597	3,148	2,043	896	(670)
Extraordinary items (see Note)	<u>125</u>	<u>150</u>	<u>611</u>	<u>635</u>	<u>(84)</u>
Net income (loss)	<u>\$ 4,722</u>	<u>\$ 3,298</u>	<u>\$ 2,654</u>	<u>\$ 1,531</u>	<u>\$ (754)</u>
Earnings (loss) per share:					
Income (loss) from continuing operations	\$1.19	\$.85	\$.55	\$.25	\$(.15)
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(.05)</u>
Income (loss) before extraordinary items	1.19	.85	.55	.25	(.20)
Extraordinary items	<u>.03</u>	<u>.04</u>	<u>.16</u>	<u>.17</u>	<u>(.02)</u>
Net income (loss)	<u>\$1.22</u>	<u>\$.89</u>	<u>\$.71</u>	<u>\$.42</u>	<u>\$(.22)</u>
Average shares used to compute earnings (loss) per share	<u>3,876,190</u>	<u>3,717,975</u>	<u>3,715,037</u>	<u>3,635,906</u>	<u>3,420,997</u>

Note:

Extraordinary items for the four years ended December 31, 1975, relate primarily to federal income tax loss carryover benefits. Extraordinary items in 1971 include income tax carryover benefits of \$200,327, charges of \$233,844 relating to a public stock offering by UDC which was abandoned, and a net loss of \$34,549 incurred in closing certain data centers. Other extraordinary items are minor.

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 income from the prior year for each year of the period shown. Management attributes such increases to a general expansion of the Company's business, broader market penetration, and enlarging customer base. Management believes that the major factors contributing to such expansion were: (1) the continued growth of the Company's products and services (achieved through internal development, the increased use of proprietary products, and the acquisition of other businesses in the computer services industry); (2) the geographic expansion of the TYMNET data communications network; (3) the addition of new computer systems and the enhancement of installed systems; (4) the maintenance of cost controls and achievement of additional operating efficiencies; and (5) the benefits of economies of scale associated with business growth.

The major acquisitions made by the Company during the period have been accounted for as poolings of interest and are therefore reflected in the historical results of operations. Management believes that these acquisitions have had a further favorable impact upon the Company's offering of new products and services and greater market penetration.

1975 Compared With 1974

Revenues during the year ended December 31, 1975, increased by approximately \$10 million (21%) compared with the prior year, which management attributes primarily to the general expansion of its business. Although the economic recession during 1975 did not significantly impact the Company, management believes that it may have resulted in reduced data processing by some present and potential customers. Total costs of revenue and operating expenses for 1975, excluding interest, increased by approximately \$7.3 million (18%) compared with the prior year, resulting in operating profit margins equal to 16.5% of revenue as compared with 14.2% of revenue in 1974. Management believes the increase in costs corresponds directly to the increase in revenues and general expansion of the Company's business and operations to meet and facilitate such growth, including costs associated with the acquisition of additional computer systems, increased use of proprietary programs, and increased marketing expenses related to expanding operations.

The decrease in interest expense (net) of approximately \$360,000 results from the general reduction in prime interest rate, the repayment of high interest loans, and the increase in interest income due to increased cash flow of the Company.

The increase of \$1.6 million in the provision for income taxes was due to increased income from operations.

1974 Compared With 1973

Revenues during the year ended December 31, 1974, increased by approximately \$11.3 million (32%) compared with the prior year, which management attributes primarily to the general expansion of its business. In addition, the first full year of operations of its computer services on IBM 370/158 computer systems resulted in increases of both market penetration and customer base. Total costs of revenue and operating expenses, excluding interest, increased by approximately \$9.1 million (30%) compared with the prior year, resulting in operating profit margins equal to 14.2% of revenue as compared with 12.8% of revenue in 1973. Management believes this increase corresponds directly to the increase in revenues and general expansion of the Company's business and operations to meet and facilitate such growth.

Interest expense in 1974 decreased by approximately \$150,000 from 1973, principally due to interest income increasing by \$90,000 and a decrease in the principal balance of outstanding debt.

The increase of \$1,165,000 in the provision for income taxes was due to increased income from operations. Income tax reductions from tax loss carryovers were reduced by \$461,000, reflecting the full utilization of certain of these carryovers in 1973.

Market Prices of Common Stock

Tymshare's common stock is traded in the over-the-counter market. As reported by NASDAQ, the high and low bid prices of Tymshare's common stock during 1974, 1975, and the first quarter of 1976 were as follows:

	High Bid	Low Bid
1974		
First quarter	$10\frac{5}{8}$	$7\frac{1}{4}$
Second quarter	$11\frac{7}{8}$	$8\frac{7}{8}$
Third quarter	$10\frac{1}{2}$	6
Fourth quarter	$8\frac{1}{2}$	$5\frac{1}{4}$
1975		
First quarter	$12\frac{3}{8}$	$6\frac{3}{4}$
Second quarter	$20\frac{1}{8}$	$10\frac{3}{4}$
Third quarter	$20\frac{1}{2}$	$14\frac{7}{8}$
Fourth quarter	$20\frac{3}{4}$	$16\frac{1}{4}$
1976		
First quarter	$27\frac{3}{4}$	$18\frac{1}{2}$

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, 1975, which has been filed with the Securities and Exchange Commission.

Address requests to:
Vice President and Treasurer,
Tymshare Corporate
Headquarters.

Major United States Locations

Western Region

Headquarters:

560 San Antonio Road
Palo Alto, California 94306
415/493-0660

Locations serving:

Los Angeles, California (2)
Newport Beach, California
Palo Alto, California (2)
San Diego, California
San Francisco, California (2)
San Jose, California
Denver, Colorado
Baton Rouge, Louisiana
New Orleans, Louisiana
Portland, Oregon
Dallas, Texas
Houston, Texas (2)
Seattle, Washington

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Stamford, Connecticut
Atlanta, Georgia
Chicago, Illinois
Baltimore, Maryland
Boston, Massachusetts
Detroit, Michigan
Cleveland, Ohio
Minneapolis/St. Paul, Minnesota
St. Louis, Missouri
Paramus, New Jersey
Union, New Jersey
Buffalo, New York
New York, New York (3)
Rochester, New York
Syracuse, New York
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Washington, D.C. (3)
Milwaukee, Wisconsin

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Headquarters:

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Wichita, Kansas 67202
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Locations serving:

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Denver, Colorado
Jacksonville, Florida
Miami, Florida
Chicago, Illinois
Wichita, Kansas
Lexington, Kentucky
Salem, Massachusetts
Springfield, Massachusetts
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