PROSPECTUS

TYMSHARE, INC.

Common Stock

This Prospectus contains a Proxy Statement of

UNITED DATA CENTERS, INC.

This Prospectus relates to the shares of Common Stock, without par value, of Tymshare, Inc. ("Tymshare") to be issued in connection with the proposed merger of United Data Centers, Inc. ("UDC") with and into a wholly-owned subsidiary of Tymshare. The proposed merger and related transactions are described in the Proxy Statement of UDC which is included in this Prospectus and is being delivered to the UDC shareholders in connection with the solicitation, by order of UDC's Board of Directors, of proxies in the accompanying form to be used at a special meeting of the UDC shareholders.

The enclosed Proxy Statement constitutes a Prospectus under the Securities Act of 1933, as amended, for the shares of Tymshare Common Stock offered to the UDC shareholders in connection with the merger which will be delivered to such shareholders upon the effectiveness of the merger.

Upon the consummation of the merger the shares of UDC Common Stock, $.10 par value, outstanding on the effective date of the merger will be converted into shares of Tymshare Common Stock at a conversion ratio of .45173 of a share of Tymshare Common Stock for each share of UDC Common Stock.

On October 25, 1974 the high bid and low asked prices for Tymshare Common Stock were $7⅝ and $7⅞, respectively, and the high bid and low asked prices for UDC Common Stock were $2½ and $3¼, respectively, as reported by the National Association of Securities Dealers Automated Quotation System. See "Market Prices of Common Stock".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is November 5, 1974.

UNITED DATA CENTERS, INC.

Notice of Special Meeting of Shareholders to be held December 5, 1974

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of UNITED DATA CENTERS, INC., a New York corporation, will be held at Bankers Trust Building, 280 Park Avenue, New York, New York, on December 5, 1974, at 11:00 A.M., local time, for the following purposes:

1. To consider and act upon a proposal to approve an Agreement and Plan of Reorganization dated as of September 19, 1974 among Tymshare, Inc., United Data Centers, Inc. and Tymshare Subsidiary, Inc., a wholly-owned subsidiary of Tymshare, Inc., providing for the merger of United Data Centers, Inc. into Tymshare Subsidiary, Inc., as more fully described in the accompanying Proxy Statement.

2. To transact such other business as may properly be brought before the meeting or any adjournment or adjournments thereof.

Only holders of record of the Common Stock, $.10 par value, at the close of business on November 1, 1974 will be entitled to notice of and to vote at the meeting.

By Order of the Board of Directors,

ALBERT A. EISENSTAT
Secretary

Dated: Greenwich, Connecticut
November 5, 1974

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED TO FILL IN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

SUMMARY OF THE PROPOSED REORGANIZATION DESCRIBED IN THE PROSPECTUS AND PROXY STATEMENT

General Information

This summary is furnished to assist the shareholders of United Data Centers, Inc. ("UDC"), a New York corporation, in their review of the attached Prospectus and Proxy Statement with respect to the proposed merger of UDC into Tymshare Subsidiary, Inc. (the "Subsidiary"), a California corporation and wholly-owned subsidiary of Tymshare, Inc. ("Tymshare"), a California corporation. The information contained in this summary is given for the convenience of the UDC shareholders and should not in any way be considered complete. A full description of the proposed merger to be considered at the shareholders' meeting is contained in this Prospectus and Proxy Statement and should be carefully reviewed.

Time and Place of Meeting

A special meeting of the UDC shareholders will be held at 11:00 a.m., local time, at the Bankers Trust Building, 280 Park Avenue, New York, New York on December 5, 1974. UDC shareholders of record on November 1, 1974 will be entitled to notice of and to vote at such meeting.

Purpose of the Meeting

At such meeting the UDC shareholders will vote upon a proposal to approve an Agreement and Plan of Reorganization dated as of September 19, 1974 (the "Reorganization Agreement"), a copy of which is attached to the Prospectus and Proxy Statement as Exhibit I, providing for the merger of UDC into the Subsidiary. See "Purposes of Meeting" at page 1 of this Prospectus and Proxy Statement.

Exchange Ratio; Fractional Shares

Each outstanding share of UDC Common Stock will be exchanged for .45173 of a share of Tymshare Common Stock. Outstanding options and warrants to purchase shares of UDC Common Stock will become options and warrants to purchase shares of Tymshare Common Stock. The outstanding options will be adjusted in accordance with § 425 of the Internal Revenue Code of 1954, as amended, and the regulations promulgated thereunder, and the outstanding warrants will be adjusted on the basis of .45173 of a share of Tymshare Common Stock for each share of UDC Common Stock subject to the warrants. No fractional shares of Tymshare Common Stock will be issued as a result of the merger, but cash will be paid in lieu thereof based upon the market value of such shares on the merger date. See "Conversion and Exchange of Securities" at page 2 of this Prospectus and Proxy Statement.

Summary of Businesses

UDC is engaged in the business of operating, acquiring and developing commercial data processing centers. Data processing services and package application systems are offered in a variety of commercial areas, including computerized income tax preparation systems for accountants and a computerized system for retail fuel oil dealers. In recent years, an increasing portion of UDC's gross operating income has been derived from data processing package applications services. See "Information Concerning UDC" at page 37 of this Prospectus and Proxy Statement.

Tymshare is engaged principally in the business of offering remote access computer services utilizing its own computer systems and data communications network. These services enable different customers from their own business locations throughout the United States and, to a lesser extent, Europe to solve diverse computational, information retrieval and data processing problems simultaneously, without a major commitment to computer hardware, systems software or facility installation. Remote access computer services allow numerous customers in diverse geographic areas to make simultaneous use of computer systems by providing access to data processing equipment (known as computer hardware) and appropriate systems of coded instructions (known as computer software) over standard telephone lines. See "Information Concerning Tymshare" at page 25 of this Prospectus and Proxy Statement.

Summary of Per Share Data

The following tabulation sets forth summary comparative per share data of Tymshare and UDC on an historical and pro forma combined basis. No cash dividends have been paid by Tymshare or UDC. See "Comparative Per Share Data" at page 24 of this Prospectus and Proxy Statement.

	Year Ended December 31, 1973	Six Months Ended June 30, 1973 (Unaudited)	Six Months Ended June 30, 1974 (Unaudited)
Tymshare			
Income before extraordinary item			
Historical	$.53	$.24	$.40
Pro forma	.55	.28	.39
Net income			
Historical	.64	.30	.40
Pro forma	.71	.37	.42
UDC			
Income before extraordinary items			
Historical	.31	.18	.19
Pro forma as per .45173 of a share of Tymshare Common Stock	.25	.13	.18
Net income			
Historical	.49	.30	.27
Pro forma as per .45173 of a share of Tymshare Common Stock	.32	.17	.19

	At June 30, 1974 (Unaudited)
Tymshare	
Net book value	
Historical	$3.28
Pro forma	3.66
UDC	
Net book value	
Historical	2.54
Pro forma as per .45173 of a share of Tymshare Common Stock	1.65

Comparative Market Information

The following table sets forth for the periods shown the high and low bid prices of Tymshare Common Stock and UDC Common Stock in the over-the-counter market as reported by NASDAQ.

	Tymshare Bid		UDC Bid	
	High	Low	High	Low
1973				
1st quarter	$11½	$7¼	$6¼	$5¼
2nd quarter	7⅞	6	5¼	3¾
3rd quarter	12⅝	7⅛	4	3¼
4th quarter	13¼	7	4	3
1974				
1st quarter	10⅝	7¼	3¾	3
2nd quarter	11⅞	8⅞	3¾	2¾
3rd quarter	10½	6¼	4¼	1½
4th quarter (to October 25)	8½	5¼	2¾	1½

See "Market Prices of Common Stock" at page 5 of this Prospectus and Proxy Statement.

On August 7, 1974, the day before the merger was publicly announced, the high bid and low asked prices for UDC Common Stock were $2 and $3 and for Tymshare Common Stock such prices were $9½ and $9½.

Required Vote

The affirmative vote of the holders of at least 66⅔% of the outstanding UDC Common Stock is required to approve the merger on behalf of UDC. Approval of the shareholders of Tymshare is not required for the merger. See "Purposes of Meeting" at page 1 of this Prospectus and Proxy Statement.

Appraisal Rights

Shareholders of UDC who file written objection to the merger before the vote, and who do not vote in favor of the merger, have dissenters' appraisal rights to have the fair value of their shares paid to them. If the holders of approximately 7% of the outstanding shares of UDC Common Stock exercise this right, Tymshare has the option to terminate the merger. See "Rights of Dissenting Shareholders" at page 4 of this Prospectus and Proxy Statement.

Tax Consequences

Prior to closing, UDC shall have obtained a tax opinion from its counsel, Messrs. Spengler Carlson Gubar & Churchill, to the effect that no gain or loss will be recognized by any holder of UDC Common Stock upon the merger, except to the extent of payment received in lieu of fractional shares or as the result of appraisal demands. See "Tax Consequences" at page 3 of this Prospectus and Proxy Statement.

Management

Messrs. Bernard Goldstein, Albert A. Eisenstat and James L. Mann, present officers and directors of UDC, will continue to be employed under contract by Tymshare or the Subsidiary after the merger. Tymshare has agreed to include Bernard Goldstein in its management slate for election as a director of Tymshare and to use its best efforts to cause his election as a Tymshare director at the next two meetings of Tymshare shareholders called for the election of directors. See "Management After the Merger" at page 4 of this Prospectus and Proxy Statement.

Conditions to the Proposed Reorganization

Notwithstanding the approval of the UDC shareholders, the consummation of the transaction is subject to certain conditions which include, among others, the accuracy of representations in the Reorganization Agreement, receipt of various certificates and legal opinions and clearance from appropriate regulatory authorities. The Reorganization Agreement permits any of the conditions (other than the exchange ratio) to be waived to allow consummation of the transaction. See "Conditions of Merger and Abandonment" at page 4 of this Prospectus and Proxy Statement.

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UNITED DATA CENTERS, INC.

PROXY STATEMENT

INTRODUCTION

This Proxy Statement is furnished to shareholders of United Data Centers, Inc. ("UDC"), a New York corporation, in connection with the solicitation, by order of UDC's Board of Directors, of proxies in the accompanying form to be used at a Special Meeting of Shareholders to be held on December 5, 1974 and any adjournments thereof.

The meeting has been called to consider and act upon the proposed merger of UDC into Tymshare Subsidiary, Inc. (the "Subsidiary"), a California corporation and a wholly-owned subsidiary of Tymshare, Inc. ("Tymshare"), a California corporation.

The principal executive offices of UDC are located at Greenwich Office Park Two, Greenwich, Connecticut (telephone number 203-531-8200).

INFORMATION CONCERNING PROXY AND VOTING

A proxy will be voted in accordance with the instructions contained therein. If instructions are not given with respect to the matter to be voted upon, proxies will be voted in favor of such matter. Any shareholder may revoke his proxy at any time before it is voted.

The Board of Directors of UDC has fixed the close of business on November 1, 1974 as the record date for the determination of shareholders entitled to notice of, and to vote at, the UDC meeting. The only outstanding voting securities of UDC are its Common Stock, each share of which is entitled to one vote. The presence in person or by proxy of the holders of a majority of the outstanding UDC Common Stock will be necessary to constitute a quorum at the meeting. As of November 1, 1974, 1,444,303 shares of UDC Common Stock were outstanding and entitled to vote at the meeting.

PURPOSES OF MEETING

The UDC shareholders will be asked at the meeting to consider and act upon a proposal to merge UDC with and into the Subsidiary which shall be the surviving corporation (the "Surviving Corporation"). The affirmative vote of the holders of not less than 66⅔% of the UDC Common Stock outstanding and entitled to vote at the UDC meeting is required for the adoption of the Agreement and Plan of Reorganization dated as of September 19, 1974 (the "Reorganization Agreement") by the shareholders of UDC.

For information with respect to dissenters' appraisal rights of the UDC shareholders, reference is made to "Information Regarding the Merger—Rights of Dissenting Shareholders".

Management of UDC does not intend to bring any matters before the meeting other than those set forth in the notice of meeting and knows of no matters to be brought before the meeting by others. If any other matters properly come before the meeting, it is the intention of the persons named in the accompanying proxies to vote such proxies in accordance with their respective judgment.

INFORMATION REGARDING THE MERGER

A copy of the Reorganization Agreement is annexed hereto as Exhibit I. The statements contained in this Proxy Statement with respect to the terms of the merger are subject to the more complete information set forth in Exhibit I and are qualified in their entirety by reference thereto.

Surviving Corporation

The Reorganization Agreement provides that when the merger becomes effective UDC will be merged with and into the Subsidiary which will continue as the Surviving Corporation. The Surviving Corporation will succeed to all the rights and will be vested with all the properties and be subject to all the liabilities of UDC. The Surviving Corporation will be incorporated under the laws of the State of California and will be a wholly-owned subsidiary of Tymshare.

Conversion and Exchange of Securities

When the merger becomes effective:

1. Each share of UDC Common Stock then outstanding will be converted into .45173 of a share of Tymshare Common Stock. At this ratio the 1,444,303 shares of UDC Common Stock held by the UDC shareholders will be converted into approximately 652,435 shares of Tymshare Common Stock. Each shareholder of UDC will receive the lowest full number of shares of Tymshare Common Stock into which the number of shares of UDC Common Stock can be so converted. No fractional shares of Tymshare Common Stock will be issued but in lieu thereof cash shall be paid to the shareholder so entitled thereto based upon the mean of the bid and asked prices quoted by eligible dealers for Tymshare Common Stock on the closing date of the merger as reported by NASDAQ.

2. Each outstanding qualified stock option of UDC under UDC's 1967 Qualified Stock Option Plan on the effective date of merger shall become a qualified stock option to purchase shares of Tymshare Common Stock subject to equitable adjustment as provided in § 425 of the Internal Revenue Code of 1954, as amended, and § 1.425-1(a) of the regulations thereunder. At September 30, 1974 there were outstanding under this plan qualified stock options to purchase an aggregate of 60,525 shares of UDC Common Stock. See "Information Concerning UDC—Management".

3. Each outstanding qualified option of UDC under UDC's 1973 Employee Stock Purchase Plan on the effective date of the merger shall become a qualified option to purchase shares of Tymshare Common Stock subject to equitable adjustment as provided in § 425 of the Internal Revenue Code of 1954, as amended. At September 30, 1974 there were outstanding under this plan qualified options to purchase an aggregate of 15,346 shares of UDC Common Stock. See "Information Concerning UDC—Management".

4. Each outstanding stock purchase warrant of UDC on the effective date of the merger shall become a stock purchase warrant to purchase shares of Tymshare Common Stock at the rate of .45173 of a share for each share of UDC Common Stock subject to warrant. At September 30, 1974 there were 19,500 shares of UDC Common Stock subject to stock purchase warrants which, on the basis of the exchange ratio, would be adjusted to 8,808 shares of Tymshare Common Stock. See "Information Concerning UDC—Management".

5. On the effective date of the merger, Tymshare shall assume UDC's contingent obligation to issue additional shares of UDC Common Stock pursuant to two contingent earn-out contracts relating to prior acquisitions by UDC based upon a ratio of .45173 of a share of Tymshare Common Stock issuable for each share of UDC Common Stock which may become issuable thereunder. Under such contracts a maximum of 316,461 shares of UDC Common Stock could be issuable which, on the basis of the exchange ratio, would be adjusted to 142,955 shares of Tymshare Common Stock. However, UDC has represented to Tymshare that no more than 50,000 shares of UDC Common Stock (up to 22,587 shares of Tymshare Common Stock) may eventually become issuable under these agreements. See Note 2 of Notes to Consolidated Financial Statements of UDC and "Capitalization".

6. On the effective date of the merger, the 35,418 shares of UDC Common Stock held in its treasury will be cancelled.

7. For further information with respect to the Common Stock of Tymshare, see "Information Concerning Tymshare—Description of Common Stock".

8. As soon as practicable after the merger becomes effective, transmittal forms will be sent to the UDC shareholders for use in forwarding their certificates representing shares of UDC Common Stock to Bank of America National Trust and Savings Association, San Francisco, California 94137, the Transfer Agent of Tymshare, for surrender in exchange for certificates representing the shares of Tymshare into which their shares have been converted and checks payable to their order in respect of any cash due for fractional shares. Until so surrendered, each certificate nominally representing shares of UDC Common Stock will be deemed for all purposes (except for payment of possible dividends or other distributions by Tymshare which will be withheld until such exchange of stock certificates) to evidence the ownership of the number of full shares of Tymshare Common Stock which the holder thereof will be entitled to receive upon such surrender.

Tax Consequences

At the closing UDC shall have been advised by Messrs. Spengler Carlson Gubar & Churchill, UDC's counsel, that in their opinion: (i) the merger will qualify as a reorganization within the meaning of Section 368(a)(1)(A) and (a)(2)(D) of the Internal Revenue Code of 1954, as amended (the "Code") and UDC, Tymshare and the Subsidiary will be parties to the reorganization within the meaning of Section 368(b); (ii) pursuant to Section 361(a) of the Code, no gain or loss will be recognized to UDC on the transfer of its property to the Subsidiary; (iii) pursuant to Section 354(a) of the Code, no gain or loss will be recognized by the UDC shareholders on their exchange of UDC Common Stock for Tymshare Common Stock; (iv) cash received by UDC shareholders in lieu of fractional share interests will be treated as payment in exchange for such share interests provided it is not essentially equivalent to a dividend; (v) pursuant to Section 358(a) of the Code, the basis of the Tymshare Common Stock received by the UDC shareholders will be the same as the basis of the UDC Common Stock surrendered in exchange therefor, adjusted with respect to the amount taxable as to fractional share interests; and (vi) pursuant to Section 1223(1) of the Code, the holding period for the Tymshare Common Stock received in the exchange by the UDC shareholders will include the period for which the UDC Common Stock exchanged was held, provided such UDC Common Stock was held as a capital asset at the time of such exchange.

Approval by Respective Boards

The Board of Directors of UDC has approved the merger and recommended its adoption by shareholders. There were no dissenting directors.

The Board of Directors of Tymshare has approved the merger. There were no dissenting directors.

Reasons for the Merger

Although Tymshare and UDC are both in the business of providing computer data processing services, each of their respective businesses focuses upon a different segment of the computer services industry. Tymshare offers remote access computer processing services which are principally used by customers who access the computer systems from their own business locations to solve diverse computational, information retrieval and data processing problems. UDC offers data processing services which are principally used by customers who deliver to UDC's local data center a large volume of data for processing through the use of UDC's standard package application programs. Accordingly, a principal reason for the merger is the bringing together of these related computer service capabilities into a single company. It is believed that this combination will enhance the potential growth and competitive position of each company through the broadening of the customer base and through the combination of the management, marketing, technical and financial resources and experience of each company. In addition, a long range goal is the potential adaptation on an economical basis of Tymshare's communications network and computer systems to accommodate UDC's off-line batch data processing. Therefore, the Boards of Directors of UDC and Tymshare believe that the proposed merger is in the best interests of their respective shareholders and have each approved the proposed merger after consideration of the history, prospects and future growth of each company.

Management After the Merger

The directors and officers of Tymshare will continue to be the directors and officers of Tymshare after the merger. As a condition to the merger, Messrs. Bernard Goldstein, President and a director of UDC, Albert A. Eisenstat, Vice President, Secretary and Treasurer and a director of UDC, and James L. Mann, Vice President and a director of UDC, will enter into new employment contracts for terms ending May 31, 1977. Messrs. Goldstein and Eisenstat will be employed as Vice Presidents of Tymshare and will be eligible to participate in any incentive compensation plan in effect for executive officers of Tymshare. Under their contracts, Messrs. Goldstein and Eisenstat will be paid a minimum annual compensation of $56,000 and $52,000, respectively, which amounts include payments under such incentive compensation plans. Mr. Mann will be employed as an officer of the Subsidiary at a minimum annual compensation of $46,000. Tymshare has agreed to include Bernard Goldstein in its management slate for election of directors and to use its best efforts to cause his election as a director of Tymshare at each of the next two meetings of Tymshare's shareholders called for election of directors.

See "Information Concerning UDC—Management" for details of present employment contracts with Messrs. Goldstein, Eisenstat and Mann.

Accounting Treatment

The merger is intended to be accounted for as a pooling of interests. Arthur Andersen & Co., independent public accountants for Tymshare, shall have reviewed such accounting treatment and approved it as being in accordance with generally accepted accounting principles.

Conditions of Merger and Abandonment

Under the terms of the Reorganization Agreement, Tymshare's and UDC's respective obligations to effect the merger are conditioned, among other things, upon (a) consummation of the merger by February 28, 1975, (b) favorable opinions of counsel for each company, including a favorable tax opinion of UDC's counsel, (c) favorable opinion of Arthur Andersen & Co., as to pooling of interests accounting, and (d) accuracy of the representations and warranties of the other company and the performance by the other company of the agreements to be performed by it prior to the merger. The Reorganization Agreement further provides that it and the transactions contemplated thereunder may be terminated (i) by mutual consent of the Boards of Directors of both companies prior to the merger becoming effective; (ii) by the Board of Directors of either company if any condition to be met by the other company has not been met and waived; or (iii) by Tymshare if the number of shares in UDC's treasury on the date of the merger plus the number of shares of UDC Common Stock voted against the merger as to which appraisal rights have been demanded in accordance with applicable law exceeds 10% of the total number of shares entitled to vote on the merger.

Effective Date of Merger

The proposed merger will become effective upon the filing with the Department of State of the State of New York of a Certificate of Merger embodying those provisions of the Reorganization Agreement required by the New York Business Corporation Law and the filing of an Agreement of Merger with the Secretary of State of the State of California embodying those provisions of the Reorganization Agreement required by the California Corporations Code. The Agreement of Merger and the Certificate of Merger are attached to the Reorganization Agreement as Exhibits A-1 and A-2.

Rights of Dissenting Shareholders

The applicable provisions of the New York Business Corporation Law provide, in effect, that the UDC shareholders are entitled to receive payment for their shares if they file written objection to the merger (including a demand for payment for their shares) before the vote on the merger. A shareholder desiring to receive payment for his shares may either vote against the merger or abstain from voting. A negative vote against the merger is not a condition precedent to exercising appraisal rights. An affirmative vote in favor of the merger will act as a waiver of appraisal rights. Within ten days after the vote authorizing the merger, UDC must give written notice of such authorization to

each shareholder who filed a written objection. Within twenty days after UDC's notice to such shareholders, any such shareholder who elects to dissent must file with UDC a written notice of such election and a demand for payment of the fair value of his shares. Within one month after filing such election, such shareholder must submit the certificates for his shares to UDC or its transfer agent so that a notation may be made on the certificates of the election. In the event the dissenting shareholder and the Surviving Corporation are unable to agree upon the price to be paid for such shares within the statutory time limits, the Surviving Corporation, or if it fails to do so, the objecting shareholder, may seek a judicial determination of the fair value of the shares. Reference is made to Exhibit II hereto for the complete text of the provisions of the New York law relating to rights of dissenting shareholders.

One of the conditions to Tymshare's obligation to consummate the merger is that the holders of no more than approximately 7% of the outstanding shares of UDC Common Stock shall have filed the above-described written objection to the merger.

Expenses of Merger

The Surviving Corporation will bear the expenses of the merger, including amounts, if any, to which dissenting shareholders of UDC may be entitled under statutory appraisal rights, the applicable provisions of which are discussed under "Rights of Dissenting Shareholders".

In the event the merger does not become effective for any reason whatsoever, Tymshare and UDC will each pay their respective legal, accounting and other expenses in connection with the merger and Tymshare will pay two-thirds and UDC one-third of the printing costs relating to the transaction.

MARKET PRICES OF COMMON STOCK

Tymshare Common Stock and UDC Common Stock are traded in the over-the-counter market. The following table sets forth for the periods shown the high and low bid prices of such Common Stock as reported by NASDAQ.

	Tymshare		UDC	
1972	High Bid	Low Bid	High Bid	Low Bid
First Quarter	$ 9⅝	$ 6⅞	$ 8¼	$ 4¾
Second Quarter	9	6⅝	8	7
Third Quarter	11	7⅝	7¼	6
Fourth Quarter	10⅜	7⅝	6½	5¾
1973				
First Quarter	11½	7¼	6¼	5¼
Second Quarter	7⅞	6	5¼	3¾
Third Quarter	12⅝	7⅛	4	3¼
Fourth Quarter	13¼	7	4	3
1974				
First Quarter	10⅝	7¼	3¾	3
Second Quarter	11⅞	8⅞	3¾	2¾
Third Quarter	10½	6¼	4¼	1½
Fourth Quarter (through October 25)	8½	5¼	2¾	1½

On October 25, 1974 the high bid and low asked prices of Tymshare Common Stock and UDC Common Stock were as follows: Tymshare $7⅝ (bid), $7⅞ (asked) and UDC $2½ (bid), $3¼ (asked).

On August 7, 1974, the day before the merger was publicly announced, the high bid and low asked prices of Tymshare Common Stock and UDC Common Stock were as follows: Tymshare $9½ (bid) and $9½ (asked) and UDC $2 (bid) and $3 (asked).

The above quotations represent prices between dealers, do not include retail mark up, mark down or commissions and may not represent actual transactions.

DIVIDENDS

No cash dividends have been paid by Tymshare or UDC on their respective Common Stock. It is unlikely that any cash dividends will be paid by Tymshare in the near future and Tymshare is restricted from paying such dividends under a bank loan agreement. See "Information Concerning Tymshare—Description of Common Stock—Dividend Policy".

CAPITALIZATION

The following table sets forth the debt and capitalization of Tymshare and UDC as of September 30, 1974 and on a pro forma combined basis after giving effect to the merger described herein.

	Tymshare	UDC	Pro Forma Combined
Debt:			
Installment note payable to bank through July 1976 bearing interest at 2% over prime	$3,428,568①		$3,428,568
7¾% Mortgage note due through 1985	401,382①		401,382
7% Installment note payable to banks through March 1975		$ 29,167②	29,167
7½% Mortgage note due through 1988		292,883②	292,883
6% Installment note payable through June 1979 to former shareholder of acquired company		232,000②	232,000
7% Installment note payable through 1979 for acquisition of treasury stock		234,949②	234,949
Lease-purchase obligation due 1979		83,158②	83,158
Other		12,161②	12,161
	$3,829,950	$884,318	$4,714,268
Capital stock:			
Tymshare—			
Common stock, no par value, authorized 5,000,000 shares, outstanding	2,992,720 shares③		3,645,155 shares③④
UDC—			
Common stock, $.10 par value, authorized 3,000,000 shares, outstanding		1,444,303 shares⑤	

① See Notes 4 and 5 of Notes to Consolidated Financial Statements of Tymshare.

② See Note 3 of Notes to Consolidated Financial Statements of UDC.

③ Excludes (i) up to 133,546 shares reserved for issuance pursuant to Tymshare's Employee Stock Purchase Plan, (ii) up to 374,170 shares reserved for issuance pursuant to options granted or which may be granted under Tymshare's Qualified Stock Option Plans, and (iii) up to 42,500 shares reserved for issuance pursuant to outstanding stock purchase warrants.

④ Excludes shares reserved for issuance pursuant to outstanding options, warrants and contingent share obligations of UDC assumed by Tymshare pursuant to the merger. Based upon the exchange ratio, Tymshare has reserved 8,808 shares for the assumed warrants, and up to 22,587 shares for the contingent share obligations of UDC under certain acquisitions, based upon UDC's representation that no more than 50,000 shares of UDC Common Stock may eventually become issuable under such obligations.

⑤ Excludes (i) 35,418 shares held as treasury stock, (ii) up to 50,017 shares reserved for issuance pursuant to UDC's Employee Stock Purchase Plans, (iii) up to 116,456 shares reserved for issuance pursuant to options granted or which may be granted under UDC's 1967 Qualified Stock Option Plan, (iv) up to 19,500 shares reserved for issuance pursuant to outstanding stock purchase warrants, and (v) up to 316,461 shares reserved for issuance in connection with certain acquisitions of UDC based on formulas contained in the various agreements.

Tymshare has a $4,000,000 bank line of credit available for unsecured short-term borrowings through March 31, 1975 at ¾% above the bank's prime interest rate. There were no borrowings outstanding under this line of credit at September 30, 1974. See Note 4 of Notes to Consolidated Financial Statements of Tymshare.

See Note 5 of Notes to Consolidated Financial Statements of Tymshare and Note 7 of Notes to Consolidated Financial Statements of UDC for their obligations under long-term leases.

TYMSHARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

The following consolidated statement of operations of Tymshare, Inc. and subsidiaries for the five years ended December 31, 1973 has been examined by Arthur Andersen & Co., independent public accountants, as set forth in their report included elsewhere herein. This statement should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere herein. The statement for the six-month periods ended June 30, 1973 and 1974, not examined by independent public accountants, reflects, in the opinion of Tymshare, all adjustments (which included only normal recurring adjustments) necessary to present fairly the results of operations for such periods. The results of operations for the six months ended June 30, 1974 are not necessarily indicative of results for the entire year ending December 31, 1974.

	Year Ended December 31,					Six Months Ended June 30,	
	1969	1970	1971	1972	1973	1973 (Unaudited)	1974 (Unaudited)
Revenue from services and sales	$6,501,216	$10,420,829	$12,726,951	$16,442,104	$24,017,356	$11,172,597	$15,091,459
Cost of services and sales	3,513,652	4,514,272	5,968,722	7,885,267	9,597,869	4,538,072	5,995,657
Gross profit	2,987,564	5,906,557	6,758,229	8,556,837	14,419,487	6,634,525	9,095,802
Expenses:							
Selling, general and administrative	2,898,214	4,693,610	5,161,296	6,046,783	9,274,069	4,309,220	5,657,247
Technical development	651,252	914,288	1,022,041	951,238	1,413,901	715,297	848,746
	3,549,466	5,607,898	6,183,337	6,998,021	10,687,970	5,024,517	6,505,993
Income (loss) from operations	(561,902)	298,659	574,892	1,558,816	3,731,517	1,610,008	2,589,809
Interest: (Expense)	(90,286)	(207,032)	(160,267)	(257,486)	(581,601)	(268,009)	(270,194)
Income	40,442	8,908	8,267	7,851	26,858	4,692	36,425
Share in loss of affiliated company(C)	(35,000)	(49,732)	—	(93,200)	(194,000)	(75,000)	—
Income (loss) before provision for income taxes	(646,746)	50,803	422,892	1,215,981	2,982,774	1,271,691	2,356,040
Provision for income taxes(D):							
Federal	6,285	44,386	183,304	542,547	1,121,000	434,000	931,000
State	2,206	146	25,249	75,768	254,000	102,000	202,000
	8,491	44,532	208,553	618,315	1,375,000	536,000	1,133,000
Income (loss) before extraordinary item	(655,237)	6,271	214,339	597,666	1,607,774	735,691	1,223,040
Extraordinary item—Federal income tax reduction from carryforward of prior years' losses(D)	—	44,000	162,000	428,000	344,000	172,000	—
Net income (loss)	$ (655,237)	$ 50,271	$ 376,339	$ 1,025,666	$ 1,951,774	$ 907,691	$ 1,223,040
Earnings (loss) per share(E):							
Income (loss) before extraordinary item	$(.38)	$ —	$.07	$.20	$.53	$.24	$.40
Extraordinary item	—	.02	.06	.14	.11	.06	—
Net income (loss)	$(.38)	$.02	$.13	$.34	$.64	$.30	$.40
Average common shares and common equivalent shares used to compute earnings (loss) per share(E)	1,717,191	2,149,117	2,939,746	2,995,080	3,056,141	3,013,603	3,079,271

The accompanying notes to consolidated statement of operations are an integral part of this statement.

TYMSHARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF OPERATIONS
(Including notes applicable to unaudited periods)

(A) The consolidated statement of operations includes the accounts of Tymshare, Inc. and its subsidiaries after elimination of intercompany accounts and transactions.

(B) In March 1970 Tymshare, through Tymshare East, Inc., acquired all of the assets and business and assumed the liabilities of Dial-Data, Inc. and subsidiaries in exchange for 168,000 shares of Tymshare Common Stock. In May 1971 Tymshare acquired the assets and business of the Computer Systems Division of Graphic Controls Corporation and assumed certain liabilities in exchange for 150,000 shares of Tymshare Common Stock. In November 1972 Tymshare acquired the timesharing operations and related tangible and intangible assets of Computer Complex, Inc. for $500,000 and the assumption of certain liabilities. These transactions have been accounted for as purchases.

The operating results of these acquired businesses are reflected in the financial statements of Tymshare from the dates of acquisition. The pro forma effect in 1972, assuming the acquisition of the timesharing operations of Computer Complex, Inc. had occurred at the beginning of 1972, would be to increase revenues by approximately $2,000,000 with no significant effect upon income before extraordinary item or net income, all based upon a combination of Tymshare's results for the calendar year 1972 with the results of the timesharing operations of Computer Complex, Inc. for its fiscal year ended June 30, 1972.

The assets and operations acquired from Graphic Controls Corporation generated revenues of approximately $1,154,000 and a net loss of approximately $40,000 from the date of acquisition to December 31, 1971. The timesharing operations acquired from Computer Complex, Inc. generated revenues and net income of approximately $360,000 and $22,000, respectively, from the date of acquisition to December 31, 1972.

The revenue bases initially acquired in each of the above acquisitions have been integrated with Tymshare's operations. In this connection, certain of the customers acquired have availed themselves of Tymshare's services and certain of Tymshare's customers have made use of the computer services acquired by Tymshare. Accordingly, it is not practical or meaningful for Tymshare to set forth the contributions to revenues and net income from the timesharing operations acquired for an extended period following acquisition. Tymshare believes, however, that the levels of revenues which may be attributable to such operations have been maintained.

In January 1973 Tymshare, through its subsidiary Tymshare East, Inc., acquired all the capital stock of Valley Computer, a computer parts sales and service company, in exchange for 50,000 shares of Tymshare Common Stock. This transaction has been accounted for as a pooling of interests, and the consolidated statement of operations for prior periods has been restated to include the operations of Valley Computer from its inception in 1969.

(C) Effective January 1, 1972, in accordance with Opinion No. 18 issued by the Accounting Principles Board of the American Institute of Certified Public Accountants, Tymshare retroactively adopted the equity method of accounting for its investment in CEGOS-Tymshare, a French corporation in which it owns a 20% interest.

CEGOS-Tymshare was formed in 1969 to provide timesharing services in Europe and incurred losses from operations for all periods through December 31, 1973 which have been partially offset by profits from operations for the six months ended June 30, 1974. Tymshare charges CEGOS-Tymshare

for royalties and computer services under an agreement which, effective January 1, 1972, provided for deferral of payments through December 31, 1973 at which time Tymshare converted the deferred amounts to equity in CEGOS-Tymshare.

Under the equity method of accounting, Tymshare recognized its share of the losses of CEGOS-Tymshare to the extent of its investment in and advances (represented by deferred receivables) to CEGOS-Tymshare. Recognition of the losses was suspended at such time as the carrying values of its investment and deferred receivables were reduced to zero. As CEGOS-Tymshare reports net income, Tymshare will resume applying the equity method only after and to the extent its share of cumulative net income exceeds its share of net losses not recognized during the period the equity method was suspended. Tymshare has included in its revenues amounts billed to CEGOS-Tymshare as royalties and computer services. However, to the extent that these payments were deferred, Tymshare recognized its share of CEGOS-Tymshare losses incurred to date, thereby reducing the carrying value of these deferred receivables to zero. Tymshare's share of the cumulative losses of CEGOS-Tymshare exceeded its investment during 1970 and, accordingly, the carrying value of the investment as of December 31, 1971 ($84,732) has been reduced to zero by charges to operations of $35,000 ($.02 per share) in 1969 and $49,732 ($.03 per share) in 1970. Tymshare's equity in CEGOS-Tymshare's losses as of June 30, 1974 was approximately $40,000 in excess of its investment.

(D) Income tax expense for the year ended December 31, 1973 and the six months ended June 30, 1974 (unaudited) is made up of the following components:

	U. S. Federal	State	Total
Year Ended December 31, 1973:			
Currently payable	$ 468,000	$282,000	$ 750,000
Tax benefits from operating loss carry-forwards applied—			
To income	344,000	—	344,000
To cost in excess of net tangible assets acquired	300,000	—	300,000
Prepaid tax expense	(266,000)	(28,000)	(294,000)
Deferred tax credits	275,000	—	275,000
	$1,121,000	$254,000	$1,375,000
Six Months Ended June 30, 1974 (unaudited):			
Currently payable	$ 541,000	$218,000	$ 759,000
Prepaid tax expense	(73,000)	(16,000)	(89,000)
Tax benefits from investment tax credits applied—			
To deferred tax credits	403,000	—	403,000
To cost in excess of net tangible assets acquired	60,000	—	60,000
	$ 931,000	$202,000	$1,133,000

The provision for Federal and state income taxes for the six-month period ended June 30, 1974 is estimated based upon the current expected annual tax rates and applicable credits.

Tymshare 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.

NOTES TO CONSOLIDATED STATEMENT OF OPERATIONS OF TYMSHARE, INC.—(Continued)

Prepaid tax expense results from timing differences in the recognition of certain costs and expenses for financial and tax reporting purposes. The timing differences in 1973 for Federal purposes were cumulative because in prior years Federal income tax provisions were offset by operating loss carryforwards. The sources of the timing differences and their tax effects were as follows:

	December 31, 1973	June 30, 1974 (Unaudited)
Book depreciation in excess of tax depreciation (sum-of-the-months' digits method on computer systems is not allowable for tax purposes)	$285,000	$ 93,000
Acquisition costs deferred for book purposes and expensed for tax purposes	(105,000)	13,000
Provisions for state taxes not deductible currently for Federal purposes	114,000	(17,000)
	294,000	89,000
Balance, beginning of period	—	294,000
Balance, end of period	$294,000	$383,000
Balance sheet classification—		
Amount applicable to current items included in prepaid expenses and deposits	$114,000	$ 97,000
Amount applicable to long-term items included in deposits and other	180,000	286,000
	$294,000	$383,000

Total tax expense for the year ended December 31, 1973 and the six months ended June 30, 1974 differs from the amount computed by applying the prevailing rates (Federal—48%, State—8%) to income before taxes. The reasons for this difference are as follows:

	Year Ended December 31, 1973	Six Months Ended June 30, 1974 (Unaudited)
Computation at prevailing rates—		
Federal	$1,425,000	$1,131,000
State, net of Federal income tax benefit	124,000	98,000
Total	1,549,000	1,229,000
Share in loss of affiliated company not deductible	101,000	—
Investment tax credits applied	(256,000)	(100,000)
Other, net	(19,000)	4,000
Tax expense	$1,375,000	$1,133,000

As of June 30, 1974 Tymshare had investment tax credit carryforwards of up to $375,000 which may be available to reduce Federal income taxes payable in future periods. These credits expire in 1976 through 1981.

In addition, investment tax credit carryforwards of approximately $104,000 arising from Dial-Data's operations prior to acquisition by Tymshare East remain available to Tymshare to offset Federal income taxes in future years. The benefits from these credits are used to reduce the cost in excess of net tangible assets acquired at the time such benefits are applied. For the six months ended June 30, 1974, $60,000 has been so applied.

NOTES TO CONSOLIDATED STATEMENT OF OPERATIONS OF TYMSHARE, INC.—(Continued)

(E) Earnings per share have been computed based on the average number of common shares and common equivalent shares outstanding during each period after giving effect to stock splits. Common equivalent shares for this computation include shares covered by stock options, warrants, and Tymshare's 3% Convertible Subordinated Notes, prior to their conversion in December 1971, which result in dilution. Common equivalent shares are reduced by the number of shares of Common Stock that could have been purchased at the average market price per share during the period with the funds obtained from the exercise of the stock options and warrants.

Earnings per share assuming full dilution are substantially the same as earnings per share computed as above.

Net loss per share for the year ended December 31, 1969 has been computed based on the average number of common shares outstanding during the year after giving effect to stock splits.

(F) The consolidated statement of operations for the years ended December 31, 1971, 1972 and 1973, and the six-month periods ended June 30, 1973 and 1974 includes charges for executive incentive compensation (as determined annually at the discretion of the Board of Directors) of $24,745, $53,700, $179,304, $79,325 and $113,930, respectively. The plan for 1974 entitles each of six Tymshare executives (including one executive participating effective July 1, 1974) to receive 1½% of income (before Federal income taxes) in excess of 15% of shareholders' investment at December 31, 1973.

(G) Tymshare has not declared or paid any cash dividends on its Common Stock.

Interim Operating Results (Unaudited):

The following consolidated information as to revenue and net income of Tymshare, Inc. and subsidiaries, not audited by independent public accountants, reflects, in the opinion of Tymshare, all adjustments (which included only normal recurring accruals) necessary to present fairly the results of operations for the periods indicated. The results for the nine months ended September 30, 1974 are not necessarily indicative of results of operations for the full fiscal year.

	Nine Months Ended September 30,	
	1973	1974
Revenue from services and sales	$17,476,943	$23,885,362
Income before extraordinary item	$ 1,158,894	$ 1,970,827
Extraordinary item—Federal income tax reduction from carryforward of prior years' losses	258,000	—
Net income	$ 1,416,894	$ 1,970,827
Earnings per common share and common equivalent share—		
Income before extraordinary item	$.38	$.64
Extraordinary item	.09	—
Net income	$.47	$.64

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF OPERATIONS OF TYMSHARE, INC. AND SUBSIDIARIES

General

Management attributes the increase in revenues and income for the 1972 and 1973 fiscal years, and the six months ended June 30, 1974, principally to business expansion and increased market demand for Tymshare's services during the periods. The major factors which contributed to this growth were (i) the experience and continued maturation of Tymshare's marketing and technical organizations; (ii) the expansion of Tymshare's customer base through the introduction of new services and the acquisition of other businesses in the computer services industry; (iii) the geographic expansion of Tymshare's data communications network; and (iv) the acquisition of additional computer systems.

Year Ended December 31, 1972

During this year, revenues increased by $3,715,153 compared to the prior year. Contributing to this increase were the introduction of new products in the business applications field and the addition of two Digital Equipment Corporation PDP-10 computer systems to revenue producing operation.

During the same period, "cost of services and sales" and "selling, general and administrative" expenses increased by $1,916,545 and $885,487, respectively. The increase in these costs and expenses is attributed to the corresponding increase in revenue and to the acquisition of additional computer equipment and additional personnel associated with business expansion.

Approximately $1,154,000 of revenues in 1971 was attributable to seven months of operations of the business acquired from Graphic Controls Corporation in May 1971. However, these operations were fully integrated with Tymshare's operations during 1972. Accordingly, it is not meaningful for Tymshare to set forth the contributions to revenues, costs and expenses during 1972 from the acquired operations (see Note B of Notes to Consolidated Statement of Operations of Tymshare). Management believes, however, that the level of operations of the prior year attributable to such business was maintained during 1972.

Year Ended December 31, 1973

Revenues during this year increased by $7,575,252 compared to the prior year. Contributing to this increase were the addition of five computer systems (two Digital Equipment Corporation PDP-10 computers, two Xerox 940 computers and an IBM 370/158 computer) to revenue producing operation, the upgrading of three previously installed Digital Equipment Corporation PDP-10 computers, and the introduction of new services associated with the improved operation of the Digital Equipment Corporation PDP-10 computer system services and the expansion of the Xerox 940 computer system services.

During the same period, "cost of services and sales" and "selling, general and administrative" expenses increased by $1,712,602 and $3,227,286, respectively. The increase in these costs and expenses is directly related to a 40% increase in personnel (from 379 in 1972 to 530 in 1973), the acquisition of the five additional computer systems and the cost of facilities and equipment associated with the expansion of TYMNET to additional U.S. metropolitan areas. In addition, "technical development" expenses increased by $462,663, which increase is principally attributable to software development.

Approximately $360,000 of revenues in 1972 was attributable to the two months of timesharing operations of the business acquired from Computer Complex, Inc. in November 1972. However, these operations became fully integrated with Tymshare's operations during 1973. Accordingly, it is not meaningful for Tymshare to set forth the contributions to revenues, costs and expenses during 1973 from the acquired operations (see Note B of Notes to Consolidated Statement of Operations of Tymshare). Management believes, however, that the level of operations of the prior year attributable to such business was maintained during 1973.

Six Months Ended June 30, 1974

Revenues increased by $3,918,862 over the comparable period in the prior year. Management attributes this increase to a uniform growth in each major computer service area, including the introduction of the IBM 370/158 computer service.

In addition, during this period the "cost of services and sales" increased by $1,457,585 and "selling, general and administrative" expenses increased by $1,348,027, both of which increases are directly related to the continued expansion of operations, including the costs associated with the operation of seven Digital Equipment Corporation PDP-10 computer systems, as compared to three computer systems in the prior period, and the acquisition of the IBM 370/158 computer system. In addition, "technical development" expenses increased by $133,449 as compared to the prior period, which increase is directly related to increased software development and software attributable to the IBM 370/158 computer system.

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

The following consolidated statement of operations of United Data Centers, Inc. and subsidiaries ("UDC") for the year ended December 31, 1973 has been examined by Main Lafrentz & Co., independent certified public accountants, whose report appears elsewhere herein and for the four years ended December 31, 1972 by Arthur Young & Company, independent certified public accountants, whose report thereon, which contains an exception as to consistency in the accounting for program development costs in 1969 and 1970, appears elsewhere herein. The information for the six-month periods ended June 30, 1973 and 1974 is unaudited but includes all adjustments (consisting of only normal recurring adjustments) which UDC considers necessary for a fair presentation of the results for those periods. Results of operations for the six months ended June 30, 1974 are not necessarily indicative of the results for the full year. This statement should be read in conjunction with the other consolidated financial statements and notes thereto included elsewhere herein.

	Year Ended December 31,					Six Months Ended June 30,	
	1969	1970	1971	1972	1973	1973 (Unaudited)	1974 (Unaudited)
Revenue(a)	$4,078,435	$5,835,266	$ 6,704,075	$7,799,552	$11,182,889	$5,965,747	$7,505,034
Operating expenses							
Equipment rental and maintenance	883,582	1,404,247	1,683,863	1,415,853	1,782,823	913,090	1,061,308
Depreciation and amortization(c)	113,810	346,358	769,597	291,195	339,020	166,054	160,885
Other production expenses	2,203,425	2,978,543	3,444,149	3,494,129	5,310,136	2,884,352	3,788,959
Selling and administrative expenses(f)	808,920	1,350,726	1,798,326	1,941,401	2,819,984	1,432,233	1,903,173
	4,009,737	6,079,874	7,695,935	7,142,578	10,251,963	5,395,729	6,914,325
Income (loss) from continuing operations before provision for income taxes	68,698	(244,608)	(991,860)	656,974	930,926	570,018	590,709
Provision for income taxes(a)(e)	79,631	31,448	118,035	366,000	478,000	303,000	317,000
Income (loss) from continuing operations	(10,933)	(276,056)	(1,109,895)	290,974	452,926	267,018	273,709
Loss from discontinued operations(b)	(209,422)	(50,166)	(181,685)	—	—	—	—
Income (loss) before extraordinary items	(220,355)	(326,222)	(1,291,580)	290,974	452,926	267,018	273,709
Extraordinary items							
Costs related to abandoned public stock offering(d)	—	—	(233,844)	—	—	—	—
Gain (loss) on disposition of data centers(b)	160,356	—	(34,549)	—	—	—	—
Loss on sale of computer	(73,250)	—	—	—	—	—	—
Tax benefit from carryforward of operating losses and investment tax credits(e)	—	66,000	48,327	207,000	267,000	170,000	121,000
Write-down of investment to market	—	—	(16,079)	(7,000)	—	—	—
	87,106	66,000	(236,145)	200,000	267,000	170,000	121,000
Net income (loss)(a)(c)(g)	$ (133,249)	$ (260,222)	$(1,527,725)	$ 490,974	$ 719,926	$ 437,018	$ 394,709
Earnings (loss) per share(h)							
Continuing operations	$(.01)	$(.21)	$ (.83)	$.21	$.31	$.18	$.19
Discontinued operations	(.16)	(.04)	(.13)	—	—	—	—
Income (loss) before extraordinary items	(.17)	(.25)	(.96)	.21	.31	.18	.19
Extraordinary items	.07	.05	(.18)	.14	.18	.12	.08
Net income (loss)(c)(g)	$(.10)	$(.20)	$(1.14)	$.35	$.49	$.30	$.27
Shares of common stock used to calculate earnings per share(h)	1,285,099	1,315,200	1,344,704	1,418,605	1,458,562	1,480,797	1,462,727

(See notes on following page)

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF OPERATIONS

(The information contained herein with respect to periods subsequent to December 31, 1973 is unaudited)

(a) On January 14, 1972 UDC consummated a merger of Dynafacts, Inc. into a wholly owned subsidiary. Pursuant thereto UDC issued 400,243 shares of its common stock to the former stockholders of Dynafacts. This merger has been accounted for as a pooling of interests and operations of Dynafacts are reflected above for the entire period. Dynafacts, incorporated in December 1969, acquired on December 31, 1969 the net assets of three businesses, one of which had acquired two other businesses in October and December 1969. Such acquired companies had previously succeeded to certain partnership or proprietorship operations. These acquisitions by Dynafacts and its predecessors have all been accounted for as poolings of interests. The consolidated statement of operations has been restated to include Dynafacts by combining UDC's three years ended December 31, 1971 with Dynafacts' three years ended June 30, 1971. Dynafacts' results of operations for the six months ended December 31, 1971 have been charged to retained earnings. Combined operations subsequent to 1971 are on a calendar year basis.

The consolidated statement of operations reflects a combination of the reported tax provisions or credits of UDC and Dynafacts for 1969 to 1971. Had Dynafacts and each of the companies and partnerships acquired by Dynafacts in transactions accounted for as poolings of interests joined with UDC in filing a consolidated federal tax return in each of the years 1969 to 1971, no federal income tax provisions would have been required (after appropriate application of investment tax credit and loss carryovers). Accordingly, the net (loss) on such a pro forma basis for 1969 to 1971 would have been approximately $(35,000), $(314,000) and $(1,488,000).

From 1969 through 1973 UDC purchased eight data processing centers and predecessors of Dynafacts acquired two data processing centers whose operations are reflected in the consolidated statement of operations from the respective dates of acquisition. The number of companies, revenue and income (loss) of these companies in the year of acquisition are as follows:

	Number of companies	Revenues	Income (loss)
1969	3	$ 579,594	$(3,779)(i)
1970	1	162,324	12,917
1971	1	148,014	6,483(ii)
1973	3	1,975,321	20,451

(i) Excludes two Dynafacts acquisitions for which separate financial records were not maintained.

(ii) Excludes two data centers purchased and subsequently sold or discontinued in 1971 (see Note (b) below).

If the acquisitions which were made during 1973 had taken place at the beginning of 1972, the unaudited pro forma results of operations would have been as follows:

	1972	1973
Revenue	$9,858,000	$11,414,000
Income before extraordinary items	$ 7,000	$ 350,000
Net income	$ 207,000	$ 617,000
Earnings per share	$.14	$.42

(b) On December 31, 1969 UDC sold a subsidiary for $342,000 in cash and 12,500 shares of the buyer's common stock (value then determined to be $21,612, subsequently written off). The results of operations of this former subsidiary, as reflected above in loss from discontinued operations, for 1969 comprise operating revenue of $795,488, less operating expense of $1,021,484 (including $70,000 of allocated intercompany expenses). No tax allocation has been made to the $160,356 extraordinary gain on the sale since for tax purposes the sale resulted in a loss. This difference results from UDC's investment in the subsidiary being reduced for accounting purposes by the subsidiary's net losses since acquisition, whereas for tax purposes it is reduced only by losses resulting in consolidated tax benefits.

In 1971 Dynafacts purchased and subsequently discontinued the operations of a data center. The $18,427 loss incurred in closing such data center, determined by the par value of the Dynafacts common stock issued, net cash transfers to the data center and liabilities assumed, less assets retained, has been included in extraordinary charges. Also in 1971, Dynafacts discontinued the operations of another data center and provided an extraordinary charge of $52,803. The operating results of such data center, which had revenues in the years 1969 through 1971 of $525,000, $739,000 and $867,000, are included above in loss from discontinued operations.

On December 31, 1971 UDC sold for $77,249 the business and certain assets of a data center purchased as of May 1, 1971. Operations of this data center, which had revenues of $126,692 during the period owned, are included in loss from discontinued operations. No federal income tax was payable on the $36,681 extraordinary gain on the sale due to the utilization of capital loss carryforwards.

(c) Effective January 1, 1969 UDC adopted the policy of deferring certain costs of the development of computer programs and systems and of the conversion of existing programs designed for multiple customer application. Costs of $45,305, consisting of purchases from outside software companies in 1969, were deferred. Had these costs been charged to operations as incurred, the net loss for 1969 would have been $38,921 greater ($.03 per share).

Effective January 1, 1970 UDC adopted the policy of deferring certain costs incurred directly in the development of computer programs and systems designed for multiple customer application, in addition to purchases from outside software companies. Costs of $46,069 incurred in 1970 were deferred. Had UDC followed the same policy as in 1969, the net loss for 1970 would have been increased by $42,827 ($.03 per share).

The deferred costs are being amortized over the expected useful life of each system, but not exceeding five years, plus additional charges to the extent the unamortized costs exceed projected earnings from the applicable program. In the event that either the development or marketing of such programming is not successful, the balance of unamortized costs is charged to current operations. During 1971 Dynafacts amortized all costs previously deferred for developed programs and most of the costs of previously purchased programs aggregating $509,867 pursuant to UDC's similar policy.

(d) In 1970 Dynafacts filed with the Securities and Exchange Commission a Registration Statement for the proposed sale of its common stock. In 1971 the Registration Statement was withdrawn. Costs incurred in connection with the filing were deferred in 1970 and at the time of withdrawal were written off as an extraordinary charge.

(e) At December 31, 1973 UDC had consolidated net operating loss carryforwards of approximately $1,200,000 which expire as follows: 1974—$130,000, 1975—$900,000, 1976—$50,000, and 1977—$120,000. These carryforwards originated from certain subsidiaries prior to acquisition and are available as carryforwards against future consolidated taxable income, but only to the extent of each subsidiary's separate taxable income. If realized, the tax benefit applicable to approximately $250,000

of such net operating loss carryforwards will be credited to intangibles arising from acquisitions of businesses. Intangibles were reduced by realized tax benefits in the amount of $40,650, $55,328, $86,731 in 1971, 1972, 1973 and by $62,000 for the six months ended June 30, 1974.

Consolidated investment tax credit carryforwards at December 31, 1973, of approximately $1,800, are available to offset future tax liabilities in varying amounts generally through 1977. Investment tax credits, recognized on the flowthrough method, were utilized as follows: 1969—$7,200, 1970—$9,900, 1971—$48,327, 1972—$18,500 and 1973—$31,000. A capital loss carryforward of approximately $53,000 is available through 1974.

Provision for income taxes includes state, local and Canadian income taxes for the five years ended 1973 of $5,000, $20,000, $25,600, $64,000 and $66,000 and for the six months ended June 30, 1973 and 1974, $47,000 and $37,000, respectively. The provision also reflects a deferred tax charge (credit) of $12,000 and $(38,900) in 1969 and 1970, respectively.

Total tax expense for 1973 and the six months ended June 30, 1974 differs from the amount computed by applying the U.S. Federal income tax rate of 48% to income before tax. The reasons for this difference are as follows:

	December 31, 1973	Six Months Ended June 30, 1974
Computed "expected" tax expense at 48%	$447,000	$284,000
State and local income taxes, net of income tax benefit	31,000	17,000
Amortization of intangibles not deductible for tax purposes	18,000	9,000
Investment tax credit	(31,000)	(4,000)
Other	13,000	11,000
Actual tax expense	$478,000	$317,000

(f) Interest expense included in selling and administrative expenses was $35,361, $56,766, $178,891, $39,772 and $68,674 in 1969 to 1973 and $35,559 and $45,693 for the six months ended June 30, 1973 and 1974, respectively.

(g) A portion of UDC's business, tax return processing, is highly seasonal generating substantially all of its revenue in the months of January through May. In order to match more properly the costs of maintaining this system with revenues, UDC follows the policy, for interim reporting purposes only, of providing for the annual maintenance costs during the months the revenue is earned. The six-month periods ended June 30, 1973 and 1974 include $176,700 and $183,200, respectively, of such estimated costs.

(h) Earnings (loss) per share for all periods is based on the average number of common shares outstanding (including shares earned, but unissued, pursuant to certain acquisition agreements) each period after giving retroactive effect to the 400,243 shares issued in connection with the merger of Dynafacts. The inclusion of shares subject to dilutive options and warrants would not materially affect per share data in any of the periods.

No cash dividends have been paid by UDC.

Interim Operating Results (Unaudited):

The following condensed consolidated information for the nine month periods ended September 30, 1973 and 1974 is not audited, but includes all adjustments (consisting of only normal recurring adjustments) which UDC considers necessary for a fair presentation of the results for those periods. The results for the nine months ended September 30, 1974 are not necessarily indicative of results for the full fiscal year.

	Nine Months Ended September 30,	
	1973	1974
Revenue	$8,531,085	$10,467,354
Income before extraordinary item	$ 340,143	$ 355,827
Extraordinary item—Tax benefit from carryforward of operating losses	224,000	143,000
Net income	$ 564,143	$ 498,827
Earnings per share:		
Income before extraordinary item	$.23	$.24
Extraordinary item	.15	.10
Net income	$.38	$.34

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF OPERATIONS OF UNITED DATA CENTERS, INC. AND SUBSIDIARIES

The following discussion sets forth the reasons, in the opinion of UDC's management, for certain material periodic changes in the foregoing Consolidated Statement of Operations of UDC.

General

The loss from continuing operations for 1970 and 1971 was caused by the effects on Dynafacts, Inc. of its continuing expansion of and expenditures on the Dynatax system. During 1970, while a portion of these expenses was deferred, the cash drain resulted in a serious working capital deficiency for Dynafacts and its management's energies were diverted from the day-to-day operations of its network of data centers. In 1971, all of these Dynatax costs were charged to income, including those previously deferred.

The acquisition of Dynafacts by UDC on January 14, 1972 resulted in an inflow of capital to the Dynafacts operations, a substantial reduction of debt and a redirection of management's efforts in the areas of marketing and cost reductions. The improvement in results of operations for 1972 reflects such events.

Year Ended December 31, 1972

During this year, revenues increased by approximately $1,095,000, compared to the prior year. Of this increase, approximately $540,000 (49%) was attributable to expansion of Dynatax operations and $176,000 (16%) to the operation for a full year of a company acquired during 1971. The balance of the increase arose from general business expansion.

During the same period "equipment rental and maintenance" and "depreciation and amortization" decreased by approximately $268,000 and $478,000, respectively. Approximately $201,000 (75%) of the decreased equipment rental and maintenance expense was attributable to reduced computer rental costs which resulted primarily from equipment changes and the leasing of equipment from third parties instead of the equipment manufacturer. Refer to the third paragraph of Note (c) on page 16 for the reason for the decrease in depreciation and amortization.

Provision for income taxes for 1972 aggregated 56% of pretax income and is not comparable to the prior year which represented a combination of reported tax provisions or credits of UDC and Dynafacts as more fully described in Note (a) of Notes to Consolidated Statement of Operations of UDC.

Year Ended December 31, 1973

Revenues during this year increased by approximately $3,383,000 over 1972. A substantial portion of this increase, approximately $1,975,000 (58%) was attributable to three acquisitions during the year; additionally, approximately $534,000 (16%) was due to continued expansion of Dynatax operations.

"Equipment rental and maintenance", "other production expenses" and "selling and administrative expenses" increased by approximately $367,000, $1,816,000 and $879,000, respectively. Acquisitions during the year accounted for approximately 75%, 53% and 49%, respectively, of such increased costs. The increase in other production costs also reflects additional outside computer time rental and increased forms and supplies costs aggregating $191,000 (11%). Increased marketing expenses of approximately $322,000 (37%) contributed to the increase in selling and administrative expense. Increased income was primarily due to internal improvements since acquisitions in 1973 did not contribute materially to the results.

Six Months Ended June 30, 1974

Revenues increased by approximately $1,539,000 over the comparable period in the prior year. Expansion of Dynatax operations accounted for $1,012,000 (66%) of the increase. Equipment rental and maintenance expense increased by approximately $148,000, of which approximately $100,000 (68%) was due to increased short-term rental of computers required to service the expanded Dynatax operations. Other production expenses increased by approximately $905,000. Approximately $632,000 (70%) of this increase was attributable to production costs related to expanded Dynatax operations. Expanded sales and marketing programs accounted for approximately 56% of the $471,000 increase in selling and administrative expenses. Net income during this period was adversely affected by substantial increases in certain production costs, principally paper supplies and excessive temporary Dynatax personnel costs, which could not be passed on to customers. See "Information Concerning UDC—Business—Business and Customers—Employees".

TYMSHARE, INC.
AND
UNITED DATA CENTERS, INC.
PRO FORMA COMBINED STATEMENT OF OPERATIONS
(Unaudited)

The following unaudited condensed pro forma statement of operations has been prepared by combining, on a pooling of interests basis, the results of operations of Tymshare and its subsidiaries and UDC and its subsidiaries as adjusted to conform UDC's accounting policy of deferring program development cost to Tymshare's policy of expensing such costs as incurred. The information presented in this statement should be read in conjunction with the pro forma combined balance sheet and with the financial statements and related notes of the respective companies included elsewhere herein.

	Year Ended December 31,					Six Months Ended June 30,	
	1969	1970	1971	1972	1973	1973	1974
Revenue	$10,579,651	$16,256,095	$19,431,026	$24,241,656	$35,200,245	$17,138,344	$22,596,493
Costs and expenses:							
Cost of revenue and operating expenses①	11,166,268	16,518,256	19,271,937	21,971,911	30,504,857	14,908,940	19,445,555
Interest, net	85,205	254,890	330,891	289,407	623,417	298,876	279,462
Share in loss of affiliated company	35,000	49,732	—	93,200	194,000	75,000	—
	11,286,473	16,822,878	19,602,828	22,354,518	31,322,274	15,282,816	19,725,017
Income (loss) from continuing operations before provision for income taxes	(706,822)	(566,783)	(171,802)	1,887,138	3,877,971	1,855,528	2,871,476
Provision for income taxes②	43,122	60,980	316,588	991,315	1,835,000	846,000	1,412,000
Income (loss) from continuing operations	(749,944)	(627,763)	(488,390)	895,823	2,042,971	1,009,528	1,459,476
Loss from discontinued operations	(209,422)	(50,166)	(181,685)	—	—	—	—
Income (loss) before extraordinary items	(959,366)	(677,929)	(670,075)	895,823	2,042,971	1,009,528	1,459,476
Extraordinary items:							
Costs related to abandoned public stock offering	—	—	(233,844)	—	—	—	—
Gain (loss) on disposition of data centers	160,356	—	(34,549)	—	—	—	—
Loss on sale of computer	(73,250)	—	—	—	—	—	—
Federal income tax reduction from carryforward of prior years' losses and investment tax credits②	—	95,000	200,327	642,000	611,000	342,000	121,000
Write down of investment to market	—	—	(16,079)	(7,000)	—	—	—
	87,106	95,000	(84,145)	635,000	611,000	342,000	121,000
Net income (loss)	$ (872,260)	$ (582,929)	$ (754,220)	$ 1,530,823	$ 2,653,971	$ 1,351,528	$ 1,580,476
Earnings (loss) per share:							
Income (loss) from continuing operations	$(.33)	$(.24)	$(.15)	$.25	$.55	$.28	$.39
Loss from discontinued operations	(.09)	(.02)	(.05)	—	—	—	—
Income (loss) before extraordinary items	(.42)	(.26)	(.20)	.25	.55	.28	.39
Extraordinary items	.04	.04	(.02)	.17	.16	.09	.03
Net income (loss)	$(.38)	$(.22)	$(.22)	$.42	$.71	$.37	$.42
Average pro forma shares used to compute earnings (loss) per share③	2,297,709	2,607,627	3,420,997	3,635,906	3,715,037	3,682,523	3,740,029

(See notes on following page)

NOTES:

① Cost of revenue and operating expenses has been adjusted to conform UDC's accounting policy of deferral and amortization of program development costs to Tymshare's accounting policy of charging such costs to expense as incurred. The effect of this change (net of income tax effect) was:

	Effect On Income (Loss)*	
	From Continuing Operations and Before Extraordinary Items	Net Income (Loss)
Year ended December 31:		
1969	$(83,774)	$(83,774)
1970	(357,978)	(372,978)
1971	387,166	397,166
1972	7,183	14,183
1973	(17,729)	(17,729)
Six months ended June 30:		
1973	6,817	6,817
1974	(37,273)	(37,273)

*( ) indicates reduction in income or increase in loss.

The following table sets forth the pro forma earnings (loss) per share of UDC on the basis that the above costs had been charged to costs and expenses as incurred:

	Year Ended December 31,					Six Months Ended	
	1969	1970	1971	1972	1973	June 30, 1973	June 30, 1974
Continuing operations	$(.07)	$(.48)	$(.54)	$.21	$.30	$.18	$.16
Discontinued operations	(.16)	(.04)	(.13)	—	—	—	—
Income (loss) before extraordinary items	(.23)	(.52)	(.67)	.21	.30	.18	.16
Extraordinary items	.07	.04	(.17)	.15	.18	.12	.08
Net income (loss)	$(.16)	$(.48)	$(.84)	$.36	$.48	$.30	$.24

② The pro forma statement of operations reflects a combination of the reported tax provisions or credits of Tymshare and UDC, after adjustment for the tax effect of conforming UDC's accounting policy of deferring program development costs to Tymshare's policy of expensing such costs as incurred. Had UDC and each of the companies acquired by UDC in transactions accounted for as poolings of interests filed a consolidated Federal income tax return with Tymshare for the years 1969 through 1973, the effect on net income (loss) would not be significant after appropriate application of investment tax credit and loss carryforwards.

③ Represents the average number of outstanding Tymshare common shares and common equivalent shares plus the average number of outstanding UDC common shares and common equivalent shares (the latter converted at .45173 in accordance with the exchange ratio).

TYMSHARE, INC.
AND
UNITED DATA CENTERS, INC.

PRO FORMA COMBINED BALANCE SHEET

June 30, 1974
(Unaudited)

The following unaudited condensed pro forma combined balance sheet gives effect to the proposed merger as of June 30, 1974 pursuant to the Reorganization Agreement discussed elsewhere herein. The pro forma combination has been accounted for on a pooling of interests basis. The condensed pro forma combined balance sheet should be read in conjunction with the financial statements and related notes of the respective companies included elsewhere herein.

ASSETS

	Tymshare, Inc.	United Data Centers, Inc.	Pro Forma Entries	Pro Forma Combined
Current Assets:				
Cash and certificates of deposit	$ 1,842,819	$ 260,876	$ —	$ 2,103,695
Accounts receivable, net	5,897,880	1,808,423	—	7,706,303
Other current assets	1,047,546	525,389	—	1,572,935
Total current assets	8,788,245	2,594,688	—	11,382,933
Equipment and Leasehold Improvements at cost	14,322,318	2,344,174	—	16,666,492
Less—Accumulated depreciation and amortization	6,899,618	1,101,593	—	8,001,211
	7,422,700	1,242,581	—	8,665,281
Other Assets:				
Cost in excess of net tangible assets acquired	1,075,069	1,777,491	—	2,852,560
Deferred program development costs	—	203,101	(203,101)①	—
Deferred charges, deposits and other	399,418	234,790	—	634,208
	1,474,487	2,215,382	(203,101)	3,486,768
	$17,685,432	$6,052,651	$ (203,101)	$23,534,982

TYMSHARE, INC.
AND
UNITED DATA CENTERS, INC.

PRO FORMA COMBINED BALANCE SHEET
June 30, 1974
(Unaudited)

LIABILITIES

	Tymshare, Inc.	United Data Centers, Inc.	Pro Forma Entries	Pro Forma Combined
Current Liabilities:				
Current portion of long-term debt	$ 1,714,284	$ 154,383	$ —	$ 1,868,667
Accounts payable and accrued liabilities	2,688,093	1,246,768	—	3,934,861
Accrued income taxes	484,820	201,767	(101,000)①	585,587
Other current liabilities	177,214	44,482	—	221,696
Total current liabilities	5,064,411	1,647,400	(101,000)	6,610,811
Deferred Tax Credits	678,000	—	—	678,000
Long-Term Debt	2,142,856	764,817	—	2,907,673
Shareholders' Investment:				
Common stock	7,340,336	147,972	4,172,449 ② (147,972)②	11,512,785
Capital in excess of par value	—	4,250,660	(4,250,660)②	—
Retained earnings (deficit)	2,459,829	(532,015)	(102,101)①	1,825,713
	9,800,165	3,866,617	(328,284)	13,338,498
Less—Cost of treasury stock	—	(226,183)	226,183 ②	—
	9,800,165	3,640,434	(102,101)	13,338,498
	$17,685,432	$6,052,651	$ (203,101)	$23,534,982

Pro Forma Adjustments:

The pro forma adjusting entries reflect the following:

① Write-off of deferred program development costs of UDC to conform UDC's accounting policy to Tymshare's accounting policy of charging such costs to expense as incurred, net of income tax effect.

② Issue of approximately 650,000 shares of Tymshare Common Stock in exchange for all of the outstanding UDC Common Stock on a pooling of interests basis.

Retained earnings are restricted as to the payment of cash dividends. See "Comparative Per Share Data—Cash Dividends".

COMPARATIVE PER SHARE DATA

Earnings (Loss) Per Share

The following tabulations are based on the information reported in the historical and pro forma statements of operations appearing elsewhere herein. The computation of historical per share amounts is described in the statements of operations of the respective companies. The computation of Tymshare's pro forma per share amounts is described in the pro forma combined statement of operations. The pro forma per share amounts for UDC are based on an exchange ratio of .45173 of a share of Tymshare Common Stock for each share of UDC Common Stock.

	Year Ended December 31,					Six Months Ended June 30,	
	1969	1970	1971	1972	1973	1973	1974
PER TYMSHARE COMMON SHARE:							
Historical:							
Income (loss) before extraordinary item	$(.38)	$ —	$ .07	$.20	$.53	$.24	$.40
Extraordinary item	—	.02	.06	.14	.11	.06	—
Net income (loss)	$(.38)	$ .02	$ .13	$.34	$.64	$.30	$.40
Pro Forma:							
Income (loss) from continuing operations	$(.33)	$(.24)	$(.15)	$.25	$.55	$.28	$.39
Loss from discontinued operations	(.09)	(.02)	(.05)	—	—	—	—
Income (loss) before extraordinary items	(.42)	(.26)	(.20)	.25	.55	.28	.39
Extraordinary items	.04	.04	(.02)	.17	.16	.09	.03
Net income (loss)	$(.38)	$(.22)	$(.22)	$.42	$.71	$.37	$.42
PER UDC COMMON SHARE:							
Historical:							
Income (loss) from continuing operations	$(.01)	$(.21)	$(.83)	$.21	$.31	$.18	$.19
Loss from discontinued operations	(.16)	(.04)	(.13)	—	—	—	—
Income (loss) before extraordinary items	(.17)	(.25)	(.96)	.21	.31	.18	.19
Extraordinary items	.07	.05	(.18)	.14	.18	.12	.08
Net income (loss)	$(.10)	$(.20)	$(1.14)	$.35	$.49	$.30	$.27
Pro Forma:							
Income (loss) from continuing operations	$(.15)	$(.11)	$(.07)	$.11	$.25	$.13	$.18
Loss from discontinued operations	(.04)	(.01)	(.02)	—	—	—	—
Income (loss) before extraordinary items	(.19)	(.12)	(.09)	.11	.25	.13	.18
Extraordinary items	.02	.02	(.01)	.08	.07	.04	.01
Net income (loss)	$(.17)	$(.10)	$(.10)	$.19	$.32	$.17	$.19

Cash Dividends

Neither Tymshare nor UDC has ever paid any cash dividends on common stock, and under the Reorganization Agreement UDC is prohibited from paying any dividends prior to the effective date of the merger. In addition, Tymshare is restricted from paying cash dividends on its Common Stock under a loan agreement with Wells Fargo Bank (see Note 4 of Notes to Consolidated Financial Statements of Tymshare).

Book Values

The following net book values per common share outstanding of Tymshare and UDC at June 30, 1974 are based on the information reported in the historical and pro forma balance sheets appearing elsewhere herein. The pro forma net book value for UDC is based on an exchange ratio of .45173 of a share of Tymshare Common Stock for each share of UDC Common Stock outstanding at June 30, 1974.

	Historical	Pro Forma
Tymshare	$3.28	$3.66
UDC	2.54	1.65

INFORMATION CONCERNING TYMSHARE

BUSINESS

General

Tymshare is engaged principally in the business of offering remote access computer services utilizing its own computer systems and data communications network ("TYMNET"). These services enable different customers from their own business locations throughout the United States and, to a lesser extent, Europe to solve diverse computational, information retrieval and data processing problems simultaneously, without a major commitment to computer hardware, systems software or facility installation.

Remote access computer services, often referred to as "on-line" data processing, allow numerous customers in diverse geographic areas to make simultaneous use of computer systems by providing access to data processing equipment (known as computer hardware) and appropriate systems of coded instructions (known as computer software) over standard telephone lines. Tymshare's customers may access the computer systems by means of a terminal device, such as a portable desk top teletypewriter unit which may be leased or purchased from Tymshare, located at the customer's facility and connected to his standard desk telephone by means of an acoustic coupler or other device.

Tymshare does not generally provide "off-line" batch data processing services. Such services, which do not involve remote communication between the customer's terminal and the computer system over standard telephone lines, are typically used to process data in complete packages, such as those offered by UDC. Such services generally permit greater storage and processing of larger volumes of data at lower cost, and may be considered the prevalent mode of computer data processing.

Tymshare's services are geographically dispersed and utilize various types of computer systems and computer software applications. Tymshare's computer centers are located in Cupertino and Palo Alto, California, Englewood Cliffs, New Jersey, Houston, Texas and Paris, France. A total of 26 Xerox 940 computer systems, seven Digital Equipment Corporation PDP-10 computer systems and an IBM 370/158 computer system are installed at the computer centers.

Tymshare was incorporated under the laws of the State of California in January 1966. Its executive offices are located at 10340 Bubb Road, Cupertino, California 95014, and its telephone number is (408) 257-6550.

Services and Products

The remote access computer services offered by Tymshare include interactive timesharing and, to a lesser extent, "on-line" batch data processing. Customers are billed for the use of Tymshare's services principally based upon connect time to the computer system, computing time, storage of data in the computer and ancillary services. Generally, customers are under month-to-month contracts.

Tymshare's interactive timesharing services allow the customer to send information and instructions from his terminal to the computer for processing, and for almost instant return of the results back to the terminal for the use of the customer. This interaction between the customer and the computer continues until the customer completes his work or otherwise terminates the job. Interactive timesharing services emphasize maximum and rapid response to the customer and, accordingly, utilize priority computer time during normal business hours.

Tymshare's remote batch data processing services include "remote job entry" and "remote batch processing" and involve the deferred processing of large volumes of data not customary to the more

expensive interactive timesharing service. These services allow the customer to submit his data, either incrementally or as a complete job, to the computer from the customer's remote location for processing at a later time more convenient to the computer's processing cycle, and for the return of the processed data to the customer's remote location over his terminal equipment. In contrast to interactive timesharing, remote batch processing emphasizes maximum use of the 24-hour availability of the computer system and allows the customer to process large volumes of data more economically. Tymshare estimates that less than 10% of its total revenue during each of its last three fiscal years was derived from its batch processing services.

In using any of Tymshare's services, each customer accomplishes his purposes by utilizing previously stored computer software programs, new software programs designed by him or by Tymshare, or a variety of software programs made available by Tymshare. Other customers share the computer at the same time, solving similar or different kinds of problems, and using the same or different computer software programs.

Tymshare maintains and offers a variety of computer software programs for use in conjunction with its computer systems. Tymshare's principal programs may be classified as (i) control programs or operating systems which govern the operation of the computer, provide administrative and control functions, and collect accounting data; (ii) computer language programs, principally developed by Tymshare's technical staff, for use by the customer in formulating his own specific programs and instructions for the computer; (iii) utility programs which accomplish common computational functions such as sorting, merging or updating data and are used either by Tymshare or the customer to create applications programs; and (iv) applications programs developed by Tymshare or by independent sources for use in a wide variety of business management control and analysis functions such as marketing and sales, financial and accounting, manufacturing and distribution, research and development, engineering and mathematical computations. The applications programs enable customers to process data without having special knowledge of computer systems or computer languages.

Tymshare also sells the use of its TYMNET communications network to certain customers who have their own computer hardware and software. In such instances, Tymshare's computer equipment is used only to route the customers' data rather than to perform data processing services. Approximately 4% of Tymshare's revenue during 1973 and the six months ended June 30, 1974 was derived from this service. In July 1974 the Federal Communications Commission issued a "Notice of Inquiry and Proposed Rulemaking" to review whether subscribers (such as Tymshare) of common carrier communication services should be allowed to resell such services to others or participate in the sharing or joint use of such services, and, if so, whether the Commission should regulate any such resale or shared use. Tymshare is unable, at this time, to determine what regulations or legislation, if any, may result from this inquiry.

In addition, Tymshare leases and sells to its customers certain terminal equipment for use with Tymshare's services. A major portion of the equipment is leased by Tymshare to its customers under leases ranging from one to 12 months' duration. Tymshare leases (usually for a period of 12 months) and purchases the equipment from third-party lessors and manufacturers for lease or sale to its customers. Tymshare also sells and leases to its customers an acoustic coupler developed by Tymshare for connecting terminal equipment to a standard telephone, thereby providing access to the computer. During 1973 and for the six months ended June 30, 1974 approximately 8% of Tymshare's total revenues for such periods were derived from the sale and rental of all such equipment.

Communications Network—TYMNET

Tymshare developed and installed its TYMNET communications network to enable Tymshare to service markets that are geographically dispersed from a fixed computer location with a reliability comparable to having the computers located in each of the market areas. TYMNET is comprised of dedicated telephone lines leased by Tymshare from communication common carriers (primarily the Bell Telephone System) and special data communications equipment. TYMNET is an integral part

of Tymshare's computer services and is used by customers of such services. In this respect, TYMNET does not provide an independent source of revenue from such customers, but is part of the total computer service charge.

TYMNET became operational in 1970 and continues to evolve in response to technological advances and the geographic expansion of the market for Tymshare's services. Within the United States TYMNET allows local dial-up connections to 77 cities and has been extended to Europe through the use of two transatlantic cables connected to the French PTT Telephone Utilities network and the United Kingdom GPO. TYMNET utilizes approximately 50,000 miles of leased private telephone line facilities. Since TYMNET uses existing common carrier services, it may be extended to wherever telephone services are available. For this reason and because TYMNET is comprised of standard telephone lines, TYMNET is dependent upon the public telephone system.

The principal features of TYMNET include the abilities to (i) detect transmission errors and correct them by retransmission, (ii) provide alternate routes for data transmission in the event a failure occurs in the telephone facility being used, (iii) provide service for many low speed terminals simultaneously over one standard telephone line, (iv) enable the customer to access common data files from terminals located in various remote geographic regions, and (v) enable the customer to access the computer network by dialing a local number from his remote location. These features are designed to increase cost effectiveness and to overcome technical problems such as line noise, lack of service continuity and delay distortion, all of which are commonly associated with using ordinary telephone lines for transmitting computer data.

In order to remain competitive, to maintain its growth and to improve its services, Tymshare is committed to a continuing program to improve and upgrade TYMNET. Particular emphasis is being given to the acquisition of more advanced communications equipment and to the development of computer software so as to allow for greater volumes of data to be transmitted over the telephone lines at higher speeds. See "Technical Development". Such improvements are designed to enable customers to utilize higher speed terminals and to process larger volumes of data at a lesser per transaction cost. There can be no assurance that these efforts will be successful.

Marketing and Distribution; Customers

Tymshare endeavors to provide and make available its computer services to different customers in a variety of industries. Accordingly, Tymshare places material importance upon maintaining a national marketing organization. At September 1, 1974 Tymshare employed approximately 289 sales and customer support personnel and maintained 43 sales offices located throughout the United States. In addition to marketing Tymshare's services, the marketing staff assists customers in the development of appropriate computer software to meet the customers' specific requirements and in the selection of terminal devices. These marketing efforts are also supported by seminars and training sessions and by technical documentation, sales literature and national advertising.

Tymshare estimates that during the year ended December 31, 1973 it rendered services to customers representing more than 40 industries, principally firms in the utility, financial, petrochemical, computer services, electronics and aerospace industries, as well as federal and state government agencies. During that period, the five largest customers of Tymshare accounted for approximately 15% of its total revenue. No one customer accounted for more than 4% of revenue during 1973.

Competition

The computer services industry is characterized by intense competition. Tymshare believes that the principal elements of competition in the industry include the extent of access to the computer systems, computer systems' reliability, communications network capability, quality and variety of computer software programs and applications, and quality of customer service.

Although Tymshare competes with many firms offering competitive services, Tymshare believes that its principal competitors are General Electric Company and Control Data Corporation, both of whom have financial and management resources substantially greater than those of Tymshare. Tymshare also faces competition from present or potential customers who may either modify their own computers to provide timesharing capacity or acquire their own computer systems to process data rather than use Tymshare's computer services. Tymshare believes that its ability to compete with its principal competitors is primarily due to Tymshare's national marketing organization and to its technical and communications network capabilities.

Tymshare has been offering its services to customers utilizing IBM computer hardware and software for approximately one year, and considers this market important to its growth. Tymshare's ability to compete successfully in this market depends upon its continuing to develop the required technical proficiency in using IBM computer equipment, offering marketable and reliable computer software programs and gaining marketing experience.

Patents, Trademarks and Copyrights

Tymshare believes that its competitive position is dependent upon its marketing efforts and technical proficiency, rather than upon any patent, trademark, copyright, license, franchise or concession. Nevertheless, Tymshare has filed certain applications for trademark registration and copyright protection, most of which have been granted.

Technical Development

Tymshare employs a staff of hardware and software system design engineers, systems analysts and engineers who are responsible for maintaining and enhancing TYMNET, developing the computer software programs which Tymshare offers to its customers, and designing the computer software required to operate efficiently Tymshare's computer systems and equipment. During 1972, 1973 and the nine months ended September 30, 1974 Tymshare spent $951,238, $1,413,901 and $1,419,462, respectively, on computer software development. Such expenditures are charged to operations as incurred.

The technical staff also designs special electronic devices to connect peripheral equipment to Tymshare's computer systems. Although Tymshare technicians typically assemble these devices, outside vendors are occasionally used. The cost of designing and assembling such special electronic devices is capitalized.

Employees

At September 1, 1974 Tymshare employed 606 persons on a full-time basis, of whom 289 were involved in marketing, 87 in technical development, 178 in data services and operations, and 52 in administrative and executive activities. Tymshare considers its employee relations to be good. There are no collective bargaining agreements in effect.

Foreign Interests

Tymshare is a minority shareholder of CEGOS-Tymshare, a French corporation, which is licensed by Tymshare to use and market Tymshare's computer services in France, Belgium, Holland, Italy, Luxembourg, Portugal, Spain and Switzerland. In 1973 CEGOS-Tymshare installed a communications facility in Brussels, Belgium, thereby extending its remote access local dial-up services to that area. See Note (C) of Notes to Consolidated Statement of Operations of Tymshare.

In March 1974 Tymshare and Unilever Limited formed a jointly owned corporation to provide computer services in the United Kingdom and Republic of Ireland. The operations of the corporation have been insignificant to date.

The revenues and earnings derived by Tymshare from its foreign activities have been insignificant.

Material Developments and Acquisitions

Tymshare has, from time to time, acquired other businesses in the computer services industry. Tymshare increased its computer capacity, expanded the geographic distribution of its services and acquired experienced systems analysts and special applications programs through the acquisition in 1970 of Dial-Data, Inc., a Massachusetts corporation, engaged in the business of rendering timesharing services since 1967. In 1971 Tymshare enhanced its systems, servicing and marketing operations through the acquisition of the Computer Systems Division of Graphic Controls Corporation. That division was engaged in rendering timesharing computer services principally in the Northeastern United States. Additional computer systems, specialized software and marketing capabilities were acquired through the purchase in 1972 of the business and assets comprising the computer timesharing operations of Computer Complex, Inc., which was engaged in the business of rendering computer timesharing services primarily to the petrochemical industry in the Southwestern United States. In 1973 Tymshare acquired Valley Computer which is engaged in the business of refurbishing and reconditioning used computer equipment and related parts for resale. The acquisition of Valley Computer also supports Tymshare's development of an in-house capability for maintenance of its computer systems.

The following table sets forth certain information with respect to Tymshare's acquisitions:

Name of Business Acquired	Date of Acquisition	Consideration Paid
Dial-Data, Inc.①	March 1970	168,000 shares of Tymshare Common Stock
Computer Systems Division of Graphic Controls Corporation②	May 1971	150,000 shares of Tymshare Common Stock
Timesharing Operations of Computer Complex, Inc.③	November 1972	$500,000 cash and assumption of certain liabilities and obligations aggregating approximately $489,000
Valley Computer④	January 1973	50,000 shares of Tymshare Common Stock

① For the three fiscal years ended February 28, 1970 Dial-Data, Inc. had gross revenues of $471,673, $694,799 and $1,011,793, respectively, and net income (loss) of $16,255, $(562,537) and $(1,265,454), respectively. At February 28, 1970 Dial-Data, Inc. had a net worth deficiency of $(1,050,865). Tymshare placed a valuation of $336,000 on the 168,000 shares of its Common Stock issued in the transaction.

② For the three fiscal years ended September 30, 1968 and 1969 and December 31, 1970 the Computer Systems Division of Graphic Controls Corporation had gross revenues of $121,707, $525,730 and $1,710,297, respectively, and losses (before certain administrative expenses and income tax benefits) of $(190,944), $(328,454) and $(925,768), respectively. The net assets acquired by Tymshare were carried at approximately $815,000 by Graphic Controls Corporation. On May 18, 1971, the date of acquisition of the assets, the closing bid price in the over-the-counter market for Tymshare Common Stock was $12⅛.

③ For the three fiscal years ended June 30, 1972 the timesharing operations of Computer Complex, Inc. had gross revenues of $3,116,001, $2,938,507 and $2,384,789, respectively, and losses (before general and administrative expenses and extraordinary items) of $(529,003), $(123,398) and $(28,542), respectively. The net assets acquired by Tymshare were carried at approximately $277,570 by Computer Complex, Inc.

(Footnotes continued on following page)

(Footnotes continued from preceding page)

④ For the three year periods ended December 31, 1970, 1971 and 1972 Valley Computer had gross revenues of approximately $188,000, $207,000 and $668,000, respectively, and net income of approximately $1,000, $11,000 and $89,000, respectively. On January 29, 1973, the date of acquisition, the closing bid price in the over-the-counter market for Tymshare Common Stock was $10¼. At December 31, 1972 Valley Computer had a net worth of approximately $136,000.

For additional information concerning Tymshare's acquisitions, see Note (B) of Notes to Consolidated Statement of Operations of Tymshare and Note 2 of Notes to Consolidated Financial Statements of Tymshare.

Pursuant to an agreement made as of December 22, 1972 by Tymshare and Xerox Corporation ("Xerox"), Tymshare purchased 23 Xerox 940 computer systems, previously leased by Tymshare from Xerox, in consideration of the payment of $5,979,300 cash, including sales tax, and the settlement of certain outstanding obligations of Tymshare to Xerox. Tymshare financed its purchase of the 23 Xerox 940 computer systems with a $6,000,000 loan from Wells Fargo Bank bearing interest at 2% above the prime lending rate charged by the bank. The bank loan is secured by the computer systems. See "Capitalization" and Note 3 of Notes to Consolidated Financial Statements of Tymshare.

PROPERTY

Facilities

The following table sets forth information concerning Tymshare's principal facilities:

Location	Expiration of Lease Term	Operations
Cupertino, California	June 1977①②	Executive, administrative and technical division offices
New York, New York	July 1984①	Eastern regional headquarters and New York area sales offices
Cupertino, California	March 1976①	Computer center (12 computers)
Cupertino, California	January 1975①	Computer center (12 computers) and data services division
Houston, Texas	June 1976	Computer center (five computers)
Englewood Cliffs, New Jersey	July 1975③	Computer center (three computers)
Palo Alto, California	June 1976	Computer center (one computer)
Valley Forge, Pennsylvania	Owned④	Computer center

① Tymshare has the option to extend the term of these leases for not less than an additional two years.

② Tymshare has reached an agreement with the lessor to terminate this lease and move the executive and administrative offices and technical division into a new building to be constructed by the lessor at a new location in Cupertino. Construction of the new facility commenced in October 1974.

③ Tymshare may cancel this lease without penalty upon 90 days prior notice to lessor.

④ Tymshare is making improvements to a building on a 1.5 acre site purchased in the Valley Forge Corporate Center, Pennsylvania. Tymshare anticipates that construction will be substantially completed in November 1974, at which time it will commence relocation of the computers presently located at its New Jersey facility. See Note 5 of Notes to Consolidated Financial Statements of Tymshare.

In addition, Tymshare leases space for 41 sales and TYMNET communications equipment offices located throughout the United States under leases expiring from January 1975 to July 1984.

Tymshare is of the opinion that its facilities are both adequate and suitable for its present needs.

Computer Equipment

Tymshare presently owns and has in operation 26 Xerox 940 computer systems, 23 of which were purchased by the Company from Xerox Corporation in December 1972. Tymshare leases seven Digital Equipment Corporation PDP-10 computer systems under leases expiring through August 1979. Two of these systems were obtained by Tymshare in its acquisition of the Computer Systems Division of Graphic Controls Corporation. Tymshare also leases an IBM 370/158 computer under a lease expiring in July 1980. In addition, Tymshare has lease agreements for peripheral computer equipment utilized in its computer operations; these leases have expiration dates from December 1975 to August 1981. As with other firms offering remote access computer services, Tymshare acquires computer

systems at a fixed on-going cost which cannot readily be reduced even though greatly decreased customer demand would create excess computer capacity.

Tymshare previously depended upon the manufacturer for maintenance of its computer systems. However, Tymshare has developed its own maintenance capability, and presently maintains its TYMNET communications network equipment and its computer systems, except for the IBM 370/158 computer which is maintained by IBM. Although Tymshare at times has experienced computer system malfunctions which reduce effective computer capacity and may cause customer dissatisfaction, it believes these malfunctions have not caused a serious disruption of its services or adversely affected its business. However, there can be no assurance that computer system malfunctions will remain insignificant.

All of Tymshare's computer equipment is in good repair, is well maintained, and continues to operate satisfactorily. Tymshare has maintained a policy of acquiring additional computer systems and equipment in accordance with the growth of its business. Tymshare is of the opinion that its present computer equipment is adequate to meet its current needs, and intends to continue its policy of acquiring such additional equipment as may be necessary or appropriate to meet and facilitate future growth.

See Note 5 of Notes to Consolidated Financial Statements of Tymshare for information concerning leased facilities and equipment lease obligations.

MANAGEMENT

Executive Officers

The executive officers of Tymshare are elected by the Board of Directors and are as follows:

Name	Position
Thomas J. O'Rourke	President
Ronald W. Braniff	Vice President
Edward J. Field	Vice President and Treasurer
Alden R. Heintz	Vice President
Warren F. Prince	Vice President
Laszlo L. Rakoczi	Vice President
Roger L. Mosher	Secretary

All of the officers of Tymshare, other than Messrs. Prince and Rakoczi, have been associated with Tymshare in their present positions or other capacities for more than the past five years. Mr. Prince joined Tymshare as a Vice President in October 1971 and is responsible for managing its data services division. From January 1968 to October 1971 he served as Vice President and later President of Call-A-Computer, a company offering timesharing services. Mr. Rakoczi joined Tymshare as a Vice President in May 1974 and is responsible for the management of its technical division. For more than five years prior to May 1974, Mr. Rakoczi served as Executive Vice President and a director of Standard Computer Corporation, a manufacturer of medium scale special purpose computer systems.

Under the terms of the Reorganization Agreement, Tymshare has agreed to elect Messrs. Bernard Goldstein and Albert A. Eisenstat, officers and directors of UDC, as Vice Presidents of Tymshare and Mr. James L. Mann, an officer and director of UDC, as an officer of Tymshare Subsidiary, Inc. as soon as practicable after the effective date of the merger, under employment agreements expiring May 31, 1977. See "Information Regarding the Merger—Management After the Merger".

Directors

The authorized number of directors of Tymshare is five and each director serves until the next annual meeting of shareholders and until his successor is elected. The following table indicates as to

each director of Tymshare the year when first elected a director, the principal occupation, and the number of shares of Tymshare Common Stock beneficially owned as of September 30, 1974.

Name	Principal Occupation	Director Since	Shares Owned
Thomas J. O'Rourke	President of Tymshare	1966	212,252①
Roger L. Mosher	Partner, Wilson, Mosher & Sonsini, Attorneys-at-Law	1966	6,700②
George Quist	Partner, Hambrecht & Quist, investment bankers	1966	10,000
Anthony M. Lamport	First Vice President and a director of Drexel Burnham & Co. Incorporated, investment bankers	1967	50,554③
Max B. E. Clarkson	Chairman of the Board of Graphic Controls Corporation, manufacturer of recording charts and business forms	1971	200④

① Excludes 28,848 shares held by Mr. O'Rourke's children, or in trust or by a custodian for their benefit, as to which shares he disclaims beneficial ownership.

② Includes 700 shares held by WM Investment Company, an investment partnership of the partners of Wilson, Mosher & Sonsini.

③ Excludes 400 shares held of record by Mr. Lamport's wife, as to which shares he disclaims beneficial ownership.

④ Excludes 150,000 shares held by Graphic Controls Corporation.

Under the terms of the Reorganization Agreement Tymshare has agreed to include Mr. Bernard Goldstein in management's slate of nominees for election to the Board at the next two meetings of shareholders at which directors are elected following the merger. Tymshare intends to increase the authorized number of directors for this purpose. See "Information Regarding the Merger—Management After the Merger".

Remuneration

The following information is given with respect to each director and each officer of Tymshare who during the fiscal year ended December 31, 1973 received direct remuneration from Tymshare exceeding $40,000, and as to all directors and officers of Tymshare as a group.

Name of Individual or Identity of Group	Capacities in Which Remuneration Was Received	Aggregate Direct Remuneration①②
Thomas J. O'Rourke	President	$ 81,519
Ronald W. Braniff	Vice President	61,519
Edward J. Field	Vice President and Treasurer	56,519
Alden R. Heintz	Vice President	56,519
Warren F. Prince	Vice President	61,519
All directors and officers as a group (nine persons)	Directors and officers	324,595

① Includes (i) $31,519 paid and accrued to each of five officers, for an aggregate of $157,595, under an executive incentive compensation plan in effect for the year ended December 31, 1973 under which each officer (other than the Secretary) was entitled to receive additional compensation equal to 1½% of that amount of Tymshare's net income before Federal income taxes for the year ended December 31, 1973 which was in excess of $627,487 (10% of Tymshare's net worth as reported in its consolidated balance sheet at December 31, 1972); and (ii) directors' fees in the aggregate amount of $7,000 paid to directors who were not employees of Tymshare.

② Excludes $51,709 direct remuneration (inclusive of incentive compensation of $21,709) to Raymond E. Wakeman, a Vice President of Tymshare who resigned his position in January 1974.

Each member of the Board of Directors who is not an employee of Tymshare (four persons) receives $500, plus expenses, for each attended meeting of the Board.

The firm of Wilson, Mosher & Sonsini, of which Mr. Mosher is a partner, serves as general counsel to Tymshare and its subsidiaries. During the fiscal year ended December 31, 1973 Tymshare accrued legal fees aggregating approximately $86,155 to Messrs. Wilson, Mosher & Sonsini.

Under the terms of the Reorganization Agreement Messrs. Goldstein and Eisenstat will enter into employment agreements with Tymshare, each expiring May 31, 1977. The agreements provide for minimum annual compensation (including incentive compensation) of $56,000 for Mr. Goldstein and $52,000 for Mr. Eisenstat.

Effective January 1, 1974 the Board of Directors of Tymshare adopted the 1974 Executive Compensation Plan under which each officer of Tymshare (other than the Secretary) is entitled to receive additional compensation equal to 1½% of that amount of Tymshare's net income before Federal income taxes for the year ending December 31, 1974 which is in excess of $1,280,986 (15% of Tymshare's net worth as reported in its consolidated balance sheet at December 31, 1973).

The annual base salaries for 1974 (exclusive of incentive compensation) being paid by Tymshare to all officers as a group will be $176,827, which is not materially different from the annual base salaries paid in 1973. In addition, incentive compensation paid and accrued under the 1974 Executive Compensation Plan for the nine months ended September 30, 1974 amounted to $203,383.

Certain Transactions

In December 1973 certain shareholders of Tymshare sold an aggregate of 205,317 shares of Tymshare Common Stock pursuant to an underwritten public offering registered under the Securities Act of 1933, as amended. Included among the selling shareholders was Small Business Enterprises Company which sold 175,000 shares, reducing its ownership of Tymshare Common Stock from approximately 14% to 8.3% of the outstanding shares. The representatives of the underwriters were Drexel Burnham & Co. Incorporated and Hambrecht & Quist, with which Anthony M. Lamport and George Quist are associated. See "Management—Directors".

OPTIONS TO PURCHASE COMMON STOCK

Employee Qualified Stock Option Plans

Tymshare currently has in effect two Employee Qualified Stock Option Plans, adopted in May 1968 and December 1969, respectively, which provide for the grant of options to officers and key employees of Tymshare. At September 30, 1974 an aggregate of 374,170 shares of Tymshare Common Stock were reserved for issuance under the plans. The options are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code of 1954, as amended.

The exercise price of the options is determined by the Board of Directors and may not be less than 100% of the fair market value of the Common Stock on the date of their grant. Options expire not more than five years from the date of grant, are non-transferable by the optionee except by will or the laws of descent and distribution, and may be exercised only while the optionee is employed by Tymshare or within 15 days (60 days for options granted prior to March 2, 1971) after termination of employment (except where termination is for cause or the option has been held for less than one year) or within 90 days after death. Within these limitations, the Board of Directors may determine the time or times when options granted shall be exercisable, provided that in any event options may be exercised after one year from the date of grant cumulatively to the extent of 25% per year of the total number of option shares during each of the second, third, fourth and fifth years of the option period. The purchase price and the number of shares which may be purchased upon exercise of options are subject to adjustment by the Board of Directors in the event of certain changes in the capitalization of Tymshare.

Under the plans, at September 30, 1974, options covering an aggregate of 257,687 shares were outstanding and 116,483 shares were available for future grants.

The following table sets forth certain information with respect to options to purchase Tymshare Common Stock outstanding under the plans at September 30, 1974, at which date no director of Tymshare held any of the options.

Name of Individual or Identity of Group	Number of Shares Subject to Option	Average Purchase Price Per Share	Range of Expiration Dates of Options
Ronald W. Braniff	15,000	$ 7.00	3/76 to 7/78
Edward J. Field	15,000	7.00	3/76 to 7/78
Alden R. Heintz	8,000	7.06	3/76 to 7/78
Warren F. Prince	15,000	7.08	12/76 to 7/78
Laszlo L. Rakoczi	7,500	10.50	5/79
All officers as a group (five persons)	60,500	7.46	3/76 to 5/79
Other employees	197,187	7.51	12/74 to 2/79

Employee Stock Purchase Plan

Tymshare adopted an Employee Stock Purchase Plan in February 1972 under which 150,000 shares of Common Stock have been reserved for issuance. Any employee who is customarily employed for at least 20 hours per week and for more than five months per year by Tymshare or its subsidiaries is eligible to participate in the plan, provided that such employee is employed by Tymshare on the date his participation in the plan is effective and he does not own 5% or more of the Tymshare Common Stock. No employee is entitled to purchase more than $25,000 worth of Common Stock in any calendar year under the plan. The plan provides that one offering shall be made during each twelve-month period of the plan. The purchase price of the shares sold to employees participating in the plan is the lower of 100% of the Common Stock's fair market value at the beginning or at the end of the twelve-month offering period as determined by the Board of Directors. Payment for shares subscribed for is made through accumulated payroll deductions not exceeding 10% of the employee's annual compensation.

During the first twelve-month offering period which ended in August 1973, a total of 16,454 shares were issued under the plan at a purchase price of $8.25 per share. As of September 30, 1974 approximately 240 employees were participating in the second offering under the plan and payroll deductions of approximately $207,000 had been accrued under the plan.

The following table sets forth, as to certain officers who participated in the plan, all present directors and officers as a group who participated in the plan, and all other employees who participated in the plan, (i) the number of shares purchased under the plan to date and (ii) the aggregate purchase price thereof.

	Number of Shares Purchased	Aggregate Purchase Price
Edward J. Field	536	$ 4,422
Warren F. Prince	569	$ 4,694
All present directors and officers as a group who participated in the plan (two persons)	1,105	$ 9,116
All other employees who participated in the plan	15,349	$126,630

Stock Purchase Warrants

As partial consideration for bank loans, Tymshare has issued warrants to Wells Fargo Bank to purchase an aggregate of 42,500 shares of Common Stock at an exercise price of $7.00 per share. A warrant to purchase 5,000 shares was issued in February 1972 and expires in December 1976 and a warrant to purchase 37,500 shares was issued in December 1972 and expires in December 1977. See Note 4 of Notes to Consolidated Financial Statements of Tymshare.

PRINCIPAL SHAREHOLDERS

As of September 30, 1974 no person was known by Tymshare to own more than 10% of its outstanding Common Stock. The following table sets forth information as of September 30, 1974 with respect to Tymshare Common Stock owned by all officers and directors as a group. All such shares set forth below are owned of record and beneficially unless otherwise indicated.

Name	Title of Class	Amount Owned	Percent of Class
All officers and directors as a group (10 persons) . .	Common Stock	301,869①	10.1%

① Excludes (i) 29,248 shares held by certain relatives of the officers and directors, as to which shares such officers and directors disclaim beneficial ownership, and (ii) 150,000 shares held by Graphic Controls Corporation of which Mr. Clarkson is Chairman of the Board.

Mr. Thomas J. O'Rourke, President and a director of Tymshare, may be deemed to be a "parent" of Tymshare as that term is defined under the Securities Act of 1933, as amended.

DESCRIPTION OF COMMON STOCK

The capital stock of Tymshare consists of Common Stock, without par value.

Each shareholder is entitled to one vote for each share of Common Stock held by him, and in any election of directors such shareholder is entitled to cumulate his vote, giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by him, or distributing such number of votes among as many candidates as such shareholder shall see fit. Shareholders have no pre-emptive rights or other rights to subscribe for additional shares. There are no conversion rights, redemption rights or sinking fund provisions with respect to shares of Common Stock. All outstanding shares of Common Stock are, and those offered hereby will be, when issued, fully paid and validly issued and are not subject to further call or assessment by Tymshare.

Dividend Policy

Shareholders are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor, and to share pro rata in any distribution to shareholders. Tymshare has not paid cash dividends on its Common Stock. It is Tymshare's policy to retain earnings to finance its operations and, accordingly, it is unlikely that cash dividends will be paid in the foreseeable future. In addition, Tymshare is prohibited from paying cash dividends on its Common Stock under the terms of the loan agreement with its bank (see Note 4 of Notes to Consolidated Financial Statements of Tymshare).

Reports to Shareholders

Tymshare furnishes to its shareholders annual reports containing financial statements audited by independent public accountants and quarterly reports containing unaudited statements of operations.

Transfer Agents and Registrars

The Transfer Agents for Tymshare Common Stock are Bank of America National Trust and Savings Association, San Francisco, California 94137 and First National City Bank, New York, New York 10015 and the Registrars are Wells Fargo Bank, National Association, San Francisco, California 94137 and Morgan Guaranty Trust Company, New York, New York 10015.

LITIGATION

In January 1974 a Complaint was filed in the United States District Court, Central District of California, No. CV 74-126 LTL, and named as defendants Tymshare, its wholly-owned subsidiary, Tymshare West, Inc., and all of Tymshare's directors. The parties bringing this action as plaintiffs under the Complaint, as amended, are Allen-Babcock Computing, Inc. ("Allen-Babcock"), Michael Jane Allen Babcock and City National Bank, Beverly Hills. The Complaint, as amended, alleges violation of Section 17(a) of the Securities Act of 1933, Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934, breach of contract and unlawful conspiracy to defraud and destroy Allen-Babcock.

The Complaint, as amended, seeks compensatory damages against Tymshare and its directors of approximately $3,161,500 and punitive damages against Tymshare and its directors equal to three times the compensatory damages.

The lawsuit arises out of Tymshare's determination in September 1973 to terminate an agreement providing for the merger of Allen-Babcock into Tymshare's wholly-owned subsidiary, Tymshare West, Inc. The action arises out of the same facts underlying a lawsuit previously filed against Tymshare in the Superior Court of the State of California, County of Los Angeles, which action was dismissed without prejudice in January 1974 coincident to the filing of the action in Federal Court.

Preliminary discovery proceedings have commenced. Based upon discovery proceedings to date, Tymshare's counsel, Messrs. Wilson, Mosher & Sonsini, and all of the defendants are of the opinion that there are meritorious defenses to all charges of the Complaint. See Note 6 of Notes to Consolidated Financial Statements of Tymshare.

LEGAL MATTERS

The legality of the issuance of the Tymshare Common Stock being offered hereby will be passed upon for Tymshare by Messrs. Wilson, Mosher & Sonsini, Two Palo Alto Square, Palo Alto, California 94304. Mr. Roger L. Mosher, a member of the firm of Wilson, Mosher & Sonsini, is a director and Secretary of Tymshare and owns 6,000 shares of Tymshare Common Stock. Additionally, WM Investment Co., an investment partnership of the partners of Wilson, Mosher & Sonsini, owns 700 shares of Tymshare Common Stock.

INFORMATION CONCERNING UDC

BUSINESS

General

UDC currently operates a chain of fifteen commercial data processing centers located in 12 states and in Montreal, Canada. These data centers generally perform off-line batch data processing services for a wide variety of commercial entities. Data processing services include data preparation and handling, computer processing, problem definition and systems analysis and programming.

In recent years UDC's revenues have been increasingly derived from the sale of data processing package applications services and systems, primarily computer automated income tax services for accountants and other professionals marketed primarily under the name Dynatax,® and UDC's Computafuel® system for retail fuel dealers. See "Business and Customers."

Except as otherwise indicated, or as the context otherwise requires, the term "UDC", as used in this Proxy Statement, includes all subsidiaries of UDC.

The Data Centers

All data centers currently in operation (other than the centers in Blue Bell, Pennsylvania and Denver, Colorado) were acquired by UDC pursuant to nine acquisitions effected between 1968 and early 1973.

Acquisitions of in-place computer installations with existing customer bases were deemed by management as a more efficient and economical method of creating a data center chain. UDC has continued its policy of expansion by acquisition since 1973, but no additional acquisitions have been effected, primarily because of stock market and general economic conditions prevailing during this time period.

Present data centers are as follows:

Location	Name	Acquisition Date	Primary Computer Equipment
Salem, Massachusetts	United Data Centers of Salem, Inc.	1/ 1/68	IBM 360/30
Birmingham, Alabama①	United Data Centers of Alabama, Inc.	8/22/68	Burroughs B-3500
Benton Harbor, Michigan②	United Data Centers, Benton Harbor Division	12/ 4/68	Burroughs B-3500
Syracuse, New York	United Data Centers of Syracuse, Inc.	4/15/69	Honeywell H-115
Springfield, Massachusetts	United Data Centers of Springfield, Inc.	9/17/69	IBM 360/40
Miami, Florida	United Data Centers of Miami, Inc.	6/30/70	Burroughs B-3500
Montreal, Canada	Tronics, Inc.	4/30/71	Honeywell 1250
Jacksonville, Florida	United Data Centers—Dynafacts Division, Inc.	1/14/72	Burroughs B-3500
Southfield (Detroit), Michigan③	United Data Centers—Dynafacts Division, Inc.	1/14/72	IBM 360/30
Lexington, Kentucky	United Data Centers—Dynafacts Division, Inc.	1/14/72	IBM 360/30 IBM 360/22
Clayton (St. Louis), Missouri	United Data Centers—Dynafacts Division, Inc.	1/14/72	IBM 360/30
Wichita, Kansas	United Data Centers—Dynafacts Division, Inc.	1/14/72	IBM 360/30 IBM 1401
Madison, Wisconsin④	United Data Centers—CAI Division, Inc.	1/18/73	IBM 360/40
Blue Bell, Pennsylvania	United Data Centers of Pennsylvania, Inc.	8-1-72	Honeywell H-200
Denver, Colorado	United Data Centers—Dynafacts Division, Inc.	8-1-74	IBM 360/30

① A sales office is located in Decatur, Alabama.
② A sales office is located in Hillsdale, Illinois.
③ A sales office is located in Cleveland, Ohio.
④ A sales office is located in Minneapolis, Minnesota.

Recent Material Acquisitions

Dynafacts, Inc., the predecessor of the United Data Centers—Dynafacts Division, Inc., was acquired on January 14, 1972 for an aggregate total of 429,808 shares of UDC Common Stock. For the three fiscal years ended June 30, 1971 Dynafacts, Inc. had gross revenues of $1,946,260, $2,878,900 and $3,382,976, respectively, and net income (loss) of $92,327, $(409,472), and $(1,709,480), respectively. At January 14, 1972 Dynafacts, Inc. had a net asset value of $70,921. On January 14, 1972 the mean between quoted bid and asked prices for UDC Common Stock in the over-the-counter market was $5.70.

On January 18, 1973 UDC acquired the assets of Centralized Investors Inc. ("CII") and its subsidiaries for 53,700 shares of UDC Common Stock. These assets included UDC's Madison, Wisconsin data center. For the three years ended December 31, 1972 CII had consolidated gross revenues of $1,182,744, $1,333,130, and $1,203,969, respectively, and net losses of $(93,142), $(124,982) and $(270,301), respectively. At January 18, 1973 CII had a consolidated net worth deficiency of $(160,662). On January 18, 1973 the mean between quoted bid and asked prices for UDC Common Stock in the over-the-counter market was $6.12.

See Note (a) of Notes to Consolidated Statement of Operations of UDC and Note 2 of Notes to Consolidated Financial Statements of UDC for further information.

Business and Customers

Normal off-line batch data processing center services are performed for a wide range of commercial, industrial, banking, professional and other organizations. UDC's activities are primarily in the area of commercial data processing and it is not significantly engaged in scientific data processing.

In recent years, an increasing portion of UDC's gross operating income has been derived from data processing package applications services. These are systems and programs developed for use by a wide range of customers without substantial custom modification for individual clients. Among the packages offered by UDC are the following:

Dynatax® is a computer automated income tax service offered principally to accountants and other professionals for the preparation of Federal individual income tax returns. The Dynatax system was also utilized by customers in 31 states and 15 other local tax collection jurisdictions to process 1973 individual income tax returns. In addition to generating the tax return on official government forms, the Dynatax system also prepares the supporting schedules, analyzes the submitted data and prepares diagnostic reports showing any apparent deficiencies in information furnished. The service is not marketed directly to taxpayers. UDC does not sign tax returns and does not make decisions which would ordinarily be made by accountants, attorneys or their clients.

In addition, UDC also markets a special low cost computer tax preparation service under the name CTS, which incorporates many features of Dynatax on a lower fee basis.

Computafuel® is a computerized system for retail fuel oil dealers utilizing degree-day accounting to project fuel oil deliveries, prepare delivery tickets, maintain accounts receivable and provide related financial and other information on a daily and monthly basis. This system is marketed to major oil companies and independent fuel oil dealers on local, regional and national bases.

UDC also offers Maintromatic, a computerized system designed to control equipment maintenance costs. Although the system is adaptable to many forms of equipment, it has been marketed principally to fuel oil dealers to control burner service costs, as a complement to the Computafuel system.

FRS, which is offered both through public accounting firms and directly to businesses, is a computerized system which produces computer-printed financial statements, journals and ledgers. The system also provides comparisons of budget expenditures and income, comparisons of current and prior year's performance, results by areas, states and regions, analytical reports concerning key expense items for various departments and divisions, and key operating ratios.

In addition, UDC has package application programs and systems for payrolls, accounts receivable (including Cablefacts,™ a system specifically designed for the cable TV industry), municipal accounting, and professional time record accounting.

In addition to its package application programs, UDC offers custom services, which involve the designing and programming of computer systems to meet the needs of individual customers. Among the general commercial applications in which UDC is involved are bank accounting (including

demand deposits, installment loans, savings, certificates of deposit and credit cards), inventory control and analysis, invoicing, rental billing, sales analysis, labor distribution, construction contractor accounting and credit union accounting.

Approximately 60% of 1973 revenues were derived from the use of package application programs and package application services. In addition, three of UDC's major proprietary products, Dynatax, Computafuel and general ledger services, accounted for approximately 40% of 1973 revenues.

During 1973 UDC rendered its services to approximately 2,450 customers, of which the largest single customer accounted for approximately 6%, and no other single customer accounted for more than 2%, of UDC's revenues for the year.

UDC does not derive any significant revenue from time sales or from sales of programming services not accompanied by data processing services.

Sales, Marketing and Pricing

UDC's sales are effected primarily through the efforts of 36 sales personnel operating out of the individual data centers and sales offices, who are in regular communication with continuing customers and, in addition, solicit new business from potential customers. In addition, two executive personnel also devote significant time to sales efforts.

UDC's charges to its customers are primarily billed either on a per unit basis (often measured by transactions, e.g., number of fuel oil homes serviced, accounts, etc.) or on a time and materials basis for the use of its machines and/or personnel.

Approximately 65% of UDC's customers are under written contract, generally for a term of one year. UDC's largest customer is under a contract with UDC terminating in May 1978.

Licenses

UDC has agreements with four licensees for their exclusive use of UDC's Dynatax system. The Dynatax licenses cover the states of Alabama, North Carolina, Oregon, South Carolina, Tennessee and Washington. The revenue derived from royalty payments under these licenses has not been significant in relation to UDC's total revenue.

Development and Maintenance of Computer Programs

UDC employs a staff of 59 programmers who regularly develop, enhance and maintain UDC's computer programs.

During 1973 and for the nine months ended September 30, 1974 UDC spent approximately $700,000 and $620,000, respectively, for computer program maintenance, and approximately $65,000 and $193,000, respectively, for the development of new package application programs and systems.

The Dynatax system requires the investment of substantial funds annually in order to maintain the program in light of changing Federal, state and local tax laws and regulations. These expenditures, which are made throughout the year, are undertaken before UDC has significant commitments for the sale of computerized tax returns.

Seasonal Factors

Most of UDC's revenues from the processing of computerized tax returns is realized during the "tax season" which customarily runs from January through May in each year. During the tax season, UDC engages additional personnel and may rent additional computer time or equipment in order to process tax returns.

Property

UDC leases an aggregate of approximately 108,000 square feet of space in approximately 20 locations throughout the United States and in one location in Montreal, Canada. The leases on such premises expire at various times from December 31, 1974 through April 30, 1980. Two are month-to-

month leases. With the exception of its branch sales offices and its executive offices in Greenwich, Connecticut, all of the aforementioned leased premises are used by UDC as data processing centers. In addition, UDC owns a one-story building consisting of approximately 15,000 square feet on a 1.75 acre tract of land which houses the Madison, Wisconsin data center.

UDC owns five computers and leases 13 computers for data center operations, which leases expire at various times between March 1975 and July 1979.

UDC also operates various ancillary equipment, including data preparation devices. Except for key-to-disc equipment which is leased for up to three years, such equipment is leased under agreements which are cancelable by UDC on no more than ninety days' notice.

See Note 7 of Notes to Consolidated Financial Statements of UDC for information concerning lease obligations.

Employees

As of August 31, 1974 UDC had 420 full-time employees, of which 50 were engaged in executive and general administrative functions, 59 were engaged in programming and systems analysis, 36 were engaged in selling, 73 were engaged in the operation of computers and other ancillary equipment and related activities and 202 were engaged in data preparation and quality control. During the 1974 "tax season" (January through May), UDC employed approximately 325 additional persons at peak periods in the processing of tax returns. In addition, the number of keypunch and computer operators employed by UDC may vary from time to time depending on seasonal factors and current volume of business.

UDC provides its employees with paid vacations, group life, hospitalization and medical insurance and other fringe benefits. The employees are not represented by any labor union.

Competition

UDC faces substantial competition from a large number of companies rendering off-line batch data processing services comparable to those offered by UDC. UDC believes that the principal elements of such competition include the quality and variety of the computer programs offered to customers, computer processing time, price and data center management. UDC's customers for all services, other than for certain package application programs, are located primarily within a seventy-five mile radius of the particular data center which performs the service. The major competition encountered by UDC arises from independent local computer data processing companies in the areas where UDC's data centers are located. In each of these areas, there are numerous data centers and other entities offering similar services.

In the computer-prepared tax return field, there are several national companies which offer package systems similar to those of UDC. Among the major competitors in this field are Computax Corp. (the Computax system), Computer Language Research (the Fast-Tax system) and Autotax, Inc. (the Autotax system).

UDC also competes with data processing service organizations owned or controlled by substantial industrial companies, and several major computer manufacturers which also offer data processing services to both commercial and scientific customers. In addition, many large banking organizations are offering a wide variety of data processing services to their customers, some of which services (such as payroll, accounts receivable, tax returns and other accounting applications) are also offered by UDC.

Some of the independents and most of such manufacturers and banking organizations have greater financial resources, larger facilities and more personnel than UDC.

MANAGEMENT

Directors and Officers

In the event the proposed merger is not consummated, the present Board of Directors of UDC, consisting of eight persons, will continue as Directors. The following table sets forth certain information concerning the persons who are now directors and officers:

Name	Principal Occupation	Director Since	Number of Shares of UDC Common Stock Beneficially Owned as of September 30, 1974
Bernard Goldstein	President of UDC	1967	237,278①
Albert A. Eisenstat	Vice President, Secretary and Treasurer of UDC	1967	102,095②
Michael Roth	Chairman of New York State Liquor Authority	1967	58,383③
Arthur I. Sarnoff	President of Bruno-New York, Inc., Wholesale Appliance Distributors	1967	10,731
Mark S. Handler	President of Bamberger's, a division of R. H. Macy & Co., Inc., Retail Department Store	1970	50④
Daniel Rosenbloom	Partner, First Manhattan Co., Member Firm, New York Stock Exchange	1970	5,000⑤
William T. Young*	Chairman of the Board, Royal Crown Cola Co., Beverage Company	1972	45,999⑥
James L. Mann	Vice President of UDC	1974	18,581

① Does not include 3,000 shares owned by Mr. Goldstein's wife and an additional 6,000 shares held by Mrs. Goldstein as trustee for the benefit of her minor children. Mr. Goldstein has disclaimed beneficial ownership as to these 9,000 shares.

② Does not include 1,500 shares owned by Mr. Eisenstat's wife, as to which shares Mr. Eisenstat has disclaimed beneficial ownership.

③ Does not include 3,000 shares owned by Mr. Roth's wife and an additional 9,000 shares held by Mrs. Roth as trustee for the benefit of her minor children. Mr. Roth has disclaimed beneficial ownership as to these 12,000 shares.

④ Mr. Handler owns a warrant entitling him to purchase up to 1,500 shares of UDC Common Stock. See "Management—Warrants".

⑤ First Manhattan Co., in the ordinary course of its business as a securities dealer, presently makes a market in UDC Common Stock and may from time to time be long or short shares of such UDC Common Stock. In addition, First Manhattan Co. owns a warrant entitling it to purchase up to 18,000 shares of UDC Common Stock, at a price of $5.00 per share. See "Management—Warrants". Mr. Rosenbloom, as a partner of First Manhattan Co., has an interest in such securities.

⑥ Does not include 1,295 shares owned by Mr. Young's wife, as to which shares Mr. Young has disclaimed beneficial ownership.

* Mr. Young is serving as a Director pursuant to an agreement dated December 28, 1971, under which Dynafacts, Inc. was merged into a wholly-owned subsidiary of UDC. Such agreement provided that certain former stockholders of that corporation had the right to designate three persons as directors of UDC and to have each of them included in the management slate of directors to and including the Annual Meeting of Shareholders held on May 22, 1974. Mr. Young was the only designee under such agreement.

In July 1972, UDC guaranteed a bank loan to Mr. Mann in the amount of $38,000 plus interest; $22,000 of the proceeds of such loan was used by Mr. Mann to purchase shares of UDC Common Stock from a former shareholder of UDC. At August 31, 1974 the balance of this loan was $31,490, of which $19,000 is on a demand basis and $12,490 is due and payable on July 25, 1975. The loan is secured by the shares so purchased. In consideration of such guarantee, UDC obtained an option to purchase a diminishing percentage of such shares from Mr. Mann, at his cost, in the event he leaves the employ of UDC for any reason (other than death) prior to June 1, 1975.

Remuneration

The following table sets forth the aggregate direct remuneration on an accrual basis received from UDC and its subsidiaries for the fiscal year ended December 31, 1973 by each director, and by the three highest paid officers, whose aggregate direct remuneration exceeded $40,000, and by all directors and officers as a group:

Name	Capacity in Which Remuneration Was Received	Aggregate Direct Remuneration
Bernard Goldstein	President	$ 40,623
Albert A. Eisenstat	Vice President and Treasurer	40,373
A. J. McDanold	Vice President	52,656*
All Directors and Officers as a group (11 persons)	Directors and Officers	214,169

* Includes $16,656 of profit incentive compensation.

The current annual rate of aggregate direct remuneration being paid by UDC to all directors and officers as a group (11 persons) will be approximately $258,600.

Under employment agreements commencing June 1, 1974 and effective for five years thereafter, Mr. Goldstein, Mr. Eisenstat and James L. Mann are entitled to annual salaries for the first twelve months thereunder of $52,000, $48,000 and $40,000, respectively. In addition, Mr. Mann will receive one-third of UDC's 1974 home office profit incentive plan. For the nine months ended September 30, 1974 there were no amounts earned or accrued under such plan. Future annual compensation for these employees will be fixed annually by the Board of Directors, but not less than the aforementioned salaries for the first twelve months. See "Information Regarding the Merger—Management After the Merger" for information concerning the termination of these contracts and new employment arrangements between Tymshare and Messrs. Goldstein, Eisenstat and Mann upon consummation of the merger.

During 1973 UDC paid or accrued $68,250 for legal services to the firm of Spengler Carlson Gubar & Churchill. Michael Roth, a director of UDC, was a partner in such firm during 1973.

The Board of Directors of UDC has, in each year since the inception of UDC, adopted a profit-incentive plan for employees of its operating subsidiaries and, in addition, since the year ending December 31, 1972, has adopted a similar profit incentive plan for its home office employees. The amount of profit incentive to which the employees covered by such plans are entitled is dependent upon profits (ranging from 10% to 15%), before taxes and after corporate allocation, of the appropriate entity for each year, upon certain sales growth specified in the profit incentive plan, and certain discretionary and other factors. The amount of profit incentive for each entity may be divided among the executive officers and key employees of such entity as set forth in the plans.

For the fiscal year ended December 31, 1973 UDC incurred charges of approximately $143,000 for profit incentive under the 1973 plan. Mr. A. J. McDanold, a Vice President of UDC, received $16,656 under the 1973 plan. All corporate officers are eligible for profit incentive under the 1974 plan.

Options

UDC has a Qualified Stock Option Plan (the "1967 Plan") for key employees intended to qualify under Section 422 of the Internal Revenue Code of 1954, as amended, pursuant to which the maxi-

mum number of shares of Common Stock which may be issued on the exercise of options heretofore or hereafter granted is 120,000. Options may be granted at a price not less than fair market value on date of grant.

As of September 30, 1974, employees of UDC and its subsidiaries held outstanding options entitling them to purchase an aggregate of 60,525 shares of UDC Common Stock at prices ranging from $2.00 to $6.50 per share (average option price of $4.99 per share), which options terminate at varying dates between December 31, 1974 and December 31, 1978.

No options have been granted under the 1967 Plan to or are now held by any officer or director of UDC except (i) James L. Mann, a Vice President and Director, was, on January 17, 1972, granted an option to purchase 5,000 shares of UDC Common Stock at an exercise price of $5.75 per share, expiring December 31, 1976, and on January 21, 1974 was granted an option to purchase 2,500 shares of UDC Common Stock at an exercise price of $3.75 per share, expiring December 31, 1978, and (ii) Paul S. Crowder, a Vice President, was, on February 20, 1973, granted an option to purchase 10,000 shares of UDC Common Stock at an exercise price of $5.75 per share, expiring December 31, 1977. Neither person has exercised any of such options.

Outstanding options under the 1967 Plan on the effective date of merger will be assumed by Tymshare.

UDC also has a 1973 and 1974 Employee Stock Purchase Plan intended to qualify under Section 423 of the Internal Revenue Code of 1954, as amended. An aggregate maximum of 65,000 shares of UDC Common Stock are subject to purchase under the purchase plans. The purchase plans provide for the grant of options to purchase UDC Common Stock through payroll deductions at a purchase price equal to the lower of 90% of fair market value at date of grant or date of exercise. As of September 30, 1974 eligible employees held options under the 1973 Plan for approximately 15,346 shares of UDC Common Stock, and an additional 14,983 shares have been acquired on exercise of options. At September 30, 1974 an officer of UDC held options under the 1973 Plan for 424 shares of UDC Common Stock, having acquired prior to such date upon exercise of options 349 shares of UDC Common Stock.

On the effective date of merger Tymshare will assume all outstanding options under the 1973 Employee Stock Purchase Plan, and the 1974 Employee Stock Purchase Plan, under which no options have been granted, will be terminated.

Warrants

On June 1, 1970 UDC sold to First Manhattan Co. for $1,000 a warrant expiring May 31, 1977 to purchase 18,000 shares of UDC Common Stock at a price of $5.00 per share. Daniel Rosenbloom, a partner of First Manhattan Co., is a director of UDC.

On June 23, 1970 UDC sold to Mark S. Handler for $150 a warrant expiring June 22, 1975 to purchase 1,500 shares of UDC Common Stock at a price of $3.75 per share. Mr. Handler is a director of UDC.

The above-described warrants will be assumed on the effective date of merger by Tymshare.

PRINCIPAL SHAREHOLDERS

As of September 30, 1974 no person owned of record or was known by UDC to own beneficially more than 10% of the outstanding UDC Common Stock other than Bernard Goldstein, 2 Manursing Way, Rye, New York, who on such date owned beneficially and of record 237,278 shares of UDC Common Stock, or 16.4% of the then outstanding shares. In addition, Mr. Goldstein's wife owned beneficially 3,000 shares of UDC Common Stock and an additional 6,000 shares of UDC Common Stock as trustee for the benefit of her minor children. Mr. Goldstein has disclaimed beneficial ownership as to these 9,000 shares.

As of September 30, 1974 all officers and directors of UDC as a group (11 persons) owned beneficially an aggregate of 552,054 shares, or approximately 38.2% of the outstanding shares of UDC Common Stock. Messrs. Bernard Goldstein and Albert A. Eisenstat may be deemed to be "parents" of UDC for purposes of the Securities Act of 1933, as amended.

DESCRIPTION OF COMMON STOCK

The only authorized capital stock of UDC is Common Stock having a par value of $.10 per share.

The holders of UDC Common Stock are entitled to receive such dividends as are declared by the Board of Directors out of funds legally available therefor.

The UDC Common Stock has the sole voting power in UDC. Each holder of issued and outstanding shares of UDC Common Stock is entitled to one vote for each share held of record on all matters voted upon by the shareholders, including election of directors.

The shares of UDC Common Stock have non-cumulative voting rights which means that the holders of more than 50% of the shares of UDC Common Stock voting for the election of directors can elect 100% of the directors, if they choose to do so, and, in such event, the holders of the remaining less than 50% of the shares voting for the election of directors, will not be able to elect any person or persons to the Board of Directors.

The UDC Common Stock has no pre-emptive, conversion or other similar rights. Upon liquidation of UDC, the holders of UDC Common Stock are entitled to share ratably in its net assets available for distribution. The shares of UDC Common Stock now outstanding are fully paid and non-assessable.

Manufacturers Hanover Trust Company, 4 New York Plaza, New York, New York 10015 is the Transfer Agent and Chemical Bank, 55 Water Street, New York, New York 10041 is the Registrar for the UDC Common Stock.

OTHER INFORMATION

Information contained in this Proxy Statement with respect to UDC or Tymshare has been furnished by the management of the respective companies. Each company has relied upon the information furnished by the other as to accuracy and completeness and believes it is justified in so doing.

The cost of preparing, assembling and mailing this Proxy Statement, the Notice of Meeting and enclosed form of Proxy and any additional material relating to the meeting which may be furnished to shareholders by the management of UDC subsequent to the furnishing of this Statement has been or shall be borne by the Surviving Corporation if the merger is consummated. Such costs will be borne as described under "Information Regarding the Merger—Expenses of Merger" if the merger is not consummated.

In addition to the solicitation of proxies by use of the mails, UDC may utilize the services of some of its officers and regular employees (who will receive no additional compensation therefor) and professional proxy solicitation organizations (who will receive compensation not in excess of $3,000 in connection therewith) to solicit proxies personally and by telephone and telegraph from brokerage houses and other shareholders. UDC intends to request banks and brokers who hold shares of UDC Common Stock in their names or in custody, or in the names of nominees for others, to forward copies of the proxy material to those persons for whom they hold such shares and to request authority for the execution of proxies. UDC will reimburse such banks and brokers for their out-of-pocket expenses incurred in connection therewith.

November 5, 1974

By Order of the Board of Directors

UNITED DATA CENTERS, INC.

By ALBERT A. EISENSTAT, *Secretary*

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Tymshare, Inc.:

We have examined the consolidated balance sheet of Tymshare, Inc. (a California corporation) and Subsidiaries as of December 31, 1973, the related consolidated statements of operations (page 8) and shareholders' investment for the five years ended December 31, 1973, and the related consolidated statement of changes in financial position for the three years ended December 31, 1973. 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 consolidated financial statements referred to above present fairly the financial position of Tymshare, Inc. and Subsidiaries as of December 31, 1973, and the results of their operations for the five years ended December 31, 1973, and the changes in their financial position for the three years ended December 31, 1973, all in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

San Jose, California,
February 19, 1974.

TYMSHARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1973	June 30, 1974 (Unaudited)
CURRENT ASSETS:		
Cash	$ 315,416	$ 897,819
Certificates of deposit	1,150,000	945,000
Accounts receivable, less allowance of $430,121 in 1973 and $490,066 in 1974 for doubtful accounts	5,040,609	5,897,880
Inventories (Note 1)	665,394	680,503
Prepaid expenses and deposits	362,622	367,043
Total current assets	7,534,041	8,788,245
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost (Note 1):		
Computer systems (Notes 3 and 4)	6,931,012	7,075,336
Terminal and communication equipment	4,844,688	5,453,008
Purchased software (Note 2)	545,095	545,095
Furniture, fixtures and office equipment	515,696	632,711
Leasehold improvements	522,145	616,168
	13,358,636	14,322,318
Less—Accumulated depreciation and amortization	5,486,871	6,899,618
	7,871,765	7,422,700
OTHER ASSETS:		
Cost in excess of net tangible assets acquired (Notes 1 and 2)	1,136,591	1,075,069
Deposits and other	488,786	399,418
	1,625,377	1,474,487
	$17,031,183	$17,685,432

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

TYMSHARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES

	December 31, 1973	June 30, 1974 (Unaudited)
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 2,114,284	$ 1,714,284
Accounts payable	1,407,728	1,750,077
Accrued liabilities	840,697	938,016
Accrued Federal and state income taxes	713,569	484,820
Advance customer billings	140,000	177,214
Total current liabilities	5,216,278	5,064,411
DEFERRED TAX CREDITS (Note 1)	275,000	678,000
LONG-TERM DEBT (Note 4):		
Notes payable to bank—		
Installment note	4,714,284	3,857,140
Term note	400,000	—
	5,114,284	3,857,140
Less—Current portion shown above	2,114,284	1,714,284
	3,000,000	2,142,856
COMMITMENTS (Note 5)		
SHAREHOLDERS' INVESTMENT (Notes 4, 7 and 8):		
Common stock, no par value—		
Authorized—5,000,000 shares		
Outstanding—2,986,050 shares in 1973 and 2,991,638 in 1974, stated at	7,303,116	7,340,336
Retained earnings	1,236,789	2,459,829
	8,539,905	9,800,165
	$17,031,183	$17,685,432

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

TYMSHARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT FOR THE FIVE YEARS ENDED DECEMBER 31, 1973 AND THE SIX MONTHS ENDED JUNE 30, 1974 (Unaudited)

	Common Stock	Paid-in Surplus	Retained Earnings (Deficit)	Total
BALANCE, DECEMBER 31, 1968	$ 116,130	$2,272,722	$(1,482,024)	$ 906,828
Proceeds from sale of 100,485 shares of common stock under employee stock option plan	7,707	(1,629)		6,078
Paid-in surplus transferred to common stock in connection with a 10-for-1 stock split	1,061,865	(1,061,865)		—
Expenses related to stock split		(2,016)		(2,016)
Paid-in surplus transferred to common stock in connection with elimination of $1 par value (conversion to no-par common stock)	1,207,212	(1,207,212)		—
Initial capitalization of Valley Computer acquired in 1973 on a pooling of interests basis (Note 2)	15,000			15,000
Net loss for the year			(655,237)	(655,237)
BALANCE, DECEMBER 31, 1969	2,407,914	—	(2,137,261)	270,653
Proceeds from sale of:				
118,650 shares of common stock under an option to an initial investor	848			848
13,132 shares of common stock under employee stock option plan	2,883			2,883
20,259 shares of common stock under employee stock purchase plan	144,709			144,709
600,000 shares of common stock (public offering)	3,276,000			3,276,000
Expenses related to stock purchase plan, stock option plan, stock split in March 1970, and public offering	(154,774)			(154,774)
Issuance of 168,000 shares of common stock in connection with the acquisition of Dial-Data, Inc.	336,000			336,000
Net income for the year			50,271	50,271
BALANCE, DECEMBER 31, 1970	6,013,580	—	(2,086,990)	3,926,590
Proceeds from sale of:				
3,850 shares of common stock under an option to an initial investor	28			28
350 shares of common stock under employee stock option plan	450			450
1,052 shares of common stock under employee stock purchase plan	7,467			7,467
Issuance of 150,000 shares of common stock in connection with the acquisition of the Computer Systems Division of Graphic Controls Corporation	900,000			900,000
Expenses related to employee stock option plan and issuance of common stock	(7,821)			(7,821)
Employee incentive award of 25 shares of common stock	150			150
Issuance of 84,420 shares of common stock for 3% Subordinated Notes converted	102,510			102,510
Issuance of a warrant to purchase 5,000 shares of common stock	6,000			6,000
Net income for the year			376,339	376,339
BALANCE, DECEMBER 31, 1971	7,022,364	—	(1,710,651)	5,311,713
Proceeds from sale of 22,657 shares of common stock under employee stock option plan	35,835			35,835
Expenses related to employee stock option and stock purchase plans	(27,570)			(27,570)
Issuance of a warrant to purchase 37,500 shares of common stock	65,625			65,625
Stock dividend declared by Valley Computer prior to acquisition in 1973 on a pooling of interests basis	30,000		(30,000)	—
Net income for the year			1,025,666	1,025,666
BALANCE, DECEMBER 31, 1972	7,126,254	—	(714,985)	6,411,269
Proceeds from sale of:				
10,896 shares of common stock under employee stock option plan	58,123			58,123
16,454 shares of common stock under employee stock purchase plan	135,746			135,746
Expenses related to employee stock option and stock purchase plans	(17,007)			(17,007)
Net income for the year			1,951,774	1,951,774
BALANCE, DECEMBER 31, 1973	7,303,116	—	1,236,789	8,539,905
Proceeds from sale of 5,588 shares of common stock under employee stock option plan	40,218			40,218
Expenses related to employee stock option and stock purchase plans	(2,998)			(2,998)
Net income for the six months ended June 30, 1974 (unaudited)			1,223,040	1,223,040
BALANCE, JUNE 30, 1974 (unaudited)	$7,340,336	$ —	$ 2,459,829	$9,800,165

The accompanying notes are an integral part of this statement.

TYMSHARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,			Six Months Ended June 30, 1974 (Unaudited)
	1971	1972	1973	
FINANCIAL RESOURCES WERE PROVIDED FROM:				
Operations—				
Net income before extraordinary item	$ 214,339	$ 597,666	$1,607,774	$1,223,040
Add—Expenses not requiring outlay of working capital in the current period—				
Depreciation and amortization of equipment and leasehold improvements	464,884	1,662,637	2,961,366	1,412,747
Amortization of cost in excess of net tangible assets acquired	1,905	3,043	3,044	1,522
Working capital provided from operations	681,128	2,263,346	4,572,184	2,637,309
Extraordinary item	162,000	428,000	344,000	—
Federal income tax benefits applied to cost in excess of net tangible assets acquired	18,000	46,000	300,000	60,000
	180,000	474,000	644,000	60,000
Increase (decrease) in liabilities—				
Notes payable to bank	535,000	5,865,000	(1,285,716)	(1,257,144)
8% Subordinated notes	(532,450)	(665,560)	—	—
3% Convertible subordinated notes	(102,510)	—	—	—
Accounts payable, accrued liabilities and other current liabilities	318,593	387,119	839,503	248,133
Deferred computer rentals	104,352	(600,652)	—	—
Deferred tax credits	—	—	275,000	403,000
	322,985	4,985,907	(171,213)	(606,011)
Proceeds from sale of common stock net of related expenses	102,784	8,265	176,862	37,220
Value assigned to warrants for the purchase of common stock	6,000	65,625	—	—
Deferred charges for value assigned to warrants	(6,000)	(65,625)	—	—
	102,784	8,265	176,862	37,220
	$1,286,897	$7,731,518	$5,221,833	$2,128,518

(Statement continued on following page.)

The accompanying notes are an integral part of this statement.

TYMSHARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION—(Continued)

	Year Ended December 31,			Six Months Ended June 30, 1974 (Unaudited)
	1971	1972	1973	
FINANCIAL RESOURCES WERE USED FOR:				
Purchases of businesses—				
Net current assets (liabilities)	$ 477,077	$ (121,450)	$ —	$ —
Terminal and communication equipment	508,337	308,593	—	—
Purchased software	—	309,374	—	—
Cost in excess of net tangible assets	121,718	—	—	—
Other	39,809	90,428	—	—
Total purchase price	1,146,941	586,945	—	—
Less—				
Common stock issued	(900,000)	—	—	—
Net current (assets) liabilities included elsewhere herein	(477,077)	121,450	—	—
	(230,136)	708,395	—	—
Increase (decrease) in assets—				
Cash and certificates of deposit	(70,711)	69,520	1,174,983	377,403
Accounts receivable	443,474	751,045	765,600	857,271
Equipment and leasehold improvements—				
Computer systems	302,925	5,406,530	897,213	144,324
Terminal and communication equipment	464,169	537,743	1,349,085	608,320
Purchased software	—	40,260	—	—
Other	45,818	50,576	387,478	211,038
Inventories, prepaids, deposits and other	331,358	167,449	647,474	(69,838)
	1,517,033	7,023,123	5,221,833	2,128,518
	$1,286,897	$7,731,518	$5,221,833	$2,128,518

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Including Notes Applicable to Unaudited Periods)

1. Summary of Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Tymshare, Inc.; its wholly-owned subsidiary, Tymshare East, Inc.; and its majority-owned foreign subsidiary (the accounts of which are not significant in relation to the consolidated financial statements), Tymshare U.K., after elimination of intercompany accounts and transactions. The accounts of the foreign subsidiary have been translated into U.S. dollars at current or historical rates of exchange, as appropriate. The translation did not result in any significant gains or losses. In 1973, Tymshare formed two additional subsidiaries which have had no significant operations as of June 30, 1974, and accordingly are excluded from the accompanying financial statements.

Inventories

Inventories are stated at cost and are comprised of computer parts and equipment used for maintenance or held for resale, and technical manuals and other operating supplies.

Hardware Design and Assembly

Tymshare designs and assembles certain communication and other specialized computer peripheral equipment not readily available to its specifications from outside suppliers. The costs, consisting of hardware and materials, direct labor and departmental support costs are capitalized and included in computer systems and terminal and communication equipment.

Software Development

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

Terminal Equipment

Tymshare leases terminal equipment from manufacturers and third-party leasing companies for sublease to its customers. Rental income on the subleases together with income from leases of Tymshare's equipment is recognized monthly as earned, and rental expense is recognized monthly as incurred.

Tymshare-owned terminal equipment on or held for rental and inventories of such equipment are included in terminal and communication equipment. As of December 31, 1973 and June 30, 1974 the net book value of this terminal equipment was $516,832 and $490,397, respectively.

Depreciation and Amortization

The cost of $5,053,607 of the computer systems acquired in 1972 (see Note 3) is being depreciated over the systems' estimated useful lives of four years using the sum-of-the-months digits method. Under this method, the provision for depreciation for these computer systems is approximately as follows: 1972 (from the effective dates of the purchase agreement to year-end)—20%; 1973—38%; 1974—26%; 1975—14%; and 1976—2%. Depreciation of other 940 computer systems is also computed using the sum-of-the-months digits method over their estimated useful lives of four years. Depreciation of other computer equipment is computed on a straight-line basis over its estimated useful life of seven years.

Depreciation and amortization of other equipment and leasehold improvements are computed using the straight-line method and the following estimated useful lives:

Terminal and communication equipment	4 to 7 years
Purchased software	5 to 6 years
Furniture, fixtures, and office equipment	8 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 in the appropriate asset account, and such cost is depreciated over the estimated remaining useful life of the property. The net gain or loss on items of 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.

Investment in Foreign Affiliates

Tymshare owns a 20% interest in CEGOS-Tymshare, a French corporation, which Tymshare accounts for under the equity method. See Note C of Notes to Consolidated Statement of Operations of Tymshare.

Deferred Tax Credits

Tymshare accounts for Federal 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. See Note D of Notes to Consolidated Statement of Operations of Tymshare.

Cost in Excess of Net Tangible Assets Acquired

The purchase cost of businesses acquired in excess of amounts allocated to net tangible assets is as follows:

		Balance	
	At Date of Acquisition	December 31, 1973	June 30, 1974 (Unaudited)
Dial-Data, Inc. (acquired in 1970)	$1,386,865	$1,022,865	$ 962,865
Computer Systems Division of Graphic Controls Corporation (acquired in 1971)	121,718	113,726	112,204
	$1,508,583	$1,136,591	$1,075,069

Costs associated with the acquisition of Dial-Data, Inc. are not being amortized. However, tax benefits resulting from the use of Dial-Data's operating loss carryforwards and investment tax credit carryforwards have been applied as a reduction of this account ($18,000 in 1971, $46,000 in 1972, $300,000 in 1973 and $60,000 in 1974). Costs associated with the acquisition of the Computer Systems Division of Graphic Controls Corporation are being amortized over 40 years ($1,905 in 1971, $3,043 in 1972, $3,044 in 1973, and $1,522 in the six months ended June 30, 1974).

Prior Years' Financial Statements

The financial statements presented for 1972 and prior years have been restated to give effect to the pooling of interests described in Note 2. In addition, certain amounts in the statement of changes in financial position for these prior years have been reclassified to present them on a basis comparable with 1973.

2. Acquisitions

In May 1971 Tymshare acquired the assets and business of the Computer Systems Division of Graphic Controls Corporation and assumed certain liabilities in exchange for 150,000 shares of Tymshare Common Stock in a transaction accounted for as a purchase. The total purchase price of $1,146,941 consisted of (a) a value of $900,000 assigned by Tymshare to the 150,000 shares of Common Stock issued, (b) merger costs of $36,718, and (c) costs of $210,223 incurred to adapt the assets and business acquired to Tymshare's operations. The costs incurred to adapt the assets and business were capitalized as terminal and communications equipment and are being depreciated. The cost in excess of the net tangible assets acquired of $121,718 is being amortized over 40 years.

In November 1972 Tymshare acquired the timesharing operations and related tangible and intangible assets of Computer Complex, Inc. for $500,000 and the assumption of certain liabilities in a transaction accounted for as a purchase. Of the total purchase price, $309,375 (including acquisition costs of $86,945) has been assigned to purchased software in the accompanying balance sheet and is being amortized.

In January 1973 Tymshare, through a merger with its subsidiary Tymshare East, Inc., acquired Valley Computer in exchange for 50,000 shares of Tymshare Common Stock. This acquisition has been accounted for as a pooling of interests and prior period financial statements have been restated to give effect to the pooling.

Operating results of acquired businesses and related profit and loss data are set forth in Note B of Notes to Consolidated Statement of Operations of Tymshare.

3. Computer Systems Acquisition

In December 1972 Tymshare completed the purchase of 23 Xerox 940 computer systems, the settlement of certain obligations and the return of all Sigma 7 computer systems to Xerox Corporation for a total consideration of $5,979,300 including sales tax. The terms of the purchase agreement were retroactive to July 1, 1972 with respect to 19 systems previously leased by Tymshare, and to November 1, 1972 for 4 systems previously leased by Computer Complex, Inc. (whose timesharing business was acquired by Tymshare in November 1972).

The total consideration included payment of $333,000 for computer expenses incurred subsequent to the effective date of the agreement but prior to the closing, and expensed by Tymshare during 1972. In determining the capitalized cost of the computer systems ($5,053,607), reductions from the total consideration paid were made for: (1) the deferred liability for computer rentals of $440,606, which represented a timing difference between rentals charged to expense and rentals payable to June 30, 1972 under the terms of the rental agreements, and (2) total interest expense of $152,087 imputed on the purchase price from the effective dates of July 1 and November 1, 1972 to the closing.

4. Notes Payable and Long-Term Debt

Tymshare has a $4,000,000 bank line of credit available for unsecured short-term borrowings through March 31, 1975 at ¾% above the bank's prime interest rate. Borrowings under the line during 1973 and through June 30, 1974 were nominal and no balances were outstanding at any month-end.

In December 1971 Tymshare executed a $400,000, three-year term note with the bank with interest at 1% above the bank's prime interest rate. The term note was repaid in June 1974. In connection with the term note, Tymshare issued the bank a warrant to acquire 5,000 shares of its Common Stock at $7 per share expiring December 1, 1976. A value of $6,000 was assigned to the warrant and was amortized over the term of the note.

Tymshare financed the purchase of 23 Xerox 940 computer systems with a bank loan of $6,000,000 (secured by the computer systems), payable in 14 equal quarterly installments, beginning April 1973, plus interest at 2% over the prime rate charged by the bank (total rate as of June 30, 1974—13¾%). In connection with the loan, Tymshare issued the bank a warrant to purchase 37,500 shares of its Common Stock at $7 per share expiring December 1, 1977. A value of $65,625 was assigned to the warrant and is being amortized over the term of the note.

The installment note agreement with the bank provides, among other things, that (1) Tymshare will maintain a ratio of cash and accounts receivable to total current liabilities of at least 1 to 1; (2) the ratio of total debt to tangible net worth must not exceed 2.25 to 1; (3) borrowings are limited to those from the bank; and (4) no cash dividends may be paid. Further, in order to maintain the unsecured line of credit, the ratio of total debt to tangible net worth must not exceed 1.25 to 1, and quarterly consolidated income before provision for income taxes must not be less than $500,000.

The maturities of long-term debt as of June 30, 1974 are as follows:

Payable During the Year Ending December 31	Amount
1974 (July 1 to December 31)	$ 857,140
1975	1,714,286
1976	1,285,714
Total	$3,857,140

5. Commitments

Lease Commitments and Expense

Tymshare leases computers and related equipment and office and computer facility space at various locations for various periods to 1984 with options to renew. Approximate future lease commitments under these leases as of June 30, 1974 are as follows:

Years	Computers and Equipment	Office and Computer Space	Total
1974 (July 1 to December 31)	$ 1,110,000	$ 478,000	$ 1,588,000
1975	2,230,000	869,000	3,099,000
1976	2,150,000	620,000	2,770,000
1977	2,020,000	421,000	2,441,000
1978	1,480,000	259,000	1,739,000
1979-1983	1,150,000	559,000	1,709,000
1984	—	54,000	54,000
	$10,140,000	$3,260,000	$13,400,000

In the opinion of Tymshare management, the leases of the computers and 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 are "operating" type leases. Rental expense by type of lease including all other operating type leases was as follows:

Period	Finance Leases	Operating Leases	Total
Year ended December 31:			
1971	$ 446,000	$ 836,000	$1,282,000
1972	729,000	1,042,000	1,771,000
1973	1,122,000	1,126,000	2,248,000
Six months ended June 30, 1974	987,000	693,000	1,680,000

Rental expense in 1971 and 1972 does not include $2,012,000 and $1,062,000, respectively, (which is net of maintenance, property tax and insurance) incurred on leases of Xerox 940 computer systems prior to purchase (see Note 3).

The finance lease rentals contain financing charges, or interest, ranging from 6% to 13.7%. The present values of the future commitments on finance leases, discounted at the interest rates implicit in the leases were as follows:

	Present Value	Average Interest Rate
December 31, 1973	$7,015,000	9.25%
June 30, 1974	8,295,000	9.94%

If the finance leases were capitalized, the related assets were amortized on a straight-line basis, and the interest cost was accrued in relation to the outstanding lease obligations, the effect upon results of operations would be as follows:

	Year Ended December 31,			Six Months Ended June 30,
	1971	1972	1973	1974
				(Unaudited)
Lease costs—				
Amortization of leased assets	$443,000	$601,000	$ 865,000	$ 743,000
Interest	128,000	225,000	435,000	329,000
Total	$571,000	$826,000	$1,300,000	$1,072,000
Lease expenses recorded	$446,000	$729,000	$1,122,000	$ 987,000
Increase (Decrease) in income—				
Before extraordinary item	$(60,000)	$(47,000)	$ (86,000)	$ (41,000)
Net income	(120,000)	(94,000)	21,000	(41,000)

Tymshare also leases certain terminal equipment for sublease to its customers on terms varying from month-to-month to two years. Total rental expenses under this type lease during the years ended December 31, 1971, 1972 and 1973 and the six months ended June 30, 1974 were $510,642, $916,774, $1,232,340 and $742,073, respectively. Aggregate future commitments as of June 30, 1974 on leases with terms of one year and longer were approximately $400,000 including $272,000 payable during the period July 1 to December 31, 1974. Sublease income generally equals or exceeds rental charges on these leases.

Other Commitments

Tymshare has authorized the construction of a new corporate headquarters building which it will lease upon completion, estimated to be in mid 1975. Lease payments on phase one will be approximately $273,000 annually under a lease with an initial term of ten years and unlimited five year options. The developer of the new facilities will assume Tymshare's lease commitment on its present headquarters building (expected to have two years remaining at approximately $162,000 per year) when the new building is occupied. Tymshare also has an option for the construction of phase two in 1977 with lease terms to be determined.

In July 1974 Tymshare entered into an agreement for the purchase of a facility (land, building and improvements) in Valley Forge, Pennsylvania for approximately $690,000. The facility is expected to be ready for occupancy in November 1974, at which time Tymshare plans to relocate its current New Jersey computer center to this facility. The total purchase price is being financed with a 10 year mortgage note payable in equal monthly installments including interest at a variable rate, presently 7¾%.

In 1974, Tymshare completed the formation of a majority-owned foreign subsidiary, Tymshare U.K., to provide computer services in the United Kingdom and the Republic of Ireland. In connection therewith, Tymshare has agreed to advance up to approximately $270,000 to the subsidiary in the form of equity capital and interest bearing notes. As of June 30, 1974, Tymshare had advanced approximately $60,000 to the subsidiary.

6. Litigation

In January 1974 Allen-Babcock Computing, Inc. filed a lawsuit against Tymshare and its directors, alleging violations of Federal securities laws, breach of contract and other claims. The lawsuit arises out of Tymshare's determination in September 1973 to terminate an agreement providing for the merger of Allen-Babcock into a wholly-owned subsidiary of Tymshare. The action arises out of the same facts underlying a lawsuit previously filed by Allen-Babcock against Tymshare in the Superior Court of the State of California, which was dismissed without prejudice on January 15, 1974 coincident to the filing of the present action in Federal Court. Discovery proceedings have commenced in the Federal Court action and based upon the facts currently known, Tymshare's counsel is of the opinion that Tymshare has meritorious defenses to all charges of the complaint. Accordingly, Tymshare management believes that the outcome of the action will not have a material effect on Tymshare's financial position or results of operations.

7. Common Stock

Tymshare has reserved 551,298 shares of its Common Stock for the warrants discussed in Note 4 and for the stock option and purchase plans discussed in Note 8.

8. Stock Options and Employee Stock Purchase Plans

Tymshare may issue Common Stock to employees under two qualified stock option plans for 70,000 and 350,000 shares. The options are exercisable on a cumulative basis of one-fourth per year after the first year, and expire five years from the date granted. As of June 30, 1974 Tymshare has reserved 375,252 shares of its Common Stock for issuance under the plans. As of December 31, 1973, options to purchase 271,197 shares were outstanding. During the six months ended June 30, 1974 options to purchase 25,950 shares were granted, options to purchase 5,588 shares were exercised and options to purchase 17,287 shares were terminated. The status of stock options is as follows:

	Number of Shares	Option Price		Fair Value at Date of Grant, or When Exercisable or Exercised	
		Per Share	Total	Per Share	Total
Options outstanding as of June 30, 1974:					
Granted—					
1969	13,560	$7.14	$ 96,859	$7.14	$ 96,859
1970	1,500	10.00 6.87	15,000	10.00 6.87	15,000
1971	122,075	to 8.87	848,995	to 8.87	848,995
1972	30,762	8.75 7.25	269,168	8.75 7.25	269,168
1973	80,425	to 9.75 7.75	600,081	to 9.75 7.75	600,081
1974 (to June 30)	25,950	to 10.50	221,738	to 10.50	221,738
	274,272		$2,051,841		$2,051,841

	Number of Shares	Option Price Per Share	Option Price Total	Fair Value at Date of Grant, or When Exercisable or Exercised Per Share	Fair Value at Date of Grant, or When Exercisable or Exercised Total
Options which became exercisable during the year ended December 31:					
1971	15,326	$1.29 to 10.00	$ 73,188	$6.88 to 10.63	$ 134,519
1972	50,746	1.29 to 10.00	339,943	8.03 to 8.96	425,356
1973	48,534	6.87 to 10.00	355,454	7.44 to 10.42	468,244
1974 (to June 30)	25,394	6.87 to 10.00	175,631	8.75 to 10.80	222,966
Options exercised during the year ended December 31:					
1971	350	$1.29	$ 450	$7.25	$ 2,538
1972	22,657	1.29 to 10.00	35,835	8.03 to 8.96	196,030
1973	10,896	1.29 to 8.75	58,123	7.44 to 10.42	107,291
1974 (to June 30)	5,588	6.87 to 8.75	40,218	8.75 to 10.80	55,328

Prior to October 1970, no quoted market values were available for Tymshare Common Stock. Accordingly, prior to October 1970 the fair values per share for purposes of the stock option plans were determined by the Board of Directors.

The proceeds received upon exercise of stock options are credited to the Common Stock account. No amounts are reflected in the income statement with respect to stock options.

Tymshare reserved 150,000 shares of its Common Stock for sale to its employees in accordance with an employee stock purchase plan providing for payment through payroll deductions. The price at which stock will be sold under this plan is the lower of the fair market value at the beginning or end of the twelve-month offering period. Employees may withdraw at any time during the offering period. All payroll deductions will be returned to employees, without interest, upon termination or withdrawal from the plan. In August 1973 the end of the initial plan year, 16,454 shares were issued to participants at $8.25 per share, the fair market value in August 1973. As of June 30, 1974 payroll deductions for the second plan year amounted to $176,073.

9. Supplementary Profit and Loss Information

Item	Charged to Costs and Expenses, Year Ended December 31, 1971	1972	1973	Six Months Ended June 30, 1974
				(Unaudited)
Maintenance and repairs—				
Company-owned computer systems	$ —	$ 355,000	$ 650,846	$ 327,914
Other	82,685	89,077	161,216	78,296
Depreciation and amortization	466,789	1,665,680	2,964,410	1,414,269
Taxes, other than income taxes—				
Payroll	151,385	210,875	386,776	279,379
Other	114,436	203,379	259,084	125,062
Rents—				
Premises	581,903	629,301	772,931	411,607
Equipment, including maintenance on leased computer equipment	3,989,449	3,733,077	2,708,983	2,010,663

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
United Data Centers, Inc.

We have examined the consolidated balance sheet of United Data Centers, Inc. and subsidiaries as of December 31, 1973 and the related consolidated statements of operations, retained earnings (deficit), capital in excess of par value and changes in financial position for the year 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, such financial statements present fairly the financial position of United Data Centers, Inc. and subsidiaries at December 31, 1973, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAIN LAFRENTZ & CO.

New York, New York
March 20, 1974

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
United Data Centers, Inc.

We have examined the accompanying consolidated statement of operations of United Data Centers, Inc. and subsidiaries for the four years ended December 31, 1972 and the related consolidated statements of retained earnings (deficit), capital in excess of par value and changes in financial position for the two 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 statements mentioned above present fairly the consolidated results of operations of United Data Centers, Inc. and subsidiaries for the four years ended December 31, 1972, and the changes in consolidated financial position for the two years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis during the periods, except for the changes in 1969 and 1970, which we approve, in accounting for program development costs described in Note (c) to the consolidated statement of operations.

ARTHUR YOUNG & COMPANY

New York, N.Y.
March 22, 1973

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1973	June 30, 1974 (Unaudited)
Current assets		
Cash	$ 319,288	$ 260,876
Accounts receivable, less allowance for doubtful accounts (1973—$42,000, 1974—$47,189)	1,478,849	1,808,423
Accumulated cost of work in process	13,373	20,000
Data processing supplies	190,415	263,373
Prepaid expenses and other current assets	127,482	242,016
Total current assets	2,129,407	2,594,688
Property, plant and equipment, at cost		
Land and building	470,000	470,000
Data processing equipment	1,163,326	1,183,199
Furniture and equipment	379,415	421,132
Leasehold improvements	249,071	269,843
	2,261,812	2,344,174
Less accumulated depreciation and amortization	995,782	1,101,593
Net property, plant and equipment	1,266,030	1,242,581
Other		
Intangibles arising from acquisitions of businesses (Note 2)	1,782,171	1,777,491
Deferred program development costs	127,828	203,101
Deferred charges and other assets (Note 2)	269,076	234,790
	2,179,075	2,215,382
	$5,574,512	$6,052,651

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

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1973	June 30, 1974 (Unaudited)
Current liabilities		
Notes payable		
Banks (interest at 10½%)	$ 250,000	$ —
Accounts payable	537,986	540,042
Accrued liabilities		
Salaries and other compensation	200,801	229,117
Other	187,173	477,609
Income taxes	112,532	201,767
Long-term debt due within one year	145,840	154,383
Total current liabilities	1,434,332	1,602,918
Long-term debt (Note 3)	837,476	764,817
Other liabilities	41,362	32,095
Deferred license fees	12,184	12,387
Commitments and contingencies (Note 7)		
Stockholders' equity (Notes 4 and 7)		
Common stock, $.10 par value; authorized 3,000,000 shares, issued 1973—1,479,471 shares, 1974—1,479,721 shares	147,947	147,972
Capital in excess of par value	4,260,968	4,250,660
Deficit	(926,724)	(532,015)
	3,482,191	3,866,617
Less cost of 50,401 and 48,920 common shares in treasury (Note 5)	(233,033)	(226,183)
	3,249,158	3,640,434
	$5,574,512	$6,052,651

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

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Deficit)

	Year ended December 31,			Six Months Ended June 30,
	1971	1972	1973	1974 (Unaudited)
Balance at beginning of year	$ (315,297)	$(2,137,624)	$(1,646,650)	$(926,724)
Net income (loss)	(1,527,725)	490,974	719,926	394,709
Retirement of 11,750 shares of common stock held in treasury	(277)	—	—	—
Transactions of pooled company Net loss of Dynafacts, Inc. for the six months ended December 31, 1971*	(294,325)	—	—	—
Balance at end of year	$(2,137,624)	$(1,646,650)	$ (926,724)	$(532,015)

*See Note (a) to Consolidated Statements of Operations of the Company.

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

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Year Ended December 31,			Six Months Ended June 30,
	1971	1972	1973	1974 (Unaudited)
Balance at beginning of year	$2,382,549	$3,850,437	$3,855,132	$4,260,968
Excess of market value over par value of common stock issued in connection with acquisition of data centers and related earn-out requirements (shares—44,850 in 1971, 4,104 in 1972, 104,795 in 1973)	82,080	2,096	404,378	—
Excess of proceeds over par value of shares issued under stock option plan (shares—1,230 in 1972, 550 in 1973, 250 in 1974)	—	2,599	1,458	475
Retirement of 11,750 shares of common stock held in treasury	(33,798)	—	—	—
Transactions of pooled company (Note 2)				
Proceeds from issuance of securities and other	442,500	—	—	—
Issuance of securities in satisfaction of indebtedness to stockholders	626,204	—	—	—
Forgiveness of debt by trade creditors net of $13,348 expenses	180,037	—	—	—
Issuance of 29,565 shares of common stock in satisfaction of debt	170,865	—	—	—
Registration expense	—	—	—	(8,933)
Excess of cost over market value of treasury stock issued in satisfaction of profit plan distribution	—	—	—	(1,850)
Balance at end of year	$3,850,437	$3,855,132	$4,260,968	$4,250,660

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

UNITED DATA CENTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,			Six Months Ended June 30,
	1971	1972	1973	1974 (Unaudited)
Source				
Operations				
Income before extraordinary items	$(1,291,580)	$ 290,974	$ 452,926	$ 273,709
Items not requiring use of current funds				
Depreciation and amortization	778,104	291,195	339,020	160,885
Funds provided from operations	(513,476)	582,169	791,946	434,594
Extraordinary items				
Benefit from tax carryforwards	48,327	207,000	267,000	121,000
Loss on disposition of data centers	(34,549)	—	—	—
Costs of abandoned public stock offering (less prior year costs of $202,941)	(30,903)	—	—	—
Loss from operations (before depreciation and amortization of $151,327) of pooled company for six months ended December 31, 1971	(142,998)	—	—	—
Market value of common stock issued in connection with acquisitions of data centers and related earn-out agreements	86,565	2,506	423,908	—
Long-term borrowing		500,000	531,225	—
Increase (decrease) in deferred license fees and other liabilities	—	134,765	(81,219)	(9,064)
Increase (decrease) in other current liabilities	147,204	(118,016)	216,915	418,586
Capital transactions of pooled company				
Proceeds from issuance of securities and other	442,500	—	—	—
Issuance of securities in satisfaction of debt	800,026	—	—	—
Forgiveness of debt by unsecured creditors	180,037	—	—	—
	982,733	1,308,424	2,149,775	965,116
Application				
Repayment of long-term debt	484,387	436,435	354,754	72,659
Additions to property, plant and equipment	161,304	238,050	125,372	82,362
Noncurrent assets, net of long-term liabilities of companies acquired	—	—	259,420	—
Increase (decrease) in intangibles arising from acquisitions of businesses	111,174	(51,645)	964,678	14,609
Purchase of treasury stock			242,283	
Increase (decrease) in receivables	(21,961)	(297,173)	528,047	329,574
Deferred program development costs	43,903	20,602	67,593	90,615
Other assets and deferred charges	122,965	183,351	61,519	(16,497)
Decrease (increase) in notes payable	(1,186,127)	705,220	(245,000)	250,000
Net decrease in working capital ($1,239,976) and decrease in long-term debt ($103,428) of pooled company for six months ended December 31, 1971	1,343,404	—	—	—
Other	37,546	60,343	(1,192)	200,206
	1,096,595	1,295,183	2,357,474	1,023,528
Increase (decrease) in cash, certificates of deposit and commercial paper	$ (113,862)	$ 13,241	$ (207,699)	$ (58,412)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(The information contained herein with respect to periods subsequent to December 31, 1973 is unaudited)

NOTE 1: Summary of Significant Accounting Policies

Principles of consolidation—The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The accounts of a Canadian subsidiary are translated at appropriate exchange rates. All material intercompany balances and transactions have been eliminated in consolidation.

Inventories—Inventories are stated principally at the lower of cost, on a first-in, first-out basis, or market.

Property, plant and equipment—Property, plant and equipment are carried at cost. Maintenance and repairs are charged to income as incurred. Major renewals and betterments are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts, the proceeds applied thereto, and any resulting gain or loss is reflected in income.

Depreciation and amortization of property, plant and equipment is provided principally on the straight-line method, based on the following estimated useful lives of the assets:

Building	40 years
Computers	5-10 years
Data processing equipment	3-10 years
Furniture and equipment	2-10 years
Leasehold improvements	Remaining term of lease

Intangible assets—The excess of the aggregate purchase price over the fair value of tangible assets of companies acquired by purchase is reflected in the accompanying consolidated balance sheet as "Intangibles arising from acquisitions of businesses." Intangibles arising from acquisitions in 1971 and thereafter are being amortized over 40 years. Intangibles from acquisitions in prior years are not being amortized since, in the opinion of management, the fair value thereof is at least equal to its carrying value and no diminution in value is anticipated.

Deferred charges—Deferred program development costs are being amortized over the expected useful life of each system, but not exceeding five years, plus additional charges to the extent the unamortized costs exceed projected earnings from the applicable program. In the event that either the development or marketing of such programming is not successful, the balance of unamortized costs is charged to current operations. Other deferred charges are being amortized over their related expected useful lives, but not exceeding six years.

Deferred license fees—Deferred license fees are being amortized to income over a period of five years.

NOTE 1 (continued)

Stock options—No accounting entries are made until options are exercised, at which time, if unissued shares are issued, upon exercise of stock options the common stock account is credited with the par value of shares issued and capital in excess of par is credited with any excess received for such shares over their par value. No charges are made against income in accounting for the options.

Treasury stock—Purchases of treasury stock are recorded at cost.

NOTE 2: Acquisitions

On January 14, 1972, the Company consummated a merger with Dynafacts, Inc. in connection with which 400,243 shares of the Company's common stock were issued to the former stockholders of Dynafacts. This merger has been accounted for as a pooling of interests. As of January 12, 1972, Dynafacts restructured its stockholders' equity by issuing preferred stock to certain holders of common stock for $425,000 and $626,204 of debts payable to them. Also, as of January 12, 1972, certain Dynafacts' trade creditors agreed to forgive an aggregate of $194,000 owed to them as of October 1, 1971. In addition, the Company issued 29,565 shares of its common stock to a former creditor of Dynafacts in settlement of $174,000 owed to such creditor. These January transactions were reflected as of December 31, 1971 and, accordingly, the effect of these transactions, after expenses, decreased Dynafacts' stockholders' deficiency by $1,405,000 to a net deficiency of $135,086. Approximately 9%, 6% and 6% of revenues during 1972, 1973 and the six months ended June 30, 1974 were derived from transactions with the former principal shareholders of Dynafacts.

On January 18, 1973, the Company and one of its subsidiaries acquired the business and assets, subject to certain liabilities, of Centralized Investors, Inc., including the outstanding stock of its operating subsidiary, Centralized Accounting, Inc., and the assets of a nonoperating subsidiary, Computer Tax Service, Inc., in exchange for 53,700 shares of common stock (including a finder's fee of 3,700 shares). This acquisition has been treated as a purchase for accounting purposes. On the date of acquisition, the fair value of tangible net assets was less than the market value of shares issued and acquisition costs by $715,094 which has been included in intangibles arising from acquisitions of businesses.

On May 15, 1973, the Company acquired all of the outstanding capital stock of Accounting Controls Corp. The Company did not make any payment at the closing but is to make payments based upon retained volume, as defined, for each year ended April 30, 1974 and 1975. This acquisition has been treated as a purchase for accounting purposes.

On June 30, 1973, the Company acquired the business and assets of Interactive Cable Systems, Inc. in exchange for 9,000 shares of common stock. In addition, a maximum of 316,461 shares of common stock may be issued based on a formula relating to obtaining additional customer accounts during the period June 1, 1973 through December 31, 1975. For the period ended June 30, 1974, no shares had been contingently earned. This acquisition has been treated as a purchase for accounting purposes.

See Note (a) to Consolidated Statement of Operations of the Company for the unaudited pro forma results of operations of purchased companies.

In 1973, the Company acquired the accounts and certain related computer programs of three data centers for $81,000 and agreed to pay a percentage of revenue derived from the acquired accounts to 1976. These costs, including estimated future payments, and related acquisition expenses are included in deferred charges.

NOTE 3: Long-Term Debt

Long-term debt consists of the following:

	December 31, 1973	June 30, 1974 (Unaudited)
Notes payable to banks		
7%, due March 1975, payable $4,167 monthly plus interest	$ 62,500	$ 37,500
Lease-purchase agreement Due 1979, payable $1,644 monthly	95,199	87,266
Real estate mortgage with interest at 7½%, payable in installments through 1998 totaling $26,604 per year	296,255	294,028
Note payable to former stockholder of acquired company, secured by a pledge of 201½ shares of outstanding common stock of the acquired company, payable $4,000 monthly plus interest at 6% through June 1979	268,000	244,000
Note payable for acquisition of treasury stock (subordinated to bank debt) interest at 7%, payable in installments through 1979 totaling $57,436 per year	241,721	241,721
Other—due in varying amounts to 1977	19,641	14,685
	983,316	919,200
Less current maturities	145,840	154,383
	$837,476	$764,817

Plant and equipment having a net book value of $734,000 and $687,000 at December 31, 1973 and June 30, 1974 respectively, has been pledged to secure certain of the above indebtedness.

Principal payments on long-term debt during the succeeding five years ending December 31, are as follows:

1974	$145,840
1975	$131,545
1976	$119,511
1977	$123,212
1978	$126,695

NOTE 4: Stock Options and Warrants

Under the Company's 1967 Qualified Stock Option Plan, options to purchase common shares have been granted to key employees at prices equal to the fair value of the shares at date of grant. Options become exercisable at various dates and expire not more than five years from the date of grant. At December 31, 1973 and June 30, 1974, 116,706 and 116,456 common shares, respectively,

NOTE 4 (continued)

were reserved for issuance under the Plan. Additional information with respect to stock options is as follows:

	December 31,			June 30,
	1971	1972	1973	1974 (Unaudited)
Shares under option:				
Number of shares	34,825	53,360	72,640	78,640
Option price				
Per share	$2.00 to $4.50	$2.00 to $6.50	$2.00 to $6.50	$2.00 to $6.50
Total	$110,137	$234,095	$352,630	$375,442
Market value				
Per share	$2.00 to $4.50	$2.00 to $6.50	$2.00 to $6.50	$2.00 to $6.50
Total	$110,137(A)	$234,095(A)	$352,630(A)	$375,442(A)
Options which became exercisable:				
Number of shares	3,880	6,105	12,855	22,375
Option price				
Per share	$2.00 to $4.00	$2.00 to $4.50	$2.00 to $6.50	$2.37 to $5.75
Total	$ 10,527	$ 21,275	$ 61,227	$ 94,006
Market value				
Per share	$2.37 to $5.37	$5.37 to $7.38	$3.87 to $6.38	$3.38 to $4.12
Total	$ 15,672(B)	$ 42,362(B)	$ 67,616(B)	$87,759(B)
Options exercised:				
Number of shares	—	1,230	550	250
Option price				
Per share	—	$2.00 to $2.75	$2.75	$2.00
Total	—	$ 2,723	$ 1,512	$ 500
Market value				
Per share	—	$6.38 to $7.63	$3.28 to $6.38	$3.88
Total	—	$ 8,215(C)	$ 2,424(C)	$ 970(C)

Shares exercisable at December 31, 1973 totaled 40,935.

Outstanding options at December 31, 1973 and June 30, 1974 expire as follows:

	December 31, 1973	June 30, 1974 (Unaudited)
1974	3,650	3,400
1975	15,500	15,500
1976	22,540	22,540
1977	30,950	30,450
1978	—	6,750
	72,640	78,640

(A) At the date options were granted.
(B) At the date options became exercisable.
(C) At the date options were exercised.

The foregoing excludes those options which were terminated.

NOTE 4 (continued)

The Company has outstanding warrants to purchase 18,000 shares of common stock at $5 per share and 1,500 shares of common stock at $3.75 per share, exercisable until 1977 and 1975, respectively.

In 1973, the Company adopted the 1973 Employee Stock Purchase Plan. Under this Plan, eligible employees may elect to purchase shares of the Company at 90% of fair market value to be paid for by payroll deductions. At December 31, 1973, 50,000 shares were reserved for issuance under this Plan. At June 30, 1974 eligible employees had subscribed to approximately 38,000 of such shares.

NOTE 5: Treasury Stock

In 1973, the Company reacquired 52,401 shares of its common stock (see Note 3) and subsequently issued 2,000 of such shares in connection with an acquisition in 1973 and 1,481 shares in connection with the Company's profit incentive plan distribution in 1974.

NOTE 6: Profit-Incentive Plan

Under the terms of the Company's profit-incentive plan, certain employees receive additional compensation based upon earnings of subsidiaries and other discretionary factors. Accordingly, in 1971, 1972, 1973 and the six months ended June 30, 1974, $19,500, $131,000, $143,000 and $123,000 were provided under this plan.

NOTE 7: Commitments and Contingencies

Lease commitments

The Company is obligated under a number of noncancelable leases for premises and equipment.

The premise leases, which are all nonfinancing leases, are generally renewable at the Company's option under terms and conditions similar to those in the existing lease agreements. Data processing equipment rentals are generally on a 30 to 90 day cancellation basis upon expiration of the original lease term. Some of these are considered financing leases. For succeeding years, the minimum rental commitments for all noncancelable leases are approximately as follows:

	Financing Equipment Leases	Nonfinancing Equipment Leases	Premises	Total
1974	$607,204	$495,343	$326,314	$1,428,861
1975	531,398	230,116	266,384	1,027,898
1976	431,102	33,010	222,976	687,088
1977	124,480	—	169,250	293,730
1978	—	—	87,043	87,043
1979-1984	—	—	44,878	44,878

The present value of the rental commitments under the financing leases aggregated approximately $1,671,000 at December 31, 1973 and $1,420,000 at June 30, 1974. Interest rates range from 5¼% to 9% (weighted average based on present value of 6⅛% at December 31, 1973 and June 30, 1974).

Rental expenses during 1973 and the six-month period ended June 30, 1974 for noncapitalized financing leases were approximately $563,000 and $272,000, respectively. The impact on net income had the noncapitalized financing leases been capitalized, related assets depreciated on a straight-line basis, and interest cost accrued on the basis of the outstanding lease liability, would not be material.

NOTE 7 (continued)

Other contingencies

In connection with certain of its acquisitions, the Company agreed to issue additional shares of its common stock based on contingent price formulas contained in the various agreements for periods through December 31, 1975. At June 30, 1974 approximately 4,200 of such shares have been contingently earned. The Company does not anticipate that it will be obligated to issue a significant number of additional shares in connection with such acquisition. See Note 2.

NOTE 8: **Supplementary Income Statement Information**

	Charged to Costs and Expenses			
	Year Ended December 31,			Six Months Ended June 30,
	1971	1972	1973	1974 (Unaudited)
Maintenance and repairs	$ 79,872	$ 153,851	$ 199,861	$ 117,422
Depreciation and amortization				
Property and Equipment	$ 224,237	$ 215,587	$ 235,871	$ 108,465
Deferred Program Development	532,645	34,785	31,864	15,342
Other	21,222	40,823	71,285	37,078
	$ 778,104	$ 291,195	$ 339,020	$ 160,885
Taxes other than income taxes				
Payroll	$ 176,975	$ 166,712	$ 300,795	$ 228,038
Other	18,471	26,718	37,166	27,362
	$ 195,446	$ 193,430	$ 337,961	$ 255,400
Rents	$2,312,606	$1,541,107	$1,957,802	$1,177,076

ADDITIONAL INFORMATION

Tymshare has filed with the Securities and Exchange Commission, Washington, D.C., a Registration Statement under the Securities Act of 1933, for the Tymshare Common Stock offered hereby. For further information concerning Tymshare and the shares of Tymshare Common Stock offered by this Prospectus, reference is made to the Registration Statement, including the financial schedules and exhibits filed as a part thereof.

EXHIBIT I

AGREEMENT AND PLAN OF REORGANIZATION

This Agreement and Plan of Reorganization dated as of September 19, 1974 has been made and entered into among Tymshare, Inc., a California corporation (herein "Tymshare"), United Data Centers, Inc., a New York corporation (herein "UDC"), and Tymshare Subsidiary, Inc., a California corporation (herein "Tymshare Subsidiary").

RECITES

The respective Boards of Directors of Tymshare and UDC have concluded that it is to their respective corporations' mutual advantage and benefit to effect a reorganization whereby UDC and Tymshare Subsidiary merge into a single corporation (UDC and Tymshare Subsidiary being herein sometimes referred to as the "Constituent Corporations") in accordance with the applicable provisions of the laws of the State of California and the State of New York, such transaction to be a reorganization under §§ 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code of 1954, as amended.

NOW, THEREFORE, it is agreed as follows:

I
STATUTORY MERGER

Subject to and in accordance with the terms and conditions of this agreement (herein the "Agreement") the Constituent Corporations shall execute and file with the Secretary of State of the State of California, in accordance with the California Corporations Code, an Agreement of Merger in substantially the form attached hereto as Exhibit A-1 and hereby made a part hereof and shall execute and file with the Department of State of the State of New York, in accordance with the New York Business Corporation Law, a Certificate of Merger in substantially the form attached hereto as Exhibit A-2 and hereby made a part hereof (herein the "Merger Agreements") as soon as practicable after the satisfaction of all conditions of this Agreement, whereupon UDC shall be merged into and with Tymshare Subsidiary in accordance with the applicable laws of the State of California and the State of New York (herein the "Merger").

II
EFFECTIVE DATE AND CLOSING; DELIVERY OF STOCK; STOCK OPTIONS; WARRANTS

2.01 *Effective Date of Merger and Closing.* The Merger shall be submitted to the shareholders of UDC for approval not later than 30 days after Tymshare's Form S-14 Registration Statement, filed under the Securities Act of 1933, as amended (the "Act"), for the Merger as provided in § 9.02 hereof, has been declared effective by the Securities and Exchange Commission (the "SEC"). Within five business days after such shareholder approval, the Merger Agreements and other documents as may be required by California and New York law shall be filed in the offices of the Secretary of State of the State of California and the Department of State of the State of New York, all after satisfaction of the requirements of the applicable laws of such states prerequisite to such filings. Immediately upon such filings, the Merger shall be effective (the "Effective Date of Merger").

The corporate existence of Tymshare Subsidiary with all its purposes, powers and objects shall continue unaffected and unimpaired by the Merger, and, as the surviving corporation, it shall be governed by the laws of the State of California and succeed to all rights, assets, liabilities and obligations of UDC. The separate existence and corporate organization of UDC shall cease upon the Effective Date of Merger, and thereupon UDC and Tymshare Subsidiary shall be a single corporation, to wit, Tymshare Subsidiary.

The Closing shall take place at the offices of Messrs. Wilson, Mosher & Sonsini, Two Palo Alto Square, Palo Alto, California, on the Effective Date of Merger, or at such other place and time as the parties shall agree (such time being herein sometimes called the "Closing Date").

2.02 *Delivery of Stock; Fractional Shares.* On the Effective Date of Merger, each outstanding share of Common Stock of UDC shall be converted into and become .45173 share of fully paid and nonassessable Common Stock, without par value, of Tymshare (herein the "Tymshare Common Stock") all as set forth in the Merger Agreements.

No fractional shares of Tymshare Common Stock shall be issued pursuant to the Merger, but in lieu thereof, cash shall be paid to the holder thereof based upon the mean of the bid and asked prices quoted by "eligible dealers" for Tymshare Common Stock on the Closing Date as reported by the National Association of Securities Dealers Automated Quotations, Inc. For purposes of the preceding sentence an "eligible dealer" means a dealer quoting both a bid and asked price.

2.03 *UDC Stock Options and Stock Purchase Plan.* On the Effective Date of Merger, Tymshare shall assume (i) the UDC 1967 Qualified Stock Option Plan and the then outstanding qualified stock options thereunder, and (ii) the UDC 1973 Employee Stock Purchase Plan and the then outstanding stock options thereunder, so as to provide for the issuance of Tymshare Common Stock upon the exercise of such options, if any, under each plan, such assumption to be in accordance with § 425(a) of the Internal Revenue Code of 1954, as amended.

2.04 *UDC Stock Purchase Warrants.* On the Effective Date of Merger, each outstanding stock purchase warrant of UDC to purchase UDC Common Stock (19,500 shares in total) shall be assumed by Tymshare and Tymshare shall issue Tymshare Common Stock upon the exercise of such warrants, in lieu of the issuance of UDC Common Stock, in accordance with such warrants. The assumption shall be based upon an initial conversion factor of .45173 share of Tymshare Common Stock for each share of UDC Common Stock.

2.05 *Other UDC Stock Obligations.* Tymshare shall assume UDC's contingent obligation to issue additional shares of UDC Common Stock pursuant to two stock earn-out contracts of UDC with respect to its acquisition of Accounting Controls Corporation and its acquisition of Interactive Cable Systems, Inc. (the "Earn-Out Contracts") as referred to in § 5.04 hereof, such assumption to be based upon an initial conversion factor of .45173 share of Tymshare Common Stock for each share of UDC Common Stock issuable thereunder. Except as provided in §§ 2.03, 2.04 and 2.05 of this Agreement, Tymshare shall not assume any other obligation of UDC to issue UDC Common Stock and all such obligations, if any, shall be terminated in a manner satisfactory to Tymshare prior to the Effective Date of Merger.

2.06 *Antidilution.* The shares of Tymshare Common Stock issuable under §§ 2.02, 2.03, 2.04 and 2.05 hereof shall be appropriately and equitably adjusted in the event of any stock split, stock dividend or other capital adjustment affecting the Common Stock of Tymshare, as presently constituted, prior to the Effective Date of Merger.

III
SURVIVAL OF REPRESENTATIONS AND WARRANTIES

The representations and warranties of UDC, Tymshare and Tymshare Subsidiary contained in this Agreement shall survive from the date hereof up to one year after the Effective Date of Merger, at which time such representations and warranties shall terminate; provided, however, neither party hereto shall be liable for any inaccuracy or misrepresentation herein resulting in liability in the amount of less than $20,000 in the aggregate.

IV
ACCESS TO PROPERTIES AND RECORDS

From time to time after the date of this Agreement to the Effective Date of Merger each party to this Agreement shall afford to the officers, attorneys, accountants and other authorized repre-

sentatives of the other party, free and full access to its plants, properties, books, documents, contracts and records in order that such other party may have full opportunity to make such investigation as it shall desire to make, provided that such investigation shall not unreasonably interfere with the operations of the business investigated. Each party shall keep all information confidential and make no use of the same for its own benefit except with respect to the transactions described in this Agreement unless such information is or becomes available in the public domain without fault of such party. In that connection, each party agrees to protect the confidentiality of such information with the same degree of care as it uses to preserve and safeguard its own proprietary information.

V
REPRESENTATIONS AND WARRANTIES OF UDC

UDC hereby represents and warrants to Tymshare and Tymshare Subsidiary as follows:

5.01 *Due Organization.* UDC is a corporation duly organized and validly existing and in good standing under the laws of the State of New York, and has the corporate power to own its properties and to carry on its business as it is now being conducted. UDC is qualified as a foreign corporation in such other jurisdictions, if any, in which the conduct of its business or its ownership or leasing of property requires such qualification.

5.02 *UDC Subsidiaries.* UDC does not own, directly or indirectly, any interest or investment (whether equity or debt) in any corporation, partnership, business, trust or other entity, except the subsidiaries listed on Exhibit B attached hereto (such UDC subsidiaries herein referred to collectively as the "UDC Subsidiaries" and individually as the "UDC Subsidiary"). Each of the UDC Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of each jurisdiction of its incorporation, has all necessary corporate power to own its properties and to carry on its business as now owned and operated by it, and is duly qualified as a foreign corporation in such other jurisdictions, if any, in which the conduct of its business or its ownership or leasing of property requires such qualification. Except as disclosed to Tymshare in writing by UDC prior to the date hereof, all the issued and outstanding shares of capital stock of the UDC Subsidiaries are validly issued, fully paid and nonassessable and are owned by UDC, free and clear of all liens, encumbrances, security agreements, equities, options, claims, charges and restrictions; and UDC has the full power to transfer the shares of capital stock of the UDC Subsidiaries without obtaining the consent or approval of any other person or governmental authority. There are no outstanding subscriptions, options, rights, warrants, convertible securities, or other agreements or commitments obligating the UDC Subsidiaries to issue or to transfer from treasury any additional shares of their respective capital stock of any class.

5.03 *UDC "Affiliates".* UDC shall deliver to Tymshare on or prior to the Effective Date of Merger, a list, complete and correct as of the Effective Date of Merger, showing the record and beneficial ownership of UDC capital stock by each "affiliate" of UDC as such term is defined under the Rules and Regulations of the Act. There is no person or legal entity, other than some or all of those referred to in such list who, to the knowledge of UDC's directors or officers, may be a "person controlling, controlled by or under common control with" UDC as that phrase is used in the Rules and Regulations of the Act.

5.04 *Capitalization.* The authorized capital stock of UDC consists of 3,000,000 shares of Common Stock, $.10 par value, of which 1,479,721 shares are validly issued, fully paid and nonassessable. UDC has reserved (i) up to 116,456 shares of Common Stock under its 1967 Qualified Stock Option Plan under which options to purchase 60,525 shares have been granted and are outstanding as of the date hereof; (ii) up to 19,500 shares of Common Stock pursuant to stock purchase warrants; (iii) up to 55,409 shares of Common Stock pursuant to its 1973 and 1974 Employee Stock Purchase Plans; and (iv) up to 316,461 shares of Common Stock pursuant to the Earn-Out Contracts. UDC

holds in its treasury 40,810 shares of its Common Stock, as treasury shares. The maximum number of shares of UDC Common Stock which UDC shall be obligated to issue under the Earn-Out Contracts is 50,000.

There are no preemptive rights to purchase or otherwise acquire shares of capital stock of UDC pursuant to any provision of law or the Certificate of Incorporation or By-Laws of UDC or by agreement or otherwise. Except as set forth above, there are no outstanding warrants, options or other rights to subscribe for or purchase from UDC any shares of capital stock of UDC or any securities convertible into or exchangeable for such shares. The outstanding shares of capital stock of UDC are not subject to adjustment by reason of the exchange of such shares as contemplated by this Agreement.

5.05 *Authorization.* The execution, delivery and performance of this Agreement and the Merger Agreements by UDC have been duly authorized by all requisite corporate action, subject to approval of the Merger by the shareholders of UDC pursuant to the laws of New York; and this Agreement has been, and the Merger Agreements will be, duly executed and delivered; and this Agreement constitutes, subject to such shareholder approval, and upon execution and delivery the Merger Agreements will constitute, the valid and binding obligation of UDC in accordance with their respective terms.

5.06 *Financial Statements.* There have been delivered to Tymshare copies of the Annual Reports of UDC for the fiscal years ended December 31, 1973 and December 31, 1972 containing UDC's consolidated balance sheets at December 31, 1973 and December 31, 1972 and the related consolidated statements of operations and changes in financial position for the years then ended together with the respective reports thereon of Main Lafrentz & Co. and Arthur Young & Company. There have also been delivered to Tymshare copies of UDC's consolidated balance sheet at June 30, 1974 and the related consolidated statements of operations and changes in financial position for the six months ended June 30, 1974, all of which are unaudited and are subject to normal year-end audit and adjustment. Such financial statements, together with the notes thereto, (i) are true and correct, (ii) are in accordance with UDC's books and records, and (iii) present fairly its financial position and results of operations as of the dates and for the periods indicated in accordance with generally accepted accounting principles applied on a consistent basis, subject to normal year-end audit and adjustment.

5.07 *No Adverse Change.* Since June 30, 1974 there has been no change in the condition of UDC or the UDC Subsidiaries, financial or otherwise, as of such date, other than changes occurring in the ordinary course of business, which changes have not in the aggregate materially adversely affected the business, properties or condition, financial or otherwise, of UDC or the UDC Subsidiaries. Since June 30, 1974 there has been no material adverse change in the operations of UDC or the UDC Subsidiaries.

5.08 *Undisclosed Liabilities.* Except as disclosed to Tymshare in writing by UDC prior to the date hereof, at June 30, 1974 neither UDC nor the UDC Subsidiaries had liabilities, absolute or contingent (including, without limitation, any absolute or contingent liabilities on account of federal or state income or franchise taxes), which are not shown or provided for in the balance sheet, and the notes thereto, as at that date referred to in § 5.06 hereof. Except as disclosed to Tymshare in writing by UDC prior to the date hereof, since June 30, 1974 neither UDC nor the UDC Subsidiaries has incurred any debt, liability or obligation, contingent or otherwise, that is not reflected in the balance sheet, and the notes thereto, as of that date; except for debts, liabilities and obligations incurred after that date in the ordinary course of business in amounts and for obligations normal and consistent with UDC's past operations.

5.09 *Material Contracts and Commitments.* UDC has delivered in writing to Tymshare prior to the date hereof a list of all contracts and other documents to which UDC or the UDC Subsidiaries

is a party, except purchase orders in amounts not exceeding $1,000 each and except sales or service contracts in amounts not exceeding $25,000 each. Excepting only the contracts and documents included in said lists or excluded therefrom by reason of dollar limitation, neither UDC nor the UDC Subsidiaries are a party to any written or oral (i) contract not made in the ordinary course of business; (ii) employment or consulting contract; (iii) contract with any labor union or association; (iv) bonus, pension, profit sharing, retirement, stock purchase, stock option, hospitalization, insurance or other plan providing employee benefits; (v) lease with respect to any property, real or personal, whether as lessor or lessee; (vi) continuing contract for future purchase of materials, supplies or equipment; (vii) contracts or commitments for capital expenditures in excess of $1,000 each; (viii) guaranty of any obligation for borrowed money or otherwise, excluding endorsements made for collection; (ix) agreement or indenture relating to the borrowing of money or the mortgaging, pledging or otherwise placing a lien on any assets; or (x) contract continuing over a period of more than six months from its date not terminable by UDC or the UDC subsidiaries on 90 days (or less) notice without significant penalties. Except as disclosed in writing to Tymshare by UDC prior to the date hereof, UDC and the UDC Subsidiaries have in all material respects performed all obligations required to be performed by them to date and neither is in default in any material respect under any franchise, contract, agreement, lease or other document to which each is a party or by which it is bound; and there have been no claims of defaults and, to the best of UDC's knowledge, there are no facts or conditions which, if continued, or on notice, will result in a default under the contracts to which UDC or the UDC Subsidiaries is a party or by which either may be bound.

5.10 *Properties.* UDC has delivered in writing to Tymshare prior to the date hereof a brief description of real property and interests therein (including, without limitation, easements and rights of way) now owned or leased by UDC or the UDC Subsidiaries. Except as noted in the balance sheet at June 30, 1974 referred to in § 5.06 hereof or noted in said description, UDC or the UDC Subsidiaries own outright all the properties and assets (real, personal or mixed) reflected in said balance sheet or acquired by them after the date thereof, except such property as has been disposed of since that date in the ordinary course of business, free and clear of all liens (other than liens for current taxes not yet payable), mortgages, pledges, encumbrances and charges of every kind. The offices and facilities of UDC and the UDC Subsidiaries and all equipment therein are in good operating condition and in a state of reasonable maintenance and repair, and all other properties of UDC and the UDC Subsidiaries are in good and usable condition.

5.11 *Insurance Policies.* UDC has delivered in writing to Tymshare prior to the date hereof a list and description of all policies of fire, liability and other forms of insurance held by UDC or the UDC Subsidiaries, all of which will be outstanding and duly in force at all times between the date hereof and the Effective Date of Merger.

5.12 *Litigation.* Except as disclosed in writing to Tymshare by UDC prior to the date hereof, there are no actions, suits or proceedings pending or, to the knowledge of UDC, threatened against, by or affecting UDC or the UDC Subsidiaries, or any of their properties, in any court or before any governmental agency, which would materially and adversely affect the condition or operations, financial or otherwise, of UDC or the UDC Subsidiaries, and neither UDC nor the UDC Subsidiaries are subject to any judgment or consent decree materially affecting their respective operations.

5.13 *Taxes.* The amounts set up as provisions for taxes on the balance sheet of UDC at June 30, 1974 referred to in § 5.06 hereof are sufficient for payment of all accrued and unpaid foreign, federal, state, county and local taxes of UDC, whether disputed or not, for the period ended on said date and for all periods prior thereto. There are no present disputes as to taxes of any nature payable by UDC. UDC has filed all foreign, federal, state and local tax returns required to be filed by it and has paid all taxes, interest and penalties due and payable.

5.14 *Absence of Certain Changes.* Except as disclosed in writing to Tymshare by UDC prior to the date hereof, since June 30, 1974 neither UDC nor the UDC Subsidiaries have (i) issued or sold any stock or other corporate securities except for the transactions referred to in § 5.04 hereof; (ii) granted any option or right to purchase any stock or other corporate securities; (iii) incurred any obligation or liability (absolute or contingent), except obligations and liabilities incurred in the ordinary course of business and except obligations under contracts, if any, not made in the ordinary course of business and disclosed in this Agreement; (iv) discharged or satisfied any lien or encumbrance, or paid any obligation or liability (absolute or contingent), other than current liabilities included in the balance sheet of UDC at June 30, 1974 and current liabilities incurred since that date in the ordinary course of business; (v) declared or made any payment or distribution to shareholders or purchased or redeemed any shares of stock; (vi) made any wage or salary decreases or increases to employees or to officers (except in the ordinary course of business); (vii) mortgaged, pledged or subjected to lien or any other encumbrance, any assets, tangible or intangible; (viii) sold or transferred any tangible assets or cancelled any debts or claims, except in each case in the ordinary course of business and in any event not in an aggregate amount which is material; (ix) sold, assigned or transferred any patents, trademarks, trade names, copyrights, or licenses (other than in the ordinary course of business) or other intangible assets; (x) suffered any extraordinary losses or waived any rights of substantial value; or (xi) entered into any transactions other than in the ordinary course of business or as contemplated by this Agreement.

5.15 *Licenses.* UDC and the UDC Subsidiaries have all licenses and agreements necessary for each to carry on its business substantially in the manner in which it is now conducted, and are not in material default under any of such licenses or agreements or, to UDC's knowledge, under any laws, rules or zoning ordinances. There has been delivered in writing to Tymshare by UDC a list of all trademarks, trademark registrations and applications for registration, trade names, copyrights, inventions, trade secrets, patents and patent applications owned by UDC or any UDC Subsidiary.

5.16 *Leases; Accounts Receivable.* Except as disclosed in writing to Tymshare by UDC prior to the date hereof, all leases pursuant to which UDC or the UDC Subsidiaries have leased real or personal property are in good standing and are valid and effective in accordance with the respective lease terms and there exists no material default or other occurrence or condition which could result in a material default or termination thereof; said leases are free and clear of all liens and encumbrances created by UDC. The accounts receivable shown on the books of UDC and the UDC Subsidiaries are reflected in the balance sheet as of June 30, 1974 referred to in § 5.06, and are subject to no material counterclaim or material set-off.

5.17 *Compliance With Laws; Effect of Agreement.* Except as disclosed in writing to Tymshare by UDC prior to the date hereof, to UDC's knowledge, UDC and the UDC Subsidiaries have complied with and are not in violation of applicable federal, state or local statutes, laws or regulations affecting their properties and the operation of their businesses. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement and the Merger Agreements will not result in nor constitute any of the following: (i) a violation of any provision of law applicable to UDC; (ii) a breach of any term or provision of this Agreement; (iii) a default or an event that, with notice or lapse of time, or both, would be a default, breach or violation of the Certificate of Incorporation or By-Laws of UDC or any UDC Subsidiary, or any lease, license, promissory note, conditional sales contract, commitment, indenture, mortgage, deed of trust, or other agreement, instrument or arrangement to which UDC or the UDC Subsidiaries or any of their properties is bound; (iv) an event that would permit any party to terminate any agreement or accelerate the maturity of any indebtedness; or (v) the creation of any lien, charge or encumbrance on any of the properties, assets or outstanding capital stock of UDC or the UDC Subsidi-

aries, except to the extent of dissenting rights which may be asserted by UDC shareholders under New York law. Except as previously disclosed in writing to Tymshare by UDC, to the best of UDC's knowledge, neither UDC nor the UDC Subsidiaries, nor any officer or director of UDC or the UDC Subsidiaries, have any material direct or indirect interest in any competitor, supplier or customer of UDC or the UDC Subsidiaries or of Tymshare. Except with respect to the filing of a Registration Statement on Form S-14 with the SEC under the Act, the qualification under applicable Blue Sky laws, the approval of the Merger by the UDC shareholders as required by law, and the filing of the Merger Agreements and other required documents with the Secretary of State of the State of California and the Department of State of the State of New York, there are no consents or approvals or requirements for filing required of third parties or governmental agencies in connection with the consummation of the Merger.

5.18 *Employees, Agents, etc.* UDC has delivered in writing to Tymshare prior to the date hereof (i) a list of the names of all full-time employees, agents, and consultants of UDC or the UDC Subsidiaries earning in excess of $15,000 per annum, stating the amounts of compensation payable to each, and (ii) the names and addresses of all persons holding a power of attorney on behalf of UDC or the UDC Subsidiaries and the names and addresses of all banks or other institutions at which UDC or the UDC Subsidiaries have an account, deposit, or safety deposit box, with the names of all persons authorized to draw on these accounts or deposits or have access thereto.

5.19 *Registration Statement Information.* Neither (a) the information provided or to be provided by UDC to Tymshare for use in connection with Tymshare's registration with the SEC of its Common Stock to be issued and exchanged as contemplated by this Agreement nor (b) any representations and warranties made by UDC in this Agreement or in the Merger Agreements or in any statement furnished pursuant hereto, contains or will contain any untrue or misleading statement with respect to any material fact, or omits or will omit to state any material fact necessary to make the statements contained therein or herein not false or misleading.

5.20 *Insider Claims.* Except as disclosed in § 5.08, neither UDC nor the UDC Subsidiaries are, or as of the Effective Date of Merger will be, indebted to any shareholder, director, officer or employee for any liability or obligation, except for compensation to employees or others for services rendered in the ordinary course of business.

VI
REPRESENTATIONS AND WARRANTIES OF TYMSHARE

Tymshare represents and warrants to UDC as follows:

6.01 *Due Organization.* Tymshare is a corporation duly organized and validly existing and in good standing under the laws of the State of California and has full corporate power to own its properties and to carry on its business as it is now being conducted. Tymshare is qualified as a foreign corporation in such other jurisdictions wherein such qualification is material to the conduct of its business.

6.02 *Capitalization.* The authorized capital stock of Tymshare consists of 5,000,000 shares of Common Stock, without par value, of which 2,991,638 shares were outstanding at September 1, 1974. All of such outstanding shares are validly issued, fully paid and nonassessable. At September 1, 1974 there were no outstanding subscriptions, options, rights, warrants or other agreements or commitments obligating Tymshare to issue any additional shares of its Common Stock, or any options or rights with respect thereto, or any securities convertible into any shares of Common Stock, except for (i) up to 375,252 shares reserved under Tymshare's Qualified Stock Option Plans, of

which options to purchase 274,272 shares were outstanding; (ii) 42,500 shares reserved for issuance pursuant to outstanding stock purchase warrants; and (iii) up to 133,546 shares reserved for issuance under Tymshare's Employee Stock Purchase Plan.

6.03 *Valid Stock Issue.* The shares of Common Stock of Tymshare to be delivered by Tymshare pursuant hereto will, when so delivered, be validly authorized, issued and outstanding shares of Common Stock, fully paid and nonassessable, free and clear of all liens and encumbrances, and will be voting stock of Tymshare.

6.04 *Financial Statements.* There have been delivered to UDC copies of the Annual Report of Tymshare for the fiscal year ended December 31, 1973 containing Tymshare's consolidated balance sheets as of December 31, 1972 and December 31, 1973 and the related consolidated statements of operations, and changes in financial position for the years then ended together with the report thereon of Arthur Andersen & Co. There have also been delivered to UDC copies of Tymshare's consolidated statement of operations for the six month period ended June 30, 1974 and consolidated balance sheet as of June 30, 1974, all of which are unaudited and are subject to normal year-end audit and adjustment. Such financial statements, together with the notes thereto, (i) are true and correct, (ii) are in accordance with Tymshare's books and records, and (iii) present fairly its financial position and results of operations as of the dates and for the periods indicated in accordance with generally accepted accounting principles applied on a consistent basis, subject to normal year-end audit and adjustment. Since June 30, 1974 there have been no material adverse changes in the financial condition, business, properties, net worth or operations of Tymshare.

6.05 *Authorization.* The execution, delivery and performance of this Agreement by Tymshare have been duly authorized by all requisite corporate action, and this Agreement has been duly executed and delivered and constitutes the valid and binding obligation of Tymshare.

6.06 *Undisclosed Liabilities.* Except as disclosed in writing to UDC by Tymshare prior to the date hereof, at June 30, 1974 Tymshare had no liabilities, absolute or contingent (including, without limitation, any absolute or contingent liabilities on account of federal or state income or franchise taxes), which are not shown or provided for in the balance sheet, and the notes thereto, as at that date referred to in § 6.04 hereof. Except as disclosed in writing to UDC by Tymshare prior to the date hereof, since June 30, 1974 Tymshare has incurred no debt, liability or obligation, contingent or otherwise, that is not reflected in the balance sheet, and the notes thereto, as of that date, except for debts, liabilities and obligations incurred after that date in the ordinary course of business.

6.07 *Absence of Certain Changes.* Except as disclosed in writing to UDC by Tymshare prior to the date hereof, since June 30, 1974 Tymshare has not (i) incurred any obligation or liability (absolute or contingent), except obligations and liabilities incurred in the ordinary course of business and except obligations under contracts, if any, not made in the ordinary course of business and disclosed in this Agreement; (ii) declared or made any payment or distribution to its shareholders or purchased or redeemed any shares of stock; (iii) sold or transferred any of its tangible assets or cancelled any debts or claims, except in each case in the ordinary course of business; (iv) sold, assigned or transferred any patents, trademarks, trade names, copyrights or licenses or other intangible assets; (v) suffered any extraordinary losses or waived any rights of substantial value; or (vi) entered into any transactions other than in the ordinary course of business.

6.08 *Licenses.* Tymshare has all licenses and agreements necessary for it to carry on its business substantially in the manner in which it is now conducted, and is not in material default under any of such licenses or agreements or to Tymshare's knowledge under any laws, rules or zoning ordinances.

6.09 *Compliance With Laws; Effect of Agreement.* To its knowledge, Tymshare has complied with and is not in violation of applicable federal, state or local statutes, laws or regulations affecting its property and the operation of its business. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement and the Merger Agreements will not result in nor constitute any of the following: (i) a violation of any provision of law applicable to Tymshare or Tymshare Subsidiary: (ii) a breach of any term or provision of this Agreement; (iii) a default or an event that, with notice or lapse of time, or both, would be a default, breach or violation of the Articles of Incorporation or By-Laws of Tymshare, or any lease, license, promissory note, conditional sales contract, commitment, indenture, mortgage, deed of trust, or other agreement, instrument or arrangement to which Tymshare or any of its property is bound; (iv) an event that would permit any party to terminate any agreement or accelerate the maturity of any indebtedness; or (v) the creation of any lien, charge or encumbrance on any of the properties or assets of Tymshare. Except with respect to the filing of a Registration Statement on Form S-14 with the SEC under the Act, the qualification under applicable Blue Sky laws, the approval of the Merger by the UDC shareholders as required by law and the filing of the Merger Agreements and other required documents with the State of California and the State of New York, there are no consents or approvals or requirements for filing required of third parties or governmental agencies in connection with the consummation of the Merger.

6.10 *Registration Statement Information.* Neither (a) the information provided or to be provided by Tymshare in Tymshare's Registration Statement on Form S-14 (which includes the proxy statement of UDC) to be filed with the SEC relating to its Common Stock to be issued and exchanged as contemplated by this Agreement nor (b) any representations made by Tymshare in this Agreement or in the Merger Agreements or in any statement furnished pursuant hereto, contains or will contain any untrue or misleading statement with respect to any material fact, or omits or will omit to state any material fact necessary to make the statements contained therein not false or misleading.

6.11 *Litigation.* Except as disclosed in writing to UDC by Tymshare prior to the date hereof, there are no actions, suits or proceedings pending or, to the knowledge of Tymshare, threatened against, by or affecting Tymshare, or any of its properties, in any court or before any governmental agency, which would materially and adversely affect the condition or operations, financial or otherwise, of Tymshare, and Tymshare is subject to no judgment or consent decree materially affecting its operations.

VII
REPRESENTATIONS AND WARRANTIES OF TYMSHARE SUBSIDIARY

Tymshare and Tymshare Subsidiary represent and warrant to UDC as follows:

7.01 *Due Organization.* Tymshare Subsidiary is a corporation duly organized and validly existing and in good standing under the laws of the State of California and will be duly qualified as a foreign corporation in the State of New York as soon as practicable.

7.02 *Capitalization.* The authorized capital stock of Tymshare Subsidiary consists of 25,000 shares of Common Stock, $.10 par value. Prior to the Effective Date of Merger the outstanding stock of Tymshare Subsidiary will be solely owned by Tymshare.

7.03 *Authorization.* The execution, delivery and performance of this Agreement and the Merger Agreements by Tymshare Subsidiary have been duly authorized by all requisite corporate action; and this Agreement has been, and the Merger Agreements will be, duly executed and delivered and this Agreement constitutes, and upon execution and delivery the Merger Agreements will constitute, the valid and binding obligation of Tymshare Subsidiary.

7.04 *Compliance With Laws; Effect of Agreement.* To its knowledge, Tymshare Subsidiary has complied with and is not in violation of applicable federal, state or local statutes, laws or regulations affecting its property or the operation of its business. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement and the Merger Agreements will not result in nor constitute any of the following: (i) a violation of any provision of law; (ii) a breach of any term or provision of this Agreement; (iii) a default or an event that, with notice or lapse of time, or both, would be a default, breach or violation of the Articles of Incorporation or By-Laws of Tymshare Subsidiary, or any lease, license, promissory note, conditional sales contract, commitment, indenture, mortgage, deed of trust, or other agreement, instrument or arrangement to which Tymshare Subsidiary or any of its property is bound; (iv) an event that would permit any party to terminate any agreement or accelerate the maturity of any indebtedness; or (v) the creation of any lien, charge or encumbrance on any of the properties or assets of Tymshare Subsidiary. Except with respect to the filing of a Registration Statement on Form S-14 with the SEC under the Act, the qualification under applicable Blue Sky laws, the approval of the Merger by the shareholders of UDC and Tymshare Subsidiary as required by law and the filing of the Merger Agreements and other required documents with the State of California and the State of New York, there are no consents or approvals or requirements for filing required of third parties or governmental agencies in connection with the consummation of the Merger.

7.05 *Litigation.* There are no actions, suits, or proceedings pending or, to the knowledge of Tymshare Subsidiary, threatened against, by or affecting Tymshare Subsidiary, or any of its properties, in any court or before any governmental agency, which would materially and adversely affect the condition or operations, financial or otherwise, of Tymshare Subsidiary, and Tymshare Subsidiary is subject to no judgment or consent decree materially affecting its operations.

VIII
COVENANTS OF UDC PRIOR TO THE MERGER

Between the date hereof and the Effective Date of Merger (or for such other time period specified herein):

8.01 *Approval of Merger.* UDC will submit and recommend the Merger of UDC into Tymshare Subsidiary to its shareholders at a special meeting thereof to be duly called and held not later than 30 days after Tymshare's Form S-14 Registration Statement in connection with the Merger has been declared effective by the SEC (or such later date as may be agreed upon in writing by UDC and Tymshare). UDC shall comply with the requirements of the Act and the Securities Exchange Act of 1934, as amended, with respect to the solicitation of such shareholder approval.

8.02 *Registration Statement; Blue Sky Qualifications.* UDC will furnish to Tymshare, without expense to Tymshare, as promptly as practicable after the date hereof, all material statements with respect to UDC and with respect to UDC's shareholders which are required to be made in Tymshare's Blue Sky applications and Form S-14 Registration Statement, and the Prospectus and Proxy Statement made a part thereof, in accordance with the Act and the Rules and Regulations of the SEC thereunder and which will in all material respects conform to all of the requirements of the Act and such Rules and Regulations.

8.03 *Implementation of Representations and Warranties.* UDC will take all action necessary to render accurate as of the Effective Date of Merger its representations and warranties contained herein and will refrain from taking any action which would render any such representation or warranty inaccurate as of such time.

8.04 *Communications.* Prior to Tymshare's delivery of a Prospectus to UDC shareholders, and thereafter, UDC shall make no written or oral communication with its shareholders concerning the subject matter hereof, except such communications as may be permitted by Rule 145(b) promulgated under the Rules and Regulations of the Act, provided that all such communications, if any, shall be subject to the prior reasonable approval of Tymshare in writing.

8.05 *Non-Competition and Employment Agreements.* UDC shall assist Tymshare in obtaining non-competition and employment agreements, in the forms heretofore agreed to by Tymshare and UDC, from the executives of UDC and the UDC Subsidiaries as heretofore agreed in writing by UDC and Tymshare.

IX
COVENANTS OF TYMSHARE

Between the date hereof and the Effective Date of Merger (or for such other time period specified herein):

9.01 *Approval of Merger.* Tymshare will vote all the outstanding shares of Common Stock of Tymshare Subsidiary in favor of the Merger of UDC into Tymshare Subsidiary.

9.02 *Registration Statement; Blue Sky Qualifications.* Tymshare shall prepare and file a Registration Statement on Form S-14 with the SEC under the Act with respect to the Merger and Tymshare Common Stock and shall use its best efforts to cause such Registration Statement to become effective under the Act as soon as reasonably practicable, provided, however, that Tymshare shall be under no obligation to keep the Registration Statement on Form S-14 effective for any period of time after the Effective Date of Merger. Tymshare shall prepare and file applicable Blue Sky applications and use its best efforts to qualify the Tymshare Common Stock to be issued in the Merger under applicable Blue Sky laws prior to the Effective Date of Merger.

9.03 *Corporate Action for Assumption of Options and Warrants and Stock Obligations.* Tymshare will take all corporate action as is necessary to reserve the shares of its Common Stock necessary to enable assumption of the UDC options under UDC's 1967 Qualified Stock Option Plan and 1973 Employee Stock Purchase Plan, the UDC stock purchase warrants and the Earn-Out Contracts as provided in §§ 2.03, 2.04 and 2.05 hereof. Tymshare shall, as soon as practicable after the Closing Date, prepare and file a Form S-8 Registration Statement with the SEC under the Act covering the Common Stock of Tymshare issuable pursuant to the UDC options assumed by Tymshare as provided in § 2.03 hereof and use its best efforts to cause such Registration Statement to become effective under the Act.

9.04 *UDC Representation on Board of Tymshare; Officers.* Tymshare shall include Mr. Bernard Goldstein in Tymshare's management slate of nominees for election to the Board of Directors of Tymshare at the next two meetings of shareholders of Tymshare following the Closing Date at which directors are to be elected and will use its best efforts to secure his election thereat. As soon as practicable after the Effective Date of Merger, Mr. Bernard Goldstein and Mr. Albert A. Eisenstat shall be elected Vice Presidents of Tymshare and Vice Presidents of Tymshare Subsidiary.

9.05 *Access to Information.* Tymshare will furnish to UDC, without expense to UDC, as promptly as practicable after the date hereof, all material statements with respect to Tymshare and with respect to Tymshare's shareholders which are required to be made in Tymshare's Form S-14 Registration Statement, and the Prospectus and Proxy Statement made a part thereof, in accordance with the Act and the Rules and Regulations of the SEC thereunder and which will in all material respects conform to all of the requirements of the Act and such Rules and Regulations.

9.06 *Implementation of Representations and Warranties.* Tymshare and Tymshare Subsidiary will take all action necessary to render accurate as of the Effective Date of Merger their respective representations and warranties contained herein and will refrain from taking any action which would render any such representation or warranty inaccurate as of such time.

9.07 *Communications.* Prior to Tymshare's delivery of a Prospectus to UDC's shareholders, and thereafter, Tymshare shall make no written or oral communication with UDC's shareholders concerning the subject matter hereof, except such communications as may be permitted by Rule 145(b) promulgated under the Rules and Regulations of the Act, provided that all such communications, if any, shall be subject to the prior reasonable approval of UDC.

9.08 *Filings.* Tymshare shall file with the SEC all reports required to be filed by Tymshare pursuant to § 15(d) or § 13 of the Securities Exchange Act of 1934, as amended, and the applicable Rules and Regulations thereunder and shall furnish to any "affiliate" of UDC any necessary information with respect to such filings and any requisite opinions of Tymshare's counsel in order to allow sales of Tymshare stock pursuant to Rules 144 and 145 under the Act.

X
CONDITIONS TO OBLIGATIONS OF TYMSHARE AND TYMSHARE SUBSIDIARY

The obligations of Tymshare and Tymshare Subsidiary under this Agreement are, at the option of Tymshare, subject to the conditions that at or before the Effective Date of Merger:

10.01 *Fulfillment of Covenants.* All the terms, covenants and conditions of this Agreement to be complied with and performed by UDC and its shareholders at or before the Effective Date of Merger shall have been duly complied with and performed.

10.02 *Accuracy of Representations.* Except as modified by transactions permitted to UDC hereunder subsequent to the date hereof, all of the representations and warranties made by UDC herein shall be true as of the Effective Date of Merger with the same force and effect as though such representations and warranties had been made as of the Effective Date of Merger, and the President and Chief Financial Officer of UDC shall have delivered to Tymshare a certificate to such effect signed by each of them.

10.03 *Approval of Merger.* The Merger pursuant to this Agreement shall have been approved in the manner required by law by holders of the issued and outstanding shares of UDC Common Stock entitled to vote thereon, and all other corporate action required by law with respect to the Merger shall have been taken. The shares of UDC Common Stock held in UDC's treasury on the date of the meeting of UDC's shareholders called to vote on the Merger, plus the number of shares of UDC Common Stock voted against the Merger, for which the holders thereof have demanded payment pursuant to § 623 of the New York Business Corporation Law, shall not exceed 10% of the total number of shares of Common Stock entitled to vote on the Merger.

10.04 *Adverse Changes.* Neither the business, properties nor operations of UDC shall have been adversely affected in any material way as a result of any fire, accident or other casualty or any labor disturbance or Act of God. There shall have been no change in the business, properties, operations or financial condition of UDC since June 30, 1974 which would have a material adverse effect on the business of UDC.

10.05 *Requisite Approvals.* All actions, proceedings, instruments and documents required to carry out this Agreement or incidental thereto and all other related legal matters shall have been approved by counsel for Tymshare, which approval will not be unreasonably withheld.

10.06 *Legal Opinion.* Tymshare shall have received an opinion of Messrs. Spengler Carlson Gubar & Churchill, counsel for UDC, dated the Effective Date of Merger, in the form attached hereto as Exhibit C.

10.07 *Governmental Approvals.* All approvals and permissions of regulatory agencies (including, without limitation, qualification under applicable Blue Sky laws) required of Tymshare in order for it to issue shares of its Common Stock as contemplated by this Agreement and otherwise to carry out this Agreement shall have been received by Tymshare, shall be in full force and effect and shall be adequate and appropriate in the opinion of its counsel to authorize the performance by Tymshare required by this Agreement.

10.08 *Securities Act Representations.* Tymshare shall have received an agreement, in form and substance satisfactory to its legal counsel, executed and delivered by each holder of Common Stock of UDC who, in the reasonable opinion of legal counsel for UDC, is an "affiliate" of UDC as defined by the Rules and Regulations of the Act, that (a) he will not sell or otherwise transfer shares of Tymshare Common Stock received by him pursuant to the Merger except in brokers' transactions as allowed by Rule 145 under the Act or otherwise in a manner not in violation of the Act; (b) he will not sell or in any way dispose of the Tymshare Common Stock deliverable to him until such time as financial results covering at least 30 days of combined operations of Tymshare and UDC have been published, as provided for in Accounting Series Release No. 130 (as amended) of the SEC, in accordance with Tymshare's obligation under § 15.02 hereof; and (c) "stop transfer" orders with respect to such shares may be placed with Tymshare's Transfer Agents, and the following legend reflecting the restriction on resale may be placed on his certificates representing shares of Tymshare Common Stock received pursuant to the Merger:

> THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN ACCORDANCE WITH SUBPARAGRAPH (d) OF RULE 145 OF THE RULES AND REGULATIONS OF THE SECURITIES ACT OF 1933, AS AMENDED, OR IN ACCORDANCE WITH A LEGAL OPINION SATISFACTORY TO TYMSHARE, INC. THAT SUCH SALE OR TRANSFER IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

The stop transfer orders and the legend shall be removed from the stock certificates representing shares sold in compliance with Rule 145 of the Act or any other valid exemption thereunder.

10.09 *Non-Competition and Employment Agreements.* On or prior to the Effective Date of Merger, Tymshare shall have received from certain executives of UDC and the UDC Subsidiaries, as heretofore agreed in writing by UDC and Tymshare, duly executed and binding non-competition and employment agreements in the form heretofore agreed to by Tymshare and UDC.

10.10 *Registration Statement Effective.* The Form S-14 Registration Statement of Tymshare shall have become effective, and the Prospectus and Proxy Statement contained therein shall have been distributed to the UDC shareholders, in accordance with the Rules and Regulations under the Act and the general instructions to Form S-14; and at the Effective Date of Merger and prior thereto no stop order shall have been issued and shall be in effect on that date and no proceedings therefor shall have been initiated or threatened by the SEC.

10.11 *No Litigation.* There shall be no litigation pending which has been brought with the purpose of enjoining the Merger or which would have the effect, if successful, or imposing a material liability upon Tymshare or Tymshare Subsidiary, or any of the officers or directors thereof, because of the consummation of the Merger (other than liability as a result of any UDC shareholder dissenting from the Merger and electing dissenting rights pursuant to New York law).

10.12 *Pooling of Interests Letter.* Tymshare shall have received from Arthur Andersen & Co. a letter dated the effective date of Tymshare's Form S-14 Registration Statement confirming that it has

approved the treatment of the Merger as a pooling of interests (subject to the approval of the Merger as set forth in § 10.03 hereof) and that such treatment is in accordance with generally accepted accounting principles.

10.13 *Termination of Employment Contracts.* The employment agreements between UDC and Bernard Goldstein, Albert A. Eisenstat and James L. Mann shall have been terminated to Tymshare's satisfaction.

10.14 *Termination of UDC's 1974 Employee Stock Purchase Plan.* The UDC 1974 Employee Stock Purchase Plan shall be terminated to Tymshare's satisfaction.

XI
CONDITIONS TO OBLIGATION OF UDC

The obligations of UDC under this Agreement, at the option of UDC, are subject to the conditions that at or before the Effective Date of Merger:

11.01 *Fulfillment of Covenants.* All the terms, covenants and conditions of this Agreement to be complied with and performed by Tymshare and Tymshare Subsidiary at or before the Effective Date of Merger shall have been duly complied with and performed.

11.02 *Representations and Warranties.* All of the representations and warranties made by Tymshare and Tymshare Subsidiary herein shall be true as of the Effective Date of Merger with the same force and effect as though such representations and warranties had been made as of the Effective Date of Merger, and Tymshare shall have delivered to UDC a certificate to such effect signed by its President.

11.03 *Approval of Merger.* The Merger pursuant to this Agreement shall have been approved in the manner required by law by holders of the required percentage of the shares of Tymshare Subsidiary and the shares of UDC.

11.04 *Adverse Changes.* Neither the business, properties nor operations of Tymshare shall have been adversely affected in any material way as a result of any fire, accident or other casualty or any labor disturbance or act of God. There shall have been no changes in the business, properties, operations or financial condition of Tymshare since June 30, 1974 which would have a material adverse effect on the business of Tymshare.

11.05 *Requisite Approvals.* All actions, proceedings, instruments and documents required to carry out this Agreement or incidental thereto and all other related legal matters shall have been approved by counsel for UDC, which approval will not be unreasonably withheld.

11.06 *Legal Opinion.* The Board of Directors of UDC shall have received an opinion of Messrs. Wilson, Mosher & Sonsini, counsel for Tymshare, dated the Effective Date of Merger, in the form attached hereto as Exhibit D.

11.07 *Governmental Approvals.* All approvals and permissions of regulatory agencies (including, without limitation, qualifications under applicable Blue Sky laws) required of Tymshare in order for it to issue shares of its Common Stock as contemplated by this Agreement and otherwise to carry out this Agreement shall have been received by Tymshare, shall be in full force and effect and shall be adequate and appropriate in the opinion of UDC's counsel to authorize the performance by Tymshare required by this Agreement.

11.08 *Registration Statement Effective.* The Form S-14 Registration Statement of Tymshare filed with the SEC shall have been declared effective, and the Prospectus and Proxy Statement contained therein shall have been distributed to the UDC shareholders, in accordance with the Rules and Regulations under the Act and the general instructions to Form S-14; and at the Effective Date of

Merger, and prior thereto, no stop order shall have been issued and shall be in effect on that date and no proceeding therefor shall have been initiated or threatened by the SEC.

11.09 *Non-Competition and Employment Agreements.* On or prior to the Effective Date of Merger, Tymshare shall have duly executed with certain executives of UDC and the UDC Subsidiaries, as heretofore agreed in writing by UDC and Tymshare, the non-competition and employment agreements in the form heretofore agreed to by Tymshare and UDC.

11.10 *No Litigation.* There shall be no litigation pending which has been brought with the purpose of enjoining the Merger or which would have the effect, if successful, of imposing a material liability upon UDC or Tymshare or Tymshare Subsidiary, or any of the officers or directors thereof, because of the Merger (other than liability as a result of any UDC shareholder dissenting from the Merger and electing dissenting rights pursuant to New York law).

11.11 *Tax Opinion.* The Board of Directors of UDC shall have received an opinion of Messrs. Spengler Carlson Gubar & Churchill, counsel for UDC, to the effect that the Merger qualifies as a tax-free reorganization under §§ 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code of 1954, as amended.

XII

ACTIONS OF UDC PRIOR TO EFFECTIVE DATE

12.01 *Action Needing Consent.* Prior to the Effective Date of Merger, UDC will not for itself or for any of the UDC Subsidiaries, except with the prior written consent of Tymshare:

(a) issue or sell, or grant any option or right to purchase, any of its stock or other corporate securities other than stock issued upon the exercise of stock options or stock purchase warrants heretofore granted or pursuant to UDC's Employee Stock Purchase Plans or pursuant to the Earn-Out Contracts;

(b) incur any obligations or liabilities (absolute or contingent), except (i) obligations and liabilities incurred in the ordinary course of business, (ii) liabilities for capital expenditures not in excess of $1,000 for any single item, (iii) obligations and liabilities as a result of any shareholder of UDC dissenting from action contemplated hereunder and electing dissenting shareholder's rights pursuant to New York law and (iv) contracts for data processing services involving less than $50,000 annual revenues each and having a term of one (1) year or less;

(c) discharge or satisfy any lien or encumbrance, or pay any obligation or liability (absolute or contingent), except as contemplated by this Agreement, or other agreements made between Tymshare and UDC in contemplation hereof, other than current liabilities included in the balance sheet of UDC at June 30, 1974 and current liabilities incurred since that date in the ordinary course of business;

(d) declare or pay any dividend or make any payment or distribution to its shareholders or purchase or redeem any shares of its stock;

(e) make any wage or individual salary increases, decreases or adjustments, or pay any bonus to employees or to officers, other than in the ordinary course of business;

(f) mortgage, pledge or subject to lien or to any other encumbrance (other than the lien of taxes not yet payable), any of its assets, tangible or intangible, other than in the ordinary course of business;

(g) sell or transfer any of its assets or cancel any debts or claims (other than as contemplated herein) except in each case in the ordinary course of business;

(h) sell, assign or transfer any trade secrets, patents, trademarks, trade names, copyrights, licenses or other intangible assets except in the ordinary course of business;

(i) waive any right of any substantial value except in the ordinary course of business;

(j) enter into any contract or transaction other than in the ordinary course of business;

(k) materially amend or cancel any existing contract or agreement providing for revenues to or obligations of UDC in excess of $25,000 per annum;

(l) amend its Certificate of Incorporation or By-Laws; or

(m) agree to do any of the foregoing.

12.02 *Conduct of Business.* Prior to the Effective Date of Merger, UDC will continue to conduct its business and the business of each UDC Subsidiary in the manner in which it has heretofore been conducted and will take all action necessary or appropriate to preserve the continuity of such businesses and existing relationships with suppliers, distributors, clients, licensees, customers and others for whom it deals and will use its best efforts to preserve such business organizations intact and to keep available present officers and employees.

XIII
ABANDONMENT OF MERGER

The Merger may be abandoned, and this Agreement terminated, at any time before or after approval or adoption by the shareholders of UDC or Tymshare Subsidiary, notwithstanding favorable action on the Merger by the shareholders of either or both such corporations, but not later than the Effective Date of Merger, by: (i) the mutual consent of the Boards of Directors of UDC and Tymshare; (ii) the Board of Directors of Tymshare if any of the conditions provided in Article X of this Agreement have not been met and have not been waived; (iii) the Board of Directors of UDC if any of the conditions provided in Article XI of this Agreement have not been met and have not been waived; or (iv) the Board of Directors of either Tymshare or UDC if the Merger contemplated herein shall not have become effective on or before February 28, 1975, or such later date as the parties may agree upon in writing.

XIV
EXPENSES

If for any reason the transaction as contemplated herein is not consummated, then each party shall bear its own expenses incurred in contemplation of the consummation of the transaction, which expenses shall include legal, accounting, and filing fees; provided, however, that the printing costs of this Agreement and the Form S-14 Registration Statement shall be borne one-third by UDC and two-thirds by Tymshare.

XV
MISCELLANEOUS

15.01 *Brokerage Fee.* Tymshare and UDC represent and warrant that neither of them has engaged any broker or finder with respect to the contemplated transaction. Notwithstanding the above, UDC shall indemnify Tymshare and Tymshare Subsidiary against and hold them harmless from any and all liabilities (including, without limitation, counsel fees and other costs of defending against such liabilities) to any person, firm or corporation for any brokerage commission or finder's fee in connection with any of the transactions contemplated by this Agreement, arising out of acts of UDC or its shareholders, and Tymshare shall similarly indemnify UDC against and hold it harmless from any and all such liabilities arising out of acts of Tymshare or Tymshare Subsidiary.

15.02 *Publication of Combined Results.* Tymshare will publish financial results as provided in Accounting Series Release No. 130 (as amended) of the SEC covering at least 30 days of combined operations, which publication shall occur in the first quarterly report or annual report of Tymshare following at least 30 days of combined operations after the Effective Date of Merger.

15.03 *Headings.* The headings of the several sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

15.04 *Notices.* Notices pertaining to this Agreement shall be deemed sufficiently given if deposited in the United States mail, postage prepaid and certified or registered with return receipt requested, addressed to the respective parties at the following addresses or such other addresses as they may specify from time to time in writing:

To: United Data Centers, Inc.
Greenwich Office Park Two
Greenwich, Connecticut 06830
Attention: Mr. Bernard Goldstein

Copy to: Spengler Carlson Gubar & Churchill
280 Park Avenue
New York, New York 10017
Attention: Leonard Gubar, Esq.

To: Tymshare, Inc. or Tymshare Subsidiary
10340 Bubb Road
Cupertino, California 95014
Attention: Mr. Thomas J. O'Rourke

Copy to: Wilson, Mosher & Sonsini
Two Palo Alto Square
Palo Alto, California 94304
Attention: Larry W. Sonsini, Esq.

15.05 *Counterparts.* This Agreement may be executed in counterparts, and when so executed each counterpart shall be deemed to be an original, and said counterparts shall together constitute one and the same instrument.

15.06 *Binding Nature.* Subject to the terms and conditions hereof, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any person, other than the parties hereto and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

15.07 *Waiver.* Either Tymshare or UDC may, by written notice to the other, (i) waive any of the conditions to its obligations hereunder or extend the time for the performance of any of the obligations or actions of the other, (ii) waive any inaccuracies in the representations of the other contained in this Agreement, or in any document delivered pursuant to this Agreement; (iii) waive compliance with any of the covenants of the other contained in this Agreement; and (iv) waive or modify performance of any of the obligations of the other. No action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representation, warranty, condition or agreement contained herein. Waiver of the breach of any one or more provisions hereof shall not be deemed or construed to be a waiver of other breaches or subsequent breaches of the same provisions.

15.08 *Other Agreements.* All written agreements heretofore made between the parties hereto in contemplation of this Agreement are superseded by this Agreement and are hereby terminated in their entirety.

15.09 *Severability.* If any provision of this Agreement shall be determined to be invalid or unenforceable pursuant to applicable law, such determination shall not affect the validity and enforceability of the remaining portions of this Agreement and this Agreement shall thereafter be construed as if such invalid provision had not been inserted.

15.10 *Good Faith.* Each of the parties hereto agrees that it shall act in good faith in an attempt to cause all the conditions precedent to their respective obligations to be satisfied.

15.11 *Applicable Law.* This Agreement shall be governed by the laws of the State of California.

WITNESS the due execution hereof by the parties hereto as of the date first above written.

TYMSHARE, INC.

[SEAL]

By T. J. O'ROURKE
President

By ROGER L. MOSHER
Secretary

UNITED DATA CENTERS, INC.

[SEAL]

By BERNARD GOLDSTEIN
President

By ALBERT A. EISENSTAT
Secretary

TYMSHARE SUBSIDIARY, INC.

[SEAL]

By T. J. O'ROURKE
President

By LARRY W. SONSINI
Secretary

EXHIBIT A-1

AGREEMENT OF MERGER

THIS AGREEMENT OF MERGER is dated ....., 1974, by and among Tymshare Subsidiary, Inc., a California corporation ("Survivor"), and United Data Centers, Inc., a New York corporation ("UDC").

WITNESSETH:

WHEREAS, Survivor and UDC (each of which is herein sometimes called a "Constituent Corporation" and both of which are collectively sometimes called the "Constituent Corporations") are corporations duly organized and existing under the laws of the State of California and the State of New York, respectively; and

WHEREAS, Survivor is a wholly-owned subsidiary of Tymshare, Inc. ("Tymshare"), a corporation duly organized and existing under the laws of the State of California; and

WHEREAS, the Boards of Directors of Tymshare and the Constituent Corporations deem it desirable and in the best interests of the corporations and their shareholders that UDC be merged into Survivor on the terms and conditions herein set forth, it is agreed as follows:

ARTICLE I
MERGER

1.01 *Merger—Survivor.* On the Effective Date of Merger (as defined in Article VI hereof), UDC shall be merged into Survivor (Survivor being the surviving corporation) in accordance with the applicable laws of the State of California, the separate existence of UDC shall cease, and Survivor as the surviving corporation shall continue its corporate existence under the laws of the State of California. All of the property, real, personal and mixed, including franchises, trademarks and patents of each Constituent Corporation, and all debts due on whatever account to either of them, and every asset belonging to either of them, shall be deemed to be transferred to and vested in Survivor without further act or deed. Survivor shall be responsible for all the liabilities and obligations of the Constituent Corporations, and the rights of the creditors thereof or of any persons dealing with such corporations, or any liens upon the property of such corporations, shall not be impaired by this Merger, and any claim existing or action or proceeding pending by or against either of said corporations may be prosecuted to judgment as if this Merger had not taken place, or Survivor may be proceeded against or substituted in place of UDC.

1.02 *Further Effectuation of Merger.* From time to time as and when requested by Survivor, or by its successors or assigns, the officers and directors of UDC last in office shall execute and deliver such deeds and other instruments and shall take or cause to be taken such further or other action as shall be necessary in order to vest or perfect in, or to confirm of record or otherwise, Survivor's title to and possession of all the property, interests, assets, rights, privileges, immunities, powers, franchises and authority of UDC, and otherwise to carry out the purposes of this Agreement of Merger.

ARTICLE II
ARTICLES OF INCORPORATION OF SURVIVOR

The Articles of Incorporation of Survivor shall be the Articles of Incorporation of the surviving corporation.

ARTICLE III
BY-LAWS OF SURVIVOR

The By-Laws of Survivor as in effect on the Effective Date of Merger shall continue in full force and effect until altered, amended or repealed as provided therein or as provided by law.

ARTICLE IV
OFFICERS AND DIRECTORS OF SURVIVOR

The directors and officers of Survivor holding office on the Effective Date of Merger shall continue to hold office until removed as provided by law or until the election of their respective successors.

ARTICLE V
CONVERSION AND EXCHANGE OF SHARES

5.01 *Procedure.* Upon the Effective Date of Merger, the manner of converting or exchanging the shares of each of the Constituent Corporations shall be as follows:

(a) The Merger shall effect no change in any of the shares of stock of Tymshare or of Survivor, and none of their shares shall be converted as a result of the Merger.

(b) Each share of UDC capital stock issued and outstanding immediately prior to the Merger and all rights in respect thereof shall forthwith cease to exist and be cancelled, except such rights, if any, as may accrue to dissenting shareholders of UDC under the New York Business Corporation Law. Each such share of UDC capital stock (except those held by such dissenting shareholders) shall by virtue of the Merger and on the Effective Date of Merger be converted into and become, without action on the part of the holder thereof, .45173 share of fully paid and nonassessable Common Stock, without par value, of Tymshare.

(c) Each share of UDC capital stock issued and held in the treasury of UDC or beneficially owned by Tymshare or Survivor on the Effective Date of Merger shall be cancelled and retired, and no shares of stock or other securities of Tymshare or Survivor shall be issuable, and no cash shall be exchangeable, with respect thereto.

(d) On the Effective Date of Merger, Tymshare shall assume (i) the UDC Qualified Stock Option Plan and the then outstanding qualified stock options thereunder, and (ii) the UDC 1973 Employee Stock Purchase Plan and the then outstanding stock options thereunder, so as to provide for the issuance of Tymshare Common Stock upon the exercise of such options, if any, under each plan, such assumption to be in accordance with Section 425(a) of the Internal Revenue Code of 1954, as amended.

(e) On the Effective Date of Merger, each outstanding stock purchase warrant of UDC to purchase UDC Common Stock (19,500 shares in total) shall be assumed by Tymshare and Tymshare shall issue Tymshare Common Stock upon the exercise of such warrants, in lieu of the issuance of UDC Common Stock, in accordance with such warrants. The assumption shall be based upon an initial conversion factor of .45173 share of Tymshare Common Stock for each share of UDC Common Stock.

(f) Tymshare shall assume UDC's contingent obligation to issue additional shares of UDC Common Stock pursuant to two stock earn-out contracts of UDC with respect to its acquisition of Accounting Controls Corporation and its acquisition of Interactive Cable Systems, Inc., such assumption to be based upon an initial conversion factor of .45173 share of Tymshare Common Stock for each share of UDC Common Stock issuable thereunder.

(g) No fractional shares of Common Stock of Tymshare shall be issued pursuant to the Merger, but in lieu thereof cash shall be paid to the holder thereof based upon the mean of the bid and asked prices for Tymshare Common Stock on the Effective Date of Merger as reported by the National Association of Securities Dealers Automated Quotations, Inc.

5.02 *Exchange Procedure.* On and after the Effective Date of Merger, each holder of UDC capital stock referred to in Section 5.01(b), upon presentation and surrender of a certificate or certificates therefor to Survivor, shall be entitled to receive in exchange therefor a certificate or certificates representing the number of shares of Tymshare Common Stock to which he is entitled as provided in said Section. Until so presented and surrendered, each certificate which represented issued and outstanding shares of UDC capital stock held of record on the Effective Date of Merger by the shareholders of UDC referred to in Section 5.01(b) shall be deemed for all purposes to evidence ownership of the number of shares of Tymshare Common Stock into which such shares of UDC capital stock have been converted pursuant to the Merger. Until surrender of such certificates in exchange for certificates representing Tymshare Common Stock, the holder thereof shall be entitled to vote in any meeting of Tymshare's shareholders but shall not receive any dividend or other distribution payable to the holders of shares of Tymshare Common Stock; such distributions shall be held by Tymshare for the benefit of such holders, and upon surrender of such certificates representing UDC capital stock in exchange for certificates representing Tymshare Common Stock, there shall be paid to the record holder of the certificates representing Tymshare Common Stock issued upon such surrender the amount of dividends or other distributions (without interest) which theretofore became payable with respect to the number of shares of Tymshare Common Stock represented by the Tymshare certificate issued upon such surrender.

ARTICLE VI
EFFECTIVE DATE OF MERGER

The Merger shall become effective upon the filing of an executed counterpart of this Agreement of Merger together with certificates of the Constituent Corporations as required by the California Corporations Code with the Secretary of State of the State of California. Tymshare and the Constituent Corporations shall do all other acts and things as shall be necessary or desirable in order to effectuate the Merger.

ARTICLE VII
ABANDONMENT OF MERGER

The Merger may be abandoned, and this Agreement of Merger terminated, at any time before or after approval or adoption by the shareholders of UDC or Survivor, notwithstanding favorable action on the Merger by the shareholders of either or both such corporations, but not later than the Effective Date of Merger, by: (i) the mutual consent of the Board of Directors of UDC, Tymshare and Survivor; (ii) the Board of Directors of Tymshare if any of the conditions of the Merger have not been met and have not been waived; (iii) the Board of Directors of UDC if any of the conditions of the Merger have not been met and have not been waived; or (iv) the Board of Directors of either Tymshare or UDC if the Merger shall not have become effective on or before February 28, 1975, or such later date as the parties may agree upon in writing.

ARTICLE VIII
COUNTERPARTS

This Agreement of Merger may be executed in counterparts, and when so executed each counterpart shall be deemed to be an original, and said counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, Survivor and UDC, pursuant to the approval and authority duly given by resolutions adopted by their respective Boards of Directors, have each caused this Agreement of Merger to be executed by its President and its Secretary and its corporate seal to be affixed.

TYMSHARE SUBSIDIARY, INC.,
a California corporation

[SEAL]

By _____
President

By _____
Secretary

UNITED DATA CENTERS, INC.,
a New York corporation

[SEAL]

By _____
President

By _____
Secretary

STATE OF CALIFORNIA
COUNTY OF SANTA CLARA } ss

On ....., 1974, before me, the undersigned, a Notary Public in and for the said State, personally appeared ..... known to me to be the President, and ..... known to me to be the Secretary, of Tymshare Subsidiary, Inc., known to me to be the persons who executed the within instrument on behalf of the corporation herein named, and acknowledged to me that such corporation executed the within instrument pursuant to its By-Laws or a resolution of its Board of Directors.

Witness my hand and official seal.

Notary Public in and for said State

STATE OF CALIFORNIA
COUNTY OF SANTA CLARA } ss

On ....., 1974, before me, the undersigned, a Notary Public in and for the said State, personally appeared ..... known to me to be the President, and ..... known to me to be the Secretary, of United Data Centers, Inc., known to me to be the persons who executed the within instrument on behalf of the corporation herein named, and acknowledged to me that such corporation executed the within instrument pursuant to its By-Laws or a resolution of its Board of Directors.

Witness my hand and official seal.

Notary Public in and for said State

EXHIBIT A-2

CERTIFICATE OF MERGER

of

TYMSHARE SUBSIDIARY, INC.

and

UNITED DATA CENTERS, INC.

into

TYMSHARE SUBSIDIARY, INC.

(Under Section 907 of the Business Corporation Law)

We, the undersigned, ... being respectively the President and the Secretary of TYMSHARE SUBSIDIARY, INC., a California corporation, and BERNARD GOLDSTEIN and ALBERT A. EISENSTAT being respectively the President and the Secretary of UNITED DATA CENTERS, INC., a New York corporation, hereby certify:

FIRST: A. The name of each constituent corporation is as follows:

(1) TYMSHARE SUBSIDIARY, INC.

(2) UNITED DATA CENTERS, INC.

B. The name of the surviving corporation is TYMSHARE SUBSIDIARY, INC.

SECOND: The designation and number of outstanding shares of each class and series and the voting rights thereof as to each constituent corporation are as follows:

Name of Corporation	Designations and Number of Shares in Each Class or Series Outstanding	Class or Series of Shares Entitled to Vote	Shares Entitled to Vote as a Class or Series
TYMSHARE SUBSIDIARY, INC.	Common Stock, $.10 par value ...,... shares	Common Stock, $.10 par value	None
UNITED DATA CENTERS, INC.	Common Stock, $.10 par value ...,... shares	Common Stock, $.10 par value	None

THIRD: The effective date of the merger is the date of the filing of the Certificate of Merger by the Department of State of the State of New York or the date of the filing of the Agreement of Merger by the Secretary of State of the State of California, whichever occurs last.

FOURTH: A. TYMSHARE SUBSIDIARY, INC. was incorporated under the laws of the State of California on ....., 1974 and on ....., 1974 duly filed with the Department of State of the State of New York an Application for Authority to do business in the State of New York.

B. The Certificate of Incorporation of UNITED DATA CENTERS, INC. was filed by the Department of State of the State of New York on May 8, 1967, a Restated Certificate of Incorporation was filed by the Department of State of the State of New York on March 22, 1968, and a Certificate of Change was filed by the Department of State of the State of New York on July 6, 1971.

FIFTH: A. The merger was authorized by the sole shareholder of TYMSHARE SUBSIDIARY, INC. by the written consent of such shareholder of all the issued and outstanding shares entitled to vote thereon in compliance with the applicable provisions of the laws of the State of California. The laws of the State of California permit the merger herein effected.

B. The merger was authorized by the shareholders of UNITED DATA CENTERS, INC. by the affirmative vote of at least two-thirds of the issued and outstanding shares entitled to vote thereon at a meeting of shareholders.

SIXTH: TYMSHARE SUBSIDIARY, INC., as the surviving corporation, hereby agrees that it may be served with process in the State of New York in any action or special proceeding for the enforcement of any liability or obligation of any domestic corporation or of any foreign corporation, previously amenable to suit in the State of New York, which is a constituent corporation in this merger, and for the enforcement, as provided under the provisions of the Business Corporation Law of the State of New York, of the right of shareholders of any constituent domestic corporation to receive payment for their shares against the surviving corporation.

SEVENTH: TYMSHARE SUBSIDIARY, INC., as the surviving corporation, hereby agrees that, subject to the provisions of Section 623 of the Business Corporation Law of the State of New York, it will promptly pay to the shareholders of UNITED DATA CENTERS, INC. the amount, if any, to which they shall be entitled under the provisions of the New York Business Corporation Law relating to the right of shareholders to receive payment for their shares.

EIGHTH: TYMSHARE SUBSIDIARY, INC., as the surviving corporation, hereby designates the Secretary of State of the State of New York as its agent upon whom process against it may be served in the manner set forth in paragraph (b) of Section 306 of the Business Corporation Law of the State of New York, in any action or special proceeding described in Article SIXTH of this Certificate, and designates as its post office address, to which the Secretary of State shall mail a copy of any process against it served upon him: c/o Spengler Carlson Gubar & Churchill, 280 Park Avenue, New York, New York 10017.

IN WITNESS WHEREOF, the constituent corporations have caused this Certificate to be executed on their behalf and their corporate seals to be affixed thereto, this .... day of ....., 1974, and we affirm the statements contained herein as true under the penalties of perjury.

TYMSHARE SUBSIDIARY, INC.

[Seal]

By _____
....., President

By _____
....., Secretary

UNITED DATA CENTERS, INC.

[Seal]

By _____
Bernard Goldstein, President

By _____
Albert A. Eisenstat, Secretary

EXHIBIT II

NEW YORK BUSINESS CORPORATION LAW

§ 623. PROCEDURE TO ENFORCE SHAREHOLDER'S RIGHT TO RECEIVE PAYMENT FOR SHARES—(a) A shareholder intending to enforce his right under a section of this chapter to receive payment for his shares if the proposed corporate action referred to therein is taken shall file with the corporation, before the meeting of shareholders at which the action is submitted to a vote, or at such meeting but before the vote, written objection to the action. The objection shall include a statement that he intends to demand payment for his shares if the action is taken. Such objection is not required from any shareholder to whom the corporation did not give notice of such meeting in accordance with this chapter or where the proposed action is authorized by written consent of shareholders without a meeting.

(b) Within ten days after the shareholders' authorization date, which term as used in this section means the date on which the shareholders' vote authorizing such action was taken, or the date on which such consent without a meeting was obtained from the requisite shareholders, the corporation shall give written notice of such authorization or consent by registered mail to each shareholder who filed written objection or from whom written objection was not required, excepting any who voted for or consented in writing to the proposed action.

(c) Within twenty days after the giving of notice to him, any shareholder to whom the corporation was required to give such notice and who elects to dissent shall file with the corporation a written notice of such election, stating his name and residence address, the number and classes of shares as to which he dissents and a demand for payment of the fair value of his shares. Any shareholder who elects to dissent from a merger under section 905 (Merger of subsidiary corporation) or paragraph (c) of section 907 (Merger or consolidation of domestic and foreign corporations) shall file a written notice of such election to dissent within twenty days after the giving to him a copy of the plan of merger or an outline of the material features thereof under section 905.

(d) A shareholder may not dissent as to less than all of the shares, as to which he has a right to dissent, held by him of record, that he owns beneficially. A nominee or fiduciary may not dissent on behalf of any beneficial owner as to less than all of the shares of such owner, as to which such nominee or fiduciary has a right to dissent, held of record by such nominee or fiduciary.

(e) Upon filing a notice of election to dissent, the shareholder shall cease to have any of the rights of a shareholder except the right to be paid the fair value of his shares and any other rights under this section. A notice of election may be withdrawn by the shareholder at any time before an offer is made by the corporation, as provided in paragraph (g), to pay for his shares. After such offer, withdrawal of a notice of election shall require the written consent of the corporation. If a notice of election is withdrawn, or the proposed corporate action is abandoned or rescinded, or a court shall determine that the shareholder is not entitled to receive payment for his shares, or the shareholder shall otherwise lose his dissenter's rights, he shall not have the right to receive payment for his shares and he shall be reinstated to all his rights as a shareholder as of the filing of his notice or election, including any intervening preemptive rights and the right to payment of any intervening dividend or other distribution or, if any such rights have expired or any such dividend or distribution other than in cash has been completed, in lieu thereof, at the election of the corporation, the fair value thereof in cash as determined by the board as of the time of such expiration or completion, but without prejudice otherwise to any corporate proceedings that may have been taken in the interim.

(f) At the time of filing the notice of election to dissent or within one month thereafter the shareholder shall submit the certificates representing his shares to the corporation, or to its transfer agent, which shall forthwith note conspicuously thereon that a notice of election has been filed and shall return the certificates to the shareholder or other person who submitted them on his behalf. Any

shareholder who fails to submit his certificates for such notation as herein specified shall, at the option of the corporation exercised by written notice to him within forty-five days from the date of filing of such notice of election to dissent, lose his dissenter's rights unless a court, for good cause shown, shall otherwise direct. Upon transfer of a certificate bearing such notation, each new certificate issued therefor shall bear a similar notation together with the name of the original dissenting holder of the shares and a transferee shall acquire no rights in the corporation except those which the original dissenting shareholder had after filing his notice of election.

(g) Within seven days after the expiration of the period within which shareholders may file their notices of election to dissent, or within seven days after the proposed corporate action is consummated, whichever is later (but in no case later than ninety days from the shareholders' authorization date), the corporation or, in the case of a merger or consolidation, the surviving or new corporation, shall make a written offer by registered mail to each shareholder who has filed such notice of election to pay for his shares at a specified price which the corporation considers to be their fair value. If the corporate action has not been consummated upon the expiration of the ninety day period after the shareholders' authorization date, the offer may be conditioned upon the consummation of such action. Such offer shall be made at the same price per share to all dissenting shareholders of the same class, or if divided into series, of the same series and shall be accompanied by a balance sheet of the corporation whose shares the dissenting shareholder holds as of the latest available date, which shall not be earlier than twelve months before the making of such offer, and a profit and loss statement or statements for not less than a twelve month period ended on the date of such balance sheet or, if the corporation was not in existence throughout such twelve month period, for the portion thereof during which it was in existence. If within thirty days after the making of such offer, the corporation making the offer and any shareholder agree upon the price to be paid for his shares, payment therefor shall be made within sixty days after the making of such offer or the consummation of the proposed corporation action, whichever is later, upon the surrender of the certificates representing such shares.

(h) The following procedure shall apply if the corporation fails to make such offer within such period of seven days, or if it makes the offer and any dissenting shareholder or shareholders fail to agree with it within the period of thirty days thereafter upon the price to be paid for their shares:

(1) The corporation shall, within twenty days after the expiration of whichever is applicable of the two periods last mentioned, institute a special proceeding in the supreme court in the judicial district in which the office of the corporation is located to determine the rights of dissenting shareholders and to fix the fair value of their shares. If, in the case of merger or consolidation, the surviving or new corporation is a foreign corporation without an office in this state, such proceeding shall be brought in the county where the office of the domestic corporation, whose shares are to be valued, was located.

(2) If the corporation fails to institute such proceeding within such period of twenty days, any dissenting shareholder may institute such proceeding for the same purpose not later than thirty days after the expiration of such twenty day period. If such proceeding is not instituted within such thirty day period, all dissenter's rights shall be lost unless the supreme court, for good cause shown, shall otherwise direct.

(3) All dissenting shareholders, excepting those who, as provided in paragraph (g), have agreed with the corporation upon the price to be paid for their shares, shall be made parties to such proceeding, which shall have the effect of an action quasi in rem against their shares. The corporation shall serve a copy of the petition in such proceeding upon each dissenting shareholder who is a resident of this state in the manner provided by law for the service of a summons, and upon each nonresident dissenting shareholder either by registered mail and publication, or in such other manner as is permitted by law. The jurisdiction of the court shall be plenary and exclusive.

(4) The court shall determine whether each dissenting shareholder, as to whom the corporation requests the court to make such determination, is entitled to receive payment for his shares. If the corporation does not request any such determination or if the court finds that any dissenting shareholder is so entitled, it shall proceed to fix the value of the shares, which, for the purpose of this section, shall be the fair value as of the close of business on the day prior to the shareholders' authorization date, excluding any appreciation or depreciation directly or indirectly induced by such corporate action or its proposal. The court may, if it so elects, appoint an appraiser to receive evidence and recommend a decision on the question of fair value. Such appraiser shall have the power, authority and duties specified in the order appointing him, or any amendment thereof.

(5) The final order in the proceeding shall be entered against the corporation in favor of each dissenting shareholder who is a party to the proceeding and is entitled thereto for the value of his shares so determined.

(6) The final order shall include an allowance for interest at such rate as the court finds to be equitable, from the shareholders' authorization date to the date of payment. If the court finds that the refusal of any shareholder to accept the corporate offer of payment for his shares was arbitrary, vexatious or otherwise not in good faith, no interest shall be allowed to him.

(7) The costs and expenses of such proceeding shall be determined by the court and shall be assessed against the corporation, except that all or any part of such costs and expenses may be apportioned and assessed, as the court may determine, against any or all of the dissenting shareholders who are parties to the proceeding if the court finds that their refusal to accept the corporate offer was arbitrary, vexatious or otherwise not in good faith. Such expenses shall include reasonable compensation for and the reasonable expenses of the appraiser, but shall exclude the fees and expenses of counsel for and experts employed by any party unless the court, in its discretion, awards such fees and expenses. In exercising such discretion, the court shall consider any of the following: (A) that the fair value of the shares as determined materially exceeds the amount which the corporation offered to pay; (B) that no offer was made by the corporation; and (C) that the corporation failed to institute the special proceeding within the period specified therefor.

(8) Within sixty days after the final determination of the proceeding, the corporation shall pay to each dissenting shareholder the amount found to be due him, upon surrender of the certificates representing his shares.

(i) Shares acquired by the corporation upon the payment of the agreed value therefor or of the amount due under the final order, as provided in this section, shall become treasury shares or be cancelled as provided in section 515 (Reacquired shares), except that, in the case of a merger or consolidation, they may be held and disposed of as the plan of merger or consolidation may otherwise provide.

(j) No payment shall be made to a dissenting shareholder under this section at a time when the corporation is insolvent or when such payment would make it insolvent. In such event, the dissenting shareholder shall, at his option:

(1) Withdraw his notice of election, which shall in such event be deemed withdrawn with the written consent of the corporation; or

(2) Retain his status as a claimant against the corporation and, if it is liquidated, be subordinated to the rights of creditors of the corporation, but have rights superior to the non-dissenting shareholders, and if it is not liquidated, retain his right to be paid for his shares, which right the corporation shall be obliged to satisfy when the restrictions of this paragraph do not apply.

(3) The dissenting shareholder shall exercise such option under subparagraph (1) or (2) by written notice filed with the corporation within thirty days after the corporation has given him written notice that payment for his shares cannot be made because of the restrictions of this paragraph. If the dissenting shareholder fails to exercise such option as provided, the corporation shall exercise the option by written notice given to him within twenty days after the expiration of such period of thirty days.

(k) The enforcement by a shareholder of his right to receive payment for his shares in the manner provided herein shall exclude the enforcement by such shareholder of any other right to which he might otherwise be entitled by virtue of share ownership, except as provided in paragraph (e), and except that this section shall not exclude the right of such shareholder to bring or maintain an appropriate action to obtain relief on the ground that such corporate action will be or is unlawful or fraudulent as to him.

(l) Except as otherwise expressly provided in this section, any notice to be given by a corporation to a shareholder under this section shall be given in the manner provided in section 605 (Notice of meetings of shareholders).

(m) This section shall not apply to foreign corporations except as provided in subparagraph (e)(2) of section 907 (Merger or consolidation of domestic and foreign corporations).

§ 910. Right of Shareholders to Receive Payment for Shares Upon Merger, Consolidation or Sale, Lease, Exchange or Other Disposition of Assets—(a) A shareholder of a domestic corporation shall, subject to and by complying with Section 623 (Procedure to enforce shareholder's right to receive payment for shares), have the right to receive payment of the fair value of his shares and the other rights and benefits provided by such section, in the following cases:

(1) Any shareholder entitled to vote who does not assent to the taking of an action specified in subparagraphs (A) and (B).

(A) Any plan of merger or consolidation to which the corporation is a party: except that the right to receive payment of the fair value of his shares shall not be available:

(i) To a shareholder of the surviving corporation in a merger authorized by section 905 (Merger of subsidiary corporation), or paragraph (c) of section 907 (Merger or consolidation of domestic and foreign corporations); and

(ii) To a shareholder of the surviving corporation in a merger authorized by this article, other than a merger specified in sub-paragraph (i), unless such merger effects one or more of the changes specified in subparagraph (b) (6) of section 806 (Provisions as to certain proceedings) in the rights of the shares held by such shareholder.

(B) Any sale, lease, exchange or other disposition of all or substantially all of the assets of a corporation which requires shareholder approval under section 909 (Sale, lease, exchange or other disposition of assets) other than a transaction wholly for cash where the shareholders' approval thereof is conditioned upon the dissolution of the corporation and the distribution of substantially all its net assets to the shareholders in accordance with their respective interests within one year after the date of such transaction.

(2) Any shareholder of the subsidiary corporation in a merger authorized by section 905 or paragraph (c) of section 907, who files with the corporation a written notice of election to dissent as provided in paragraph (c) of section 623.