memo

DATE: May 27, 1975

TO: All Tymshare Employees

COPIES:

FROM: Edward J. Field

SUBJECT: EMPLOYEE STOCK PURCHASE PLAN

In consideration of a number of Federal income tax factors affecting employee stock purchase plans, the Board of Directors has amended the 1972 Stock Purchase Plan (the "Plan") as follows:

1. The purchase price of shares under the Plan shall be the lower of (a) 85% of the fair market value of the stock at the beginning of the 12-month offering period, or (b) 85% of the fair market value of the stock at the end of the 12-month offering period.

2. At the beginning of an offering period, each participant shall be granted an option to purchase up to that number of shares purchasable by the participant's accumulated payroll deductions (which may not exceed 10% of annual compensation) divided by 85% of the fair market value of the stock at the <u>beginning</u> of the offering period. This results in the participant knowing at the beginning of the offering period the exact maximum number of shares which he may purchase should he decide to exercise the option.

3. Participants in the plan may only lower, and not increase, their elected rate of payroll deductions.

4. To the extent an employee's payroll deductions exceed that amount required to purchase the shares subject to option, the employee shall be refunded such excess amount with interest thereon at 3%, which is an effective rate approximating 6% per year on the average balance of the refundable amount.

The principal effects of these changes are (1) the maximum number of shares which can be purchased in an offering period will be known by the participant at the beginning of each offering period, even though the purchase price is not then known; (2) the purchase price shall be 15% below the fair market value of the Company's stock; and (3) since the purchase price is 85% of fair market value, you may incur ordinary income tax in the year you dispose of the shares even though you have satisfied the holding period requirements.

In order for you to avoid incurring taxable income at the time of option grant (which is the beginning of the offering period) or at the time of exercise of the option (which is at the end of the offering period), you must not dispose of the shares within two years after the date of option grant. If you meet these requirements, the lesser of (a) the excess of the fair market value of the shares at the time of disposition over the option price, or (b) the excess of the fair market value of the shares at the time the option was granted over the option price (which option price under the Plan will be computed as of the grant date, even though you may actually purchase the stock at a lower price) will be treated as ordinary income to you. Any further gain upon such disposition will be taxed at capital gains rates.

The following examples illustrate the effect of these changes under the Plan:

Example A. Assume that a new 12-month offering period begins June 1, 1975 and that the fair market value of the Company's stock on that date is $10 per share, 85% of which is $8.50. Assume that at the end of the offering period on June 1, 1976, the fair market value of the Company's stock is $15 per share, 85% of which is $12.75. Assume that your annual compensation is $20,000, and that your payroll deductions during the period totalled $2,000.

Shares Purchased	Per Share Price	Total Price	Fractional Share Cash Refund
235	$8.50	$1,997.50	$2.50

Example B. Assume the same facts as in Example A, except that the fair market value of the stock at the end of the period was $9 per share, 85% of which is $7.65 per share.

Shares Purchased	Per Share Price	Total Price	Cash Refund Plus Interest
235	$7.65	$1,797.75	$202.25

Example B illustrates that the maximum number of shares which may be purchased is determined at the beginning of the offering period by dividing the payroll deductions (42,000) by 85% of the fair market value of the stock at the beginning of the period ($8.50) for a total of 235 shares. Accordingly, a cash refund of $202.25 results, with interest on that amount of 3% ($6.07).

Example C. Assume the same facts as in Example A, and that on July 1, 1977 (which is more than two years after the option grant date of June 1, 1975 and more than six months after the issuance of the shares on June 1, 1976), you sell the 235 shares at a price of $20 per share.

Taxable Ordinary Income	Taxable Capital Gains
$352.50 ($1.50 per share)	$2,350 ($10.00 per share)

This result is determined in the following manner: the excess of the per share fair market value of the stock at the time of sale ($20) over the per share price paid for the stock ($8.50) is $11.50; and the excess of the per share fair market value of the stock at the time the option was granted ($10) over the option price ($8.50) is $1.50. Accordingly, $1.50, the lesser amount, is taxable as ordinary income. The seller's cost basis of the stock is then increased by $1.50, and the balance of realized gain of $10 per share is treated as long-term capital gain.

Example D. Assume the same facts as in Example B, and that on July 1, 1977 you sell the stock at a price of $20 per share.

Taxable Ordinary Income	Taxable Capital Gains
$352.50 ($1.50 per share)	$2,549.75 ($10.85 per share)

This result is determined in the following manner: the excess of the per share fair market value of the stock at the time of sale ($20) over the per share price paid for the stock($7.65) is $12.35; and the excess of the per share fair market value of the stock at the time the option was granted ($10) over the option price, computed as if the option had been exercised at such time ($8.50), is $1.50. Again, $1.50, the lesser amount, is taxable as ordinary income. The seller's cost basis is then increased by $1.50, and the balance of realized gain of $10.85 per share is treated as long-term capital gain.

Example E. Assume the same facts of Example C, except that on July 1, 1977 you sell the shares at a price of $7 per share. Since the sales price of $7 per share is less than the option price of $8.50 per share, there is no ordinary income and you will have a capital loss equal to $1.50 per share.

The Board of Directors has determined that the next 12-month offering under the Plan will begin on June 30, 1975. Enclosed herewith for your use is a subscription agreement on which you may elect to participate in the offering. It is important that you return the subscription agreement to Lynn Sanden in Personnel no later than June 30, 1975. The applicable stock purchase plan withholdings will begin on payrolls with a period ending date <u>after</u> June 29, 1975.

Edward J. Field

Edward J. Field
Vice President, Finance

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Encl.

TYMSHARE, INC.
EMPLOYEE STOCK PURCHASE PLAN
SUBSCRIPTION AGREEMENT

____Original Application
____Change in Payroll Deduction Rate
____Change of Beneficiary(ies)

1. ______________________________hereby elects to participate in the TYMSHARE, INC. Employee Stock Purchase Plan (the "Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock, without par value, in accordance with this Subscription Agreement and the Stock Purchase Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of ______________% of my compensation in accordance with the Stock Purchase Plan.

3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock, without par value, at the applicable purchase price determined in accordance with the Stock Purchase Plan. I further understand that, except as otherwise set forth in the Stock Purchase Plan, shares will be purchased for me automatically at the end of the offering period unless I otherwise withdraw from the Stock Purchase Plan by giving written notice to the Company for such purpose.

4. I understand that prior to the commencement of the offering period I will receive a copy of the Company's most recent prospectus which describes the Stock Purchase Plan. A copy of the complete "Tymshare, Inc. Employee Stock Purchase Plan" is on file with the Company at its corporate offices in Cupertino, California.

5. Shares purchased for me under the Stock Purchase Plan should be issued in the name(s) of:____.

6. I hereby agree to be bound by the terms of the Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Stock Purchase Plan.

7. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Stock Purchase Plan.

NAME: (please print)____
(First) (Middle) (Last)

____
(Relationship) ____
(Address)

NAME: (please print)____
(First) (Middle) (Last)

____
(Relationship) ____
(Address)

Dated_________________________ Signature:______________________________

I do not wish to participate in the Employee Stock Purchase Plan.

Signature:____