



TYMSHARE, INC.

EMPLOYEE STOCK PURCHASE PLAN SECOND TYMSHARE QUALIFIED STOCK OPTION PLAN THIRD TYMSHARE QUALIFIED STOCK OPTION PLAN

This Prospectus refers to 510,048 shares of Common Stock, without par value, of Tymshare, Inc. (the "Company") which are offered for sale to those employees of the Company and its subsidiaries who participate in the Company's Employee Stock Purchase Plan and to those employees who hold options to purchase such shares granted or to be granted by the Board of Directors of the Company under its Second and Third Employee Qualified Stock Option Plans. The terms and conditions, including the prices of the shares of Common Stock, are governed by the provisions of the respective plans and the agreements thereunder between the Company and participating employees.

**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 June 14, 1974

This Prospectus contains information concerning Tymshare, Inc., its Employee Stock Purchase Plan and its Employee Qualified Stock Option Plans; but does not contain all the information set forth in the Registration Statement which the Company has filed with the Securities and Exchange Commission under the Securities Act of 1933. The Registration Statement, including various exhibits, may be inspected at the Commission's office in Washington D.C.

TYMSHARE, INC.
EMPLOYEE STOCK PURCHASE PLAN
SECOND TYMSHARE QUALIFIED STOCK OPTION PLAN
THIRD TYMSHARE QUALIFIED STOCK OPTION PLAN

INTRODUCTION

This Prospectus relates to Common Stock, without par value ("Common Stock"), of Tymshare, Inc. reserved for purchase by eligible employees of the Company and its subsidiaries under its Employee Stock Purchase Plan (the "Stock Purchase Plan") and to Common Stock issuable to the employees of the Company and its subsidiaries upon exercise of options granted and to be granted under the Company's Second and Third Tymshare Qualified Stock Option Plans (the "Second Stock Option Plan" and the "Third Stock Option Plan"). This Prospectus sets forth information concerning the plans and the Company and will be distributed to participating employees pursuant to the Securities Act of 1933. The only subsidiary of the Company which currently participates in the respective plans is Tymshare East, Inc., a California corporation. Both Tymshare, Inc. and its subsidiary, Tymshare East, Inc., are sometimes collectively referred to herein as the "Company".

The executive offices of the Company and Tymshare East, Inc., are located at 10340 Bubb Road, Cupertino, California 95014 (telephone number [408] 257-6550).

DESCRIPTION OF STOCK PURCHASE PLAN

The Stock Purchase Plan was adopted by the Board of Directors of the Company on February 8, 1972, and was approved by the shareholders of the Company on May 13, 1972, to allow employees of the Company (including officers) to purchase shares of Common Stock. In 1974 an amendment to the Stock Purchase Plan increasing the number of shares reserved for issuance thereunder by 75,000 was adopted by the Board of Directors and approved by the shareholders, to make a total of 150,000 shares of Common Stock to have been reserved for purchase under the Stock Purchase Plan. As of May 25, 1974 an aggregate of 16,454 shares had been issued in the first 12 month offering under the Stock Purchase Plan at a purchase price of \$8.25 per share, leaving 133,546 shares available for issuance under the plan. At May 25, 1974 approximately 290 employees were participating in the second 12 month offering under the plan and payroll deductions amounted to approximately \$157,800. At May 25, 1974 the Company employed 558 persons.

Purpose:

The purpose of the Stock Purchase Plan is to provide employees of the Company and its subsidiaries with an opportunity to purchase Common Stock of the Company through payroll deductions.

Administration:

The Stock Purchase Plan is to be administered by the Board of Directors of the Company or a committee appointed by the Board and is currently being administered by the Board of Directors. All questions of interpretation or application of the Stock Purchase Plan are determined by the Board of Directors or its appointed committee, and its decisions are final, conclusive and binding upon all participants. Members of an appointed committee who are eligible employees are permitted to participate in the Stock Purchase Plan.

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No person has been authorized to give any information or make any representations, other than those contained in this Prospectus, in connection with the Employee Stock Purchase Plan and the Employee Qualified Stock Option Plans described in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company. This Prospectus does not constitute an offering in any state in which such offering may not lawfully be made.

Eligibility:

Any employee who is customarily employed for at least 20 hours per week and for more than five months per year by the Company or its participating subsidiaries is eligible to participate in the Stock Purchase Plan, provided that such employee is employed by the Company on the date his participation in the plan is effective and subject to certain limitations on stock ownership as defined in the Stock Purchase Plan.

Offering Dates:

The Stock Purchase Plan is implemented by one offering during each 12 month period of the plan. The first 12 month offering ended in August 1973, and a second 12 month offering was approved by the Board of Directors and commenced in October 1973.

Participation In the Plan:

Eligible employees become participants in the Stock Purchase Plan by delivering to the Company a subscription agreement authorizing payroll deductions on a form provided by the Company. An eligible employee who wishes to become a participant in an offering must file his subscription agreement with the Company's payroll office prior to the commencement of the offering.

Number of Shares to be Purchased:

The number of shares which may be purchased by each eligible employee under the Stock Purchase Plan is that number of full shares which the accumulated payroll deductions in the employee's account at the end of the offering period will purchase at the applicable purchase price. If the total number of shares to be purchased exceeds the number of shares available in the Stock Purchase Plan, the Company will make a pro rata allocation of the remaining shares in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction to each employee affected thereby and shall return to each employee the payroll deductions not used to purchase stock.

Notwithstanding the foregoing, no employee shall be permitted to subscribe for stock under the Stock Purchase Plan if such employee owns 5% or more of the voting stock or value of all classes of stock of the Company or its subsidiaries (including stock which may be purchased under subscriptions under the Stock Purchase Plan or pursuant to any other options). Nor shall any employee be entitled to buy more than \$25,000 worth of stock (determined at the fair market value of the shares at the time the option is granted) in any calendar year.

The shares to be sold to participants under the Stock Purchase Plan may, at the election of the Company, be either treasury shares or shares authorized but unissued.

Purchase Price:

The purchase price at which the shares will be sold to employees participating in the Stock Purchase Plan shall be the lower of 100% of the fair market value of the Common Stock of the Company at the beginning or at the end of the 12 month offering period. For the purposes of the Stock Purchase Plan, the fair market value of the Company's Common Stock shall be determined by the Company's Board of Directors in the exercise of their discretion in good faith.

Payment of Purchase Price; Payroll Deductions:

The purchase price of the shares to be acquired under the Stock Purchase Plan is accumulated by payroll deductions over the 12 month offering period. The deductions may not exceed 10% of a

participant's compensation. A participant may alter his rate of payroll deductions at any time during the offering period by filing with the Company a new authorization for payroll deduction; the new rate shall become effective within fifteen days after the Company's receipt of the authorization. Payroll deductions for a participant shall commence on the first payday following the offering date and shall continue to the end of the offering unless sooner altered or terminated as provided in the Stock Purchase Plan.

All payroll deductions made for a participant are credited to his account under the Stock Purchase Plan and are deposited with the general funds of the Company; no interest accrues on such payroll deductions deposited with the Company. All payroll deductions received or held by the Company under the Stock Purchase Plan may be used by the Company for any corporate purpose. No charges for administrative or other costs may be made by the Company against the payroll deductions of a participant in the plan.

Purchase of Stock; Withdrawal:

While each employee who participates in the Stock Purchase Plan is required to sign a subscription agreement authorizing payroll deductions, he may terminate his interest in the Stock Purchase Plan by withdrawing all, but not less than all, of the accumulated payroll deductions credited to his account by signing and delivering to the Company notice on a form provided for such purpose. Such termination may be elected by any employee at any time prior to the end of the 12 month offering period.

The withdrawal by the employee of his accumulated payroll deductions automatically terminates the employee's interest in the Stock Purchase Plan. In effect, therefore, the employee is given an option which he may or may not exercise during the 12 month offering period. By executing the subscription agreement, the employee does not obligate himself to make the stock purchase, rather the subscription agreement is merely an election by the employee to place shares under option to him. Unless the employee's participation is discontinued, his option for the purchase of shares will be exercised automatically at the end of the offering period and the maximum number of full shares will be purchased for him at the applicable price.

A participant's withdrawal from an offering under the Stock Purchase Plan will not have any effect upon his eligibility to participate in a succeeding offering under the Stock Purchase Plan.

Termination of Employment:

Termination of a participant's employment for any reason, including retirement or death or the failure of the participant to remain in the continuous employ of the Company for at least 20 hours per week, cancels his participation in the Stock Purchase Plan immediately. In such event, the payroll deductions credited to the participant's account will be returned to him, or in the case of death, to the person or persons entitled thereto as defined in the Stock Purchase Plan.

Repayment of Purchase Price Without Interest:

In the event an employee's interest in the Stock Purchase Plan is terminated, or in the event the Stock Purchase Plan is terminated by the Board of Directors of the Company, the Company shall promptly deliver to the employee the payroll deductions credited to his account. No interest shall accrue on the payroll deductions of a participant in the plan.

Capital Changes:

In the event of changes in the Common Stock of the Company due to stock dividends or other changes in capitalization, or in the event of any merger, sale or any other reorganization, appropriate adjustments will be made by the Company in the shares subject to purchase and in the price per share.

Nonassignability:

No rights or accumulated payroll deductions of an employee under the Stock Purchase Plan may be pledged, assigned, or transferred for any reason and any such attempt may be treated by the Company as an election to withdraw from the Stock Purchase Plan.

Reports:

Individual accounts will be maintained for each participant in the Stock Purchase Plan. Each participant shall receive promptly following the end of the 12 month offering period a report of his account setting forth the total payroll deductions accumulated, the number of shares purchased and the remaining cash balance, if any.

Amendment and Termination of the Plan:

The Board of Directors of the Company may at any time amend or terminate the Stock Purchase Plan, except that such termination cannot affect options previously granted nor may any amendment make any change in an option theretofore granted which adversely affects the rights of any participant. No amendment may be made to the Stock Purchase Plan without prior approval of the shareholders of the Company if such amendment would require the sale of more shares than are authorized or permit payroll deductions at a rate in excess of 10% of a participant's compensation.

Tax Information:

The Stock Purchase Plan and the right of participants to make purchases thereunder is intended to qualify under the provisions of Sections 421 and 423 of the Internal Revenue Code of 1954, as amended. Under these provisions, if shares of stock are issued to a participant under his option to purchase the shares, and no disposition of such shares is made by him within two years of the date of the option grant nor within six months after the transfer of such shares to him, then (a) the participant will not be deemed to have received any income for Federal income tax purposes as a result of participating in the Stock Purchase Plan; (b) any gain or loss realized by the participant upon the resale of the shares will be treated as long-term capital gain or loss; and (c) no deduction for Federal income tax purposes will be allowed the Company with respect to the grant or exercise of rights to purchase shares under Stock Purchase Plan. If shares acquired under the plan are held less than two years from the date the shares are placed under option to the participant, the excess, if any, of the fair market value of the shares on the date of issuance over the subscription price will be treated as ordinary income to the participant at the time the shares are disposed of, and will be allowed as a deduction to the Company.

DESCRIPTION OF THE STOCK OPTION PLANS

The Second Stock Option Plan was adopted by the Board of Directors and approved by the shareholders of the Company on May 15, 1968. A total of 70,000 shares of Common Stock have been made available for options under the Second Stock Option Plan. As of May 25, 1974 options previously granted under the Second Stock Option Plan covering an aggregate of 38,782 shares had been exercised, options covering an aggregate of 21,610 shares remain outstanding and 9,608 shares remain available for future grants.

The Third Stock Option Plan was adopted by the Board of Directors on December 11, 1969, approved by the shareholders of the Company on March 6, 1970, and made available for options 70,000 shares of Common Stock. By two subsequent amendments to the Third Stock Option Plan adopted by the Board of Directors and approved by the shareholders of the Company, that amount has been increased to a total of 350,000 shares of Common Stock. As of May 25, 1974 options pre-

viously granted under the Third Stock Option Plan covering an aggregate of 4,716 shares had been exercised, options covering an aggregate of 253,912 shares remain outstanding and 91,372 shares remain available for future grants.

All options granted under the Stock Option Plans are designed to meet the requirements for "qualified stock options", as defined in Sections 421 and 422 of the Internal Revenue Code of 1954, as amended. See "Tax Information" for information concerning the tax treatment of qualified stock options.

The Second Stock Option Plan and the Third Stock Option Plan are sometimes collectively referred to herein as the "Stock Option Plans".

Purpose:

The purpose of the Stock Option Plans is to provide an incentive to key employees of the Company so that they may acquire or increase their proprietary interest in the success of the Company, and to encourage them to remain in the employ of the Company.

Administration:

Each Stock Option Plan is administered by the Board of Directors of the Company or by a committee of the Board. No member of the Board may vote on any option to be granted to him nor take part in any consideration of the Stock Option Plans as they may apply to himself. The interpretation and construction of any provision of the Stock Option Plans by the Board shall be final and conclusive.

Eligibility:

Each Stock Option Plan provides that options may be granted to key executive officers and other key employees (either of whom may also be directors) of the Company who do not own at the time of grant of options more than 5% of the outstanding capital stock of the Company. The Board of Directors or a committee of the Board selects the participants and the number of shares to be subject to each option.

The maximum number of shares available to any one employee under the Second Stock Option Plan and Third Stock Option Plan is 20% of the total shares reserved for option under each Stock Option Plan (14,000 shares and 70,000 shares, respectively). Neither Stock Option Plan provides for a minimum number of option shares which may be received by any one employee.

Terms of Options:

Each option granted under the Stock Option Plans is for a period of five years from the date the option is granted, must be evidenced by a stock option agreement between the Company and the person to whom such option is granted, and is subject to the following additional terms and conditions:

(a) *Exercise of the Option:* The optionee must earn the right to exercise his option by continuing to work for the Company. Options shall be exercised during a four year period commencing one year from the date the option is granted and ending five years after the date the option is granted. Within this limitation, the Board of Directors may determine when options granted may be exercisable provided that in any event options may be exercised to the extent of 25% per year of the total number of option shares. Under the Stock Option Plans the right to exercise the option accrues cumulatively during the option period. Notwithstanding the foregoing, an option is not exercisable if other options under the Stock Option Plans granted to the employee at an earlier time and with a higher option price are outstanding. An option is exercised by giving written notice of exercise to the Company, specifying the number of full shares of Com-

mon Stock to be purchased, and upon tender of payment to the Company of the purchase price. The purchase price of the shares purchased upon exercise of any option shall be paid in cash, by certified check or by bank draft.

(b) *Option Price:* The option price shall not be less than 100% of the fair market value of the Common Stock on the date the option is granted. The Board of Directors of the Company shall determine such fair market value based upon the following criteria:

(i) If there is a market for the shares of Common Stock which exists as of the date of granting of the option, fair market value shall be the mean between the highest and lowest selling prices of known sales of such stock on the date of, or on the last preceding business day on which there were known sales of such stock prior to the date of granting of the option;

(ii) In the event there is no market for the Common Stock of the Company as of the date of granting of the option, the Board of Directors shall determine the fair market value of the shares based upon such criteria as deemed relevant by the Board.

(c) *Termination of Employment:* Both Stock Option Plans provide that if the optionee's employment by the Company is terminated (i) for cause (i.e. because of misfeasance, malfeasance, or failure to properly work or perform duties), then such optionee's option shall be cancelled and the optionee shall have no further right to exercise the option or (ii) for any other reason other than death, and the optionee has held the option for at least one year, then such option may be exercised within 15 days (60 days for options granted prior to March 2, 1971) after the termination of employment or before the expiration date of the option, whichever is earlier, as to all or part of the shares as to which the optionee was entitled to exercise at the time of termination and which option has not then been exercised.

(d) *Death:* If the optionee should die before exercising his option in full, his option may be exercised at any time within three months after death or before the expiration date of his option (whichever shall be earlier) to the extent the optionee was entitled to exercise the option at the time of his death.

(e) *Termination of Options:* No option is exercisable by any person after the expiration of five years from the date the option was granted. Shares of Common Stock not exercised under options which terminate or expire for any reason are returned to the plan and are available for future grants.

(f) *Options Not Transferable:* The option is nontransferable by the optionee, otherwise than by will or the laws of descent and distribution, and is exercisable during his lifetime only by him or, in the event of his death, by a person who acquires the right to exercise the option by bequest or inheritance or by reason of the death of the optionee.

(g) *Repurchase of Shares:* The Company has the right to repurchase shares of Common Stock acquired pursuant to the exercise of options under the Stock Option Plans, if the optionee, for any reason, leaves the employ of the Company within three years of the date of the initial grant of any option to purchase Common Stock pursuant to a Stock Option Plan. The Company may exercise the right of repurchase by serving notice in writing to the optionee within 30 days after the date of the optionee's termination of employment, or the date of exercise of any options after termination of employment, whichever event shall occur later. The purchase price of the shares repurchased shall be the fair market value of the Common Stock of the Company as of the date of the optionee's termination of employment. Any shares repurchased by the Company shall be paid for in cash at the time the shares are transferred.

(h) *Other Provisions:* The option agreement may contain such other terms, provisions and conditions not inconsistent with the Stock Option Plans as may be determined by the Board of Directors.

Adjustments Upon Changes in Capitalization:

In the event of certain changes in the Company's capitalization or corporate structure, such as a stock split, stock dividend, recapitalization or other like capital adjustment, or a corporate reorganization, merger, or consolidation, such adjustments shall be made in the number of shares subject to the Stock Option Plans and the number and option price of shares subject to outstanding options as is necessary in the opinion of the Company's Board of Directors to effectuate an equitable and proportionate adjustment of the terms of the options.

Amendment and Discontinuance:

The Board of Directors may alter, amend, suspend or discontinue the Stock Option Plans at any time or from time to time with respect to any shares as to which options have not then been granted, provided that any change in the aggregate number of shares subject to option shall be approved by the shareholders of the Company. In any event, the Second Stock Option Plan shall terminate in May 1978 and the Third Stock Option Plan shall terminate in December 1979.

Tax Information:

It is intended that options granted under the Stock Option Plans will qualify as "qualified stock options" under the provisions of Sections 421 and 422 of the Internal Revenue Code of 1954, as amended. Under these provisions, if shares of stock are issued to an optionee upon the exercise of a qualified stock option, and no disposition of such shares is made by him within three years after the date of transfer of the shares to him then (a) the optionee will not be deemed to have received any income for Federal income tax purposes as a result of the grant or the exercise of the option unless the optionee incurs "tax preference" income as described below; (b) any gain or loss realized by the optionee upon a resale of such shares will be treated as a long-term capital gain or loss; and (c) no deduction for Federal income tax purposes will be allowed the Company as a result of the grant or exercise of the option. If shares acquired pursuant to a qualified stock option plan have been held less than three years when disposed of (except upon death), the excess, if any, of the fair market value of such shares on the date of acquisition (or the amount realized on the disposition of such shares, if lower) over the option price will be treated as ordinary income to the optionee at the time of disposition of the shares, and will be allowed as a deduction to the Company.

In order to qualify for such favorable tax treatment, the option must, among other things, have an option price of not less than 100% of the fair market value of the shares when the option is granted, must not be exercisable more than five years after the date of grant and must not be exercisable while any other qualified stock option granted to the optionee at an earlier time and with a higher option price is outstanding. Further, the optionee must not have owned, at the time of grant, stock (including stock to be purchased pursuant to the option or any other option) possessing more than five percent of the total combined voting power or value of all classes of stock of the Company or of any of its parent or subsidiary companies unless the equity capital of the Company or companies is less than \$2,000,000 at the time of grant, in which case a higher percentage (but not more than ten percent) can be owned.

Under the Tax Reform Act of 1969, the exercise of qualified stock options (regardless of the date of grant) after December 31, 1969 may give rise to an item of tax preference. The law classifies as a tax preference item the difference between the option price and the fair market value of the stock at the time the option is exercised. Tax preference income is subject to a 10% tax, in addition to other taxes, to the extent that the sum of preference income for the year exceeds the sum of (i) \$30,000, (ii) income tax liability for the year of exercise, and (iii) in certain cases, a carry-over of prior years' taxes.

The Ways and Means Committee of the House of Representatives has tentatively agreed to incorporate into its 1974 Tax Reform Bill a change whereby "qualified stock options" would lose certain favorable tax treatment for Federal income tax purposes. Under the proposed change, for qualified stock options granted after May 8, 1974 the excess, if any, of the fair market value of the shares issued upon exercise of an option over the option price would be treated as ordinary income to the optionee in the year of exercise and would be allowed as a deduction to the Company. The Department of the Treasury has indicated that it opposes the proposed change. At the present time it is impossible to predict whether this proposed change will be enacted into law.

OUTSTANDING OPTIONS

The following table sets forth information with respect to all options to purchase Common Stock granted pursuant to the Stock Option Plans which were outstanding as of May 25, 1974 and held by all employees, including officers. The option price in all cases is not less than the fair market value of the stock on the date of grant of each option. All of the options expire no later than five years after the date of grant. As of May 25, 1974 no director of the Company held any of the options.

<u>Number of Shares Subject to Outstanding Options</u>	<u>Average Purchase Price Per Share</u>	<u>Range of Expiration Dates</u>
275,522	\$7.48	September 1974 to May 1979

The following table sets forth information with respect to options outstanding under the Stock Option Plans held by each officer of the Company whose aggregate direct remuneration exceeds \$30,000 and by all officers of the Company as a group at May 25, 1974.

<u>Name or Identity of Group</u>	<u>Number of Shares Subject to Option</u>	<u>Average Purchase Price Per Share</u>	<u>Range of Expiration Dates of Options</u>
Ronald W. Braniff	18,500	\$ 7.02	9/74 to 7/78
Edward J. Field	16,120	7.01	9/74 to 7/78
Alden R. Heintz	8,560	7.07	9/73 to 7/78
Warren F. Prince	15,000	7.08	2/76 to 7/78
Laszlo L. Rakoczi	7,500	10.50	5/79
All officers as a group	65,680	7.44	9/74 to 5/79

MARKET PRICES OF COMMON STOCK

The Company's Common Stock was not publicly held or traded until September 1970. Since that time it has been traded in the over-the-counter market. The range of the high and low bid prices of the Common Stock in the over-the-counter market on a quarterly basis since trading commenced is set forth in the following table. Until approximately October 1971, bid prices were provided to the Company by local brokerage firms. Since then the bid prices have been reported in various newspapers or by NASDAQ. The quotations in the over-the-counter market represent prices between dealers, do not include retail mark-up, markdown or commission, and do not represent actual transactions.

	<u>High Bid</u>	<u>Low Bid</u>
<u>1970</u>		
Third Quarter (From September 24)	\$ 7 $\frac{1}{8}$	\$6
Fourth Quarter	8 $\frac{7}{8}$	4
<u>1971</u>		
First Quarter	9 $\frac{3}{8}$	3 $\frac{5}{8}$
Second Quarter	14 $\frac{1}{4}$	8 $\frac{5}{8}$
Third Quarter	12	7 $\frac{1}{8}$
Fourth Quarter	9 $\frac{3}{4}$	6 $\frac{5}{8}$
<u>1972</u>		
First Quarter	9 $\frac{5}{8}$	6 $\frac{7}{8}$
Second Quarter	9	6 $\frac{5}{8}$
Third Quarter	11	7 $\frac{5}{8}$
Fourth Quarter	10 $\frac{3}{8}$	7 $\frac{5}{8}$
<u>1973</u>		
First Quarter	11 $\frac{1}{2}$	7 $\frac{1}{4}$
Second Quarter	7 $\frac{7}{8}$	6
Third Quarter	12 $\frac{5}{8}$	7 $\frac{1}{8}$
Fourth Quarter	13 $\frac{1}{4}$	7
<u>1974</u>		
First Quarter	10 $\frac{5}{8}$	7 $\frac{1}{4}$

As reported by NASDAQ, the representative closing bid and asked prices for the Company's Common Stock on May 24, 1974 were \$10 $\frac{3}{4}$ and \$11 $\frac{1}{4}$, respectively.

TYMSHARE, INC.

Tymshare, Inc. was incorporated in California in January 1966. The Company is engaged principally in the business of offering remote access computer services utilizing its own computer systems and international data communications network.

The Company has, from time to time, acquired other businesses in the remote access computer services industry. The Company 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 the Company 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 petro-chemical industry in the Southwestern United States. In 1973 the Company 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 the Company's development of an in-house capability for maintenance of its computer systems.

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

<u>Name of Business Acquired</u>	<u>Date of Acquisition</u>	<u>Consideration Paid</u>
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 29, 1968 and February 28, 1969 and 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 the time of the merger, Dial-Data, Inc. had, as of February 28, 1970, a net worth deficiency of \$1,050,865. The Company 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 the Company 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 the Company's Common Stock was \$12½.

(Footnotes continued on following page)

(Footnotes continued from preceding page)

③ For the three fiscal years ended June 30, 1970, 1971 and 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 the Company were carried at approximately \$277,570 by Computer Complex, Inc.

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 the Company's Common Stock was \$10¼. At December 31, 1972 Valley Computer had a net worth of approximately \$136,000.

For additional information concerning recent acquisitions of the Company, see Note 2 of Notes to Consolidated Financial Statements included in the Company's 1973 Annual Report.

Pursuant to an agreement made as of December 22, 1972 between the Company and Xerox Corporation ("Xerox"), the Company purchased 23 Xerox 940 computer systems, previously leased by the Company from Xerox, in consideration of the payment of \$5,979,300 cash, including sales tax, and the settlement of certain outstanding obligations of the Company to Xerox. The Company 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 Note 3 of Notes to Consolidated Financial Statements included in the Company's 1973 Annual Report.

In March 1970 the Company increased from 2,000,000 to 5,000,000 shares its authorized Common Stock and effected a 1.4-for-1 stock split of the shares then outstanding. All references in this Prospectus to the Common Stock, including prices per share, give effect to such stock split and the 10-for-1 stock splits effected in May 1968 and June 1969.

In September 1970 the Company sold through its underwriters 600,000 shares of Common Stock in a public offering at a price of \$6.00 per share.

As of December 31, 1971, all of the Company's then outstanding 3% Convertible Subordinated Notes were converted into an aggregate of 84,420 shares of the Company's Common Stock at a conversion price of \$1.214 per share.

In December 1973 selling shareholders sold through underwriters 205,317 shares of Common Stock in a public offering at a price of \$7.125 per share. The Company did not participate in the offering and, accordingly, did not receive any of the proceeds from the sale of the shares.

TYMSHARE, INC. AND SUBSIDIARY

CONSOLIDATED SUMMARY OF OPERATIONS

The following consolidated summary of operations of Tymshare, Inc. and subsidiary 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 in this Prospectus. This summary should be read in conjunction with the financial statements and related notes thereto included in the Company's 1973 Annual Report.

	Year Ended December 31,				
	1969	1970	1971	1972	1973
REVENUE FROM SERVICES AND SALES	\$6,501,216	\$10,420,829	\$12,726,951	\$16,442,104	\$24,017,356
GROSS PROFIT	\$2,987,564	\$ 5,906,557	\$ 6,758,229	\$ 8,556,837	\$14,419,487
INCOME (LOSS) FROM OPERATIONS	\$ (561,902)	\$ 298,659	\$ 574,892	\$ 1,558,816	\$ 3,731,517
INTEREST EXPENSE, NET	(49,844)	(198,124)	(152,000)	(249,635)	(554,743)
SHARE IN LOSS OF AFFILIATED COMPANY (Note C) ..	(35,000)	(49,732)	—	(93,200)	(194,000)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(646,746)	50,803	422,892	1,215,981	2,982,774
PROVISION FOR INCOME TAXES (Note E)	8,491	44,532	208,553	618,315	1,375,000
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(655,237)	6,271	214,339	597,666	1,607,774
EXTRAORDINARY ITEM— Federal income tax reduction from carryforward of prior years' losses (Note E)	—	44,000	162,000	428,000	344,000
NET INCOME (LOSS)	\$ (655,237)	\$ 50,271	\$ 376,339	\$ 1,025,666	\$ 1,951,774
EARNINGS (LOSS) PER SHARE (Note F):					
Income (loss) before extraordinary item	\$(.38)	\$—	\$.07	\$.20	\$.53
Extraordinary item	—	.02	.06	.14	.11
Net income (loss)	<u>\$(.38)</u>	<u>\$.02</u>	<u>\$.13</u>	<u>\$.34</u>	<u>\$.64</u>

The accompanying notes are an integral part of this summary.

TYMSHARE, INC. AND SUBSIDIARY

NOTES TO SUMMARY OF OPERATIONS

(A) The consolidated summary of operations includes the accounts of Tymshare, Inc. and its wholly-owned subsidiary, Tymshare East, Inc., after elimination of intercompany accounts and transactions. The Company has recently formed two additional subsidiaries which have had no significant operations as of December 31, 1973, and accordingly are excluded.

(B) In November 1972 the Company 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. In addition, the Company acquired the Computer Systems Division of Graphic Controls Corporation in 1971 and (through Tymshare East, Inc.) Dial-Data, Inc. and subsidiaries in 1970 in transactions accounted for as purchases.

The operating results of these acquired businesses are reflected in the consolidated summary of operations from the dates of acquisition. The pro forma effect in 1972, assuming the acquisition of the timesharing operations of Computer Complex 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 for its fiscal year of June 30, 1972. These timesharing operations 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 Company's acquisitions have been integrated with the Company's operations. In this connection, certain of the customers acquired have availed themselves of the Company's services and certain of the Company's customers have made use of the computer services acquired by Tymshare. Accordingly, it is not practical or meaningful for the Company to set forth the contributions to revenues and net income from the timesharing operations acquired for an extended period following acquisition. The Company believes, however, that the levels of revenues which may be attributable to such operations have been maintained.

In January 1973 the Company, 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's Common Stock. This transaction has been accounted for as a pooling of interests, and the consolidated summary 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, the Company 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 has incurred losses from operations for all periods through December 31, 1973. The Company charges CEGOS-Tymshare for royalties and computer services under an agreement which, effective January 1, 1972, provides for deferral of payments through December 31, 1973, at which time the Company has agreed to convert the deferred amounts to equity in CEGOS-Tymshare.

Under the equity method of accounting, the Company recognizes its share of the losses of CEGOS-Tymshare to the extent of its investment in and advances (presently represented by deferred

NOTES TO SUMMARY OF OPERATIONS—(Continued)

receivables) to CEGOS-Tymshare. Recognition of the losses is suspended at such time as the carrying values of its investment and net advances are reduced to zero. If CEGOS-Tymshare reports net income, the Company 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. The Company has included in its revenues amounts billed to CEGOS-Tymshare as royalties and computer services. However, to the extent that these payments have been deferred, the Company has recognized its share of CEGOS-Tymshare losses incurred to date, thereby reducing the carrying value of these deferred receivables to zero. The Company'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. The Company's share of CEGOS-Tymshare's cumulative losses which have not been recognized as of December 31, 1973 was approximately \$62,000.

(D) In December 1972, the Company completed the purchase of 23 Xerox 940 computer systems, including 4 systems previously leased by Computer Complex, at a cost of \$5,053,607 which is being depreciated over the systems' estimated useful lives of four years using the sum-of-the-months digits method. Under this method, the provisions for depreciation for these computer systems are 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.

(E) Income tax expense for 1973 is made up of the following components:

	U.S. Federal	State	Total
Currently payable	\$ 468,000	\$282,000	\$ 750,000
Tax benefits from operating loss carryforwards 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
	<u>\$1,121,000</u>	<u>\$254,000</u>	<u>\$1,375,000</u>

NOTES TO SUMMARY OF OPERATIONS—(Continued)

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

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 are 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:

	Prepaid (Deferred)
Book depreciation in excess of tax depreciation (sum-of-the-months' digits method on computer systems is not allowable for tax purposes)	\$285,000
Acquisition costs deferred for book purposes and expensed for tax purposes	(105,000)
Provisions for state taxes not deductible currently for Federal purposes	114,000
	<u>\$294,000</u>

Total tax expense in 1973 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:

Computation at prevailing rates—	
Federal	\$1,425,000
State, net of Federal income tax benefit	124,000
Total	1,549,000
Share in loss of affiliated company not deductible	101,000
Investment tax credits applied	(256,000)
Other, net	(19,000)
Tax expense for 1973	<u>\$1,375,000</u>

As of December 31, 1973 all operating loss carryforwards have been used by the Company and its subsidiary. The Company has investment tax credits of up to \$690,000 which may be available to reduce future years' Federal income taxes. These credits expire in 1976 through 1980. The tax returns in which the foregoing amounts have been or will be reported have not been examined by the Internal Revenue Service.

In addition, investment tax credit carryforwards of approximately \$164,000 arising from Dial-Data's operations prior to acquisition by Tymshare East remain available to the Company to offset Federal income taxes in future years. The benefits from these credits will be used to reduce the cost in excess of net tangible assets acquired at the time such benefits are applied.

(F) 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 and the pooling of interests described in Note B. Common equivalent shares for this computation include shares covered by stock options, warrants, the employee stock purchase plan, and the Company's 3% Convertible Subordinated Notes, prior to their conversion in December 1971, which result in dilution.

NOTES TO SUMMARY OF OPERATIONS—(Continued)

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. The average number of shares used in the computation were 2,149,117, 2,939,746, 2,995,080 and 3,056,141 for the years ended December 31, 1970, 1971, 1972 and 1973 respectively.

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 (1,717,191 shares) after giving effect to stock splits and the pooling of interest described in Note B.

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

TYMSHARE, INC. AND SUBSIDIARY

Interim Operating Results (Unaudited):

The following consolidated information as to sales and net income of Tymshare, Inc. and subsidiary, not audited by independent public accountants, reflects, in the opinion of the Company, all adjustments (which included only normal recurring accruals) necessary to present fairly the results of operations for the periods indicated. The results for the three months ended March 31, 1974 are not necessarily indicative of results of operations for the full fiscal year.

	Three Months Ended March 31,	
	1973	1974
Revenues from services and sales	<u>\$5,383,237</u>	<u>\$7,210,499</u>
Income before extraordinary item	\$ 335,333	\$ 580,333
Extraordinary Item—Federal income tax reduction from carryforward of prior years' losses	86,000	—
Net income	<u>\$ 421,333</u>	<u>\$ 580,333</u>
Earnings per common share and common equivalent share—		
Income before extraordinary item	\$.11	\$.19
Extraordinary item03	—
Net income	<u>\$.14</u>	<u>\$.19</u>

DESCRIPTION OF COMMON STOCK

The Company has only one authorized class of stock, which is Common Stock, without par value. Each shareholder is entitled to one vote for each share of Common Stock held by him on all matters to be voted on by shareholders, and in any election of directors each 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 the 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 are not subject to further call or assessment by the Company.

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.

The Company intends to furnish its shareholders with annual reports containing audited financial statements and unaudited quarterly reports of sales and earnings.

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

FINANCIAL STATEMENTS

The consolidated financial statements of Tymshare, Inc. and subsidiary and related notes as of December 31, 1973 and 1972, together with the report of Arthur Andersen & Co., independent public accountants, included in the Annual Report of the Company for the year ended December 31, 1973, are incorporated herein by reference. Subsequent to the date of the auditors' report included in the Company's 1973 Annual Report, the Company reserved an additional 75,000 shares of its Common Stock for sale to employees in accordance with its employee stock purchase plan.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To TYMSHARE, INC.:

We have examined the consolidated summary of operations of Tymshare, Inc. (a California corporation) and subsidiary for the five 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 summary of operations referred to above presents fairly the earnings and losses of Tymshare, Inc. and subsidiary for the five years ended December 31, 1973, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

San Jose, California,
February 19, 1974.