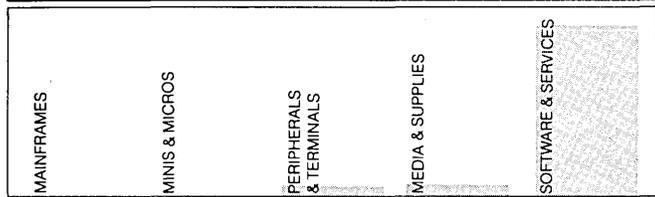


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SYSTEM DEVELOPMENT CORPORATION

2500 COLORADO AVENUE,
SANTA MONICA, CA 90406

(213) 829-7511

Fiscal 1978 was a year of continued growth for System Development in the areas of sales and new orders. Growth was so good, in fact, that the company jumped from the 34th spot to number 29 in our rankings.

The only bleak spot for the company financially showed up in net income, which dropped from 1977 levels. Total revenues were \$145 million as compared to \$130 million the year before. Net income stood at \$1.6 million as compared to \$2.4 million the previous year. In explaining the decline, company officials point to cost over-runs on the Text II electronic publishing systems and the Florida Medicaid contracts awarded during the year. Also contributing to the downtrend was an operating loss recorded in the Financial Services Division and in Aquila BST Ltd.

With almost all of its dp-related revenues generated by the sale of software and services, SDC looks to the federal government, especially the Department of Defense, as one of its major clients.

One of the company's major new customers during the past year was the state of Florida. Under a \$13 million contract, SDC will process and pay Medicaid claims in that state. The contract calls for the development of a computerized system, followed by a service phase during which SDC will operate and maintain the system. Obtaining this contract will enable the company to contend for a major position in the large Medicaid claims processing market.

Another large contract was signed with the Los Angeles Police Department to provide them with an automated dispatching system. The \$25 million contract calls for SDC to develop an improved command, control, and communications system to make more efficient the dispatching of police cars and to relieve congested radio frequencies.

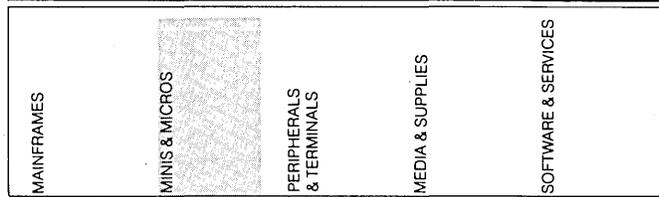
New product introductions included the Text II-20 electronic publishing system for small-to-medium size newspapers. This standardized system together with the customized Text II gives SDC one of the broadest electronic publishing systems lines in the country.

In the area of telecommunications, SDC is testing a cryptographic device for safeguarding data in telecommunications networks. Several of these systems have been built and are being used by the federal government on an experimental basis.

SDC officials are looking toward the energy market as a new area opening up for the company. Officials note that major energy contracts will be bid on during this fiscal year.

Finally, SDC completed the development of the Tiros-N ground support system for the Department of Defense and delivered it for integration testing. The next project being undertaken for DOD is a study of the design of a space defense center.

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FOUR-PHASE SYSTEMS INC.

10700 NORTH DE ANZA BLVD.
CUPERTINO, CA 95014

(408) 255-0900

Four-Phase Systems' revenues for 1978 rose by 53%, pushing the company well over the \$100 million mark and into the 30th spot on this year's DATAMATION 50. Last year it ranked 41.

Four-Phase closed its books on December 31 with \$136 million in revenues and \$12.2 million in net income. These totals compare with the 1977 figures of \$88.5 million and \$7.4 million respectively.

With 100% of its total revenues generated by the sale of distributed data processing minicomputers and software systems, Four-Phase points to several key factors that enabled it to enjoy such a successful year:

- Introduction of the MFE/IV high level dp software package;
- Emergence as one of the leading vendors of shared logic word processing systems;
- The public offering of 500,000 shares of common stock; and
- The listing of its stock on the New York Stock Exchange for the first time in the company's 10 year history.

Four-Phase today employs a total of 2,800 persons among its domestic and international offices. Eighty-four percent of its total dp related revenues for fiscal 1978 was generated in the United States.

Internationally, Four-Phase Systems Ltd. of Canada posted revenues of \$7.8 million last year, representing an increase of 75% over the 1977 levels.

Sales to international distributors and oem's increased by 86% last year and comprised 9% of consolidated revenues as compared with 7% for the previous year. An increase in the company's network of worldwide distributors added Argentina, Indonesia, Kuwait, Malaysia, and Singapore to the list. Total revenues from the international sector in 1978 amounted to \$22 million.

Four-Phase lists as principal markets for its dp systems the insurance industry; federal, state and local governments; the communications and financial industries; and the medical/health care fields.

Among the top three areas of customers, the medical field accounts for 22% of the company's installed base of equipment; the manufacturing group 20%; and the government area 11%.

Four-Phase labels its marketing strategy in these areas as an "integrated systems approach" rather than a "piecemeal effort," stressing an end user orientation to "anticipate changes that may occur in a customer's needs."