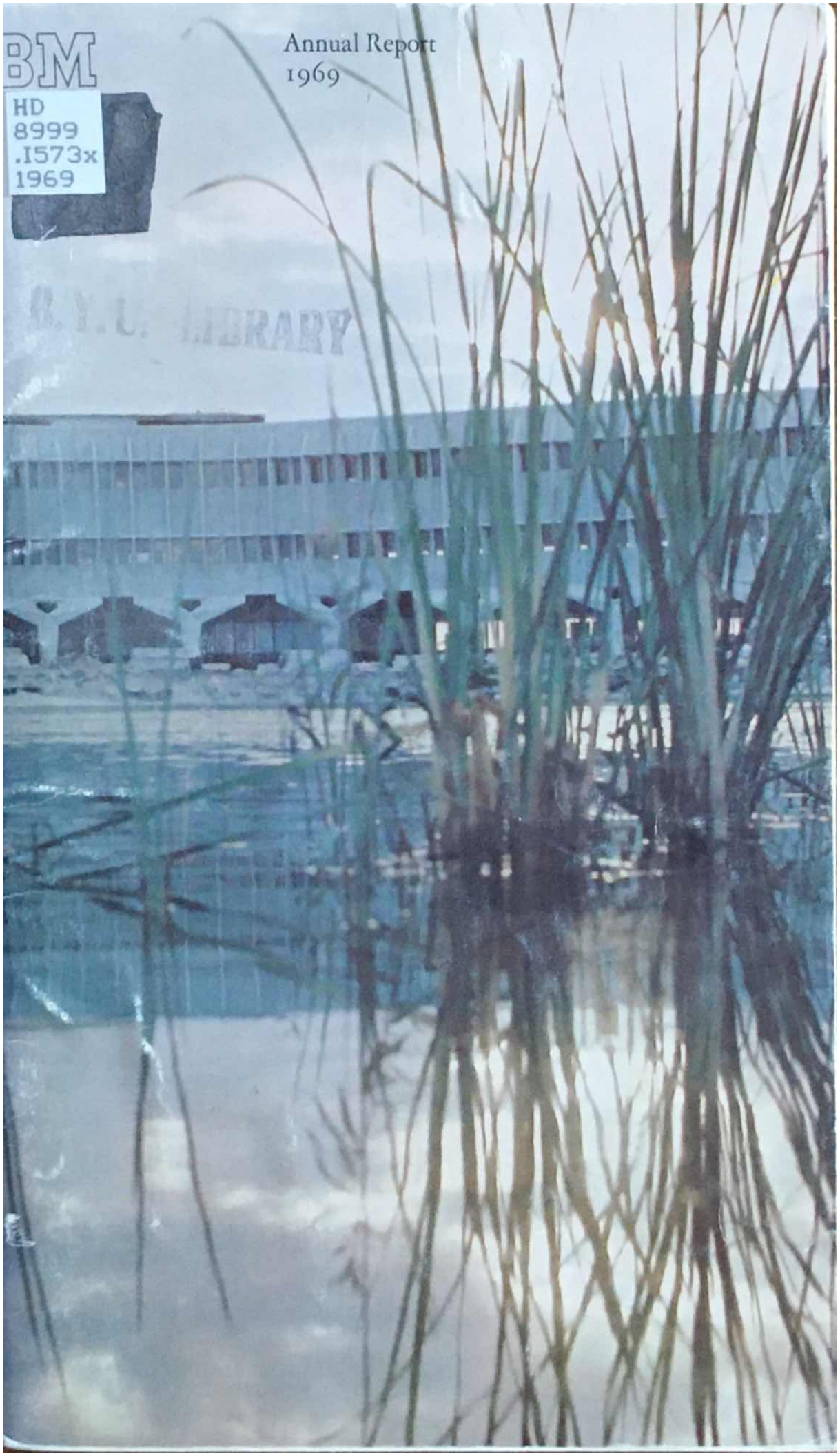
IBM
HD
8999
.I573x
1969
B.Y.U. LIBRARY

Annual Report
1969



International Business Machines Corporation

Annual Report
for the year ended December 31, 1969

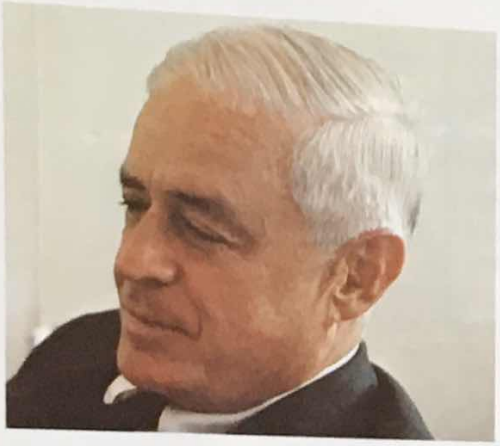
Cover: Outlined by a soft Florida sunrise is this dramatic new building at IBM Boca Raton. Designed by Marcel Breuer and Associates, this building and a similar one also nearing completion are part of a General Systems Division development and manufacturing complex.

Contents:

	1969	1968
Gross income from sales, service and rentals	$ 7,197,295,441	$ 6,888,549,209
Net earnings before income taxes	$ 1,978,873,194	$ 1,864,497,991
U.S. Federal and foreign income taxes	$ 1,045,000,000	$ 993,000,000
Net earnings	$ 933,873,194	$ 871,497,991
Per share	$ 8.21	$ 7.71
Cash dividends	$ 407,825,977	$ 292,646,157
Per share	$ 3.60	$ 2.60
Stock split	—	100%
Investment in plant, rental machines and other property	$ 1,647,118,305	$ 1,156,578,794
At end of year:		
Total assets	$ 7,389,958,091	$ 6,743,431,161
Net investment in plant, rental machines and other property	$ 3,863,461,372	$ 3,415,039,187
Long-term indebtedness	$ 554,821,353	$ 545,090,514
Net current assets	$ 1,814,119,609	$ 1,770,069,996
Number of employees	258,662	241,974
Number of stockholders	549,463	501,390

Stock Transfer Offices:
International Business Machines Corporation,
Stockholder Relations Department,
717 Fifth Avenue, New York, New York 10022
Continental Illinois National Bank and
Trust Company of Chicago,
231 South LaSalle Street, Chicago, Illinois 60690
Trust General du Canada,
909 Dorchester Boulevard West,
Montreal 101, Quebec, Canada
Wells Fargo Bank,
464 California Street, San Francisco, California 94120
National Trust Company, Limited,
21 King Street East, Toronto 1, Ontario, Canada

Registrars:
Morgan Guaranty Trust Company of New York,
30 West Broadway, New York, New York 10015
The First National Bank of Chicago,
One First National Plaza, Chicago, Illinois 60670
Montreal Trust Company,
777 Dorchester Boulevard West,
Montreal 113, Quebec, Canada
Crocker-Citizens National Bank,
79 New Montgomery Street,
San Francisco, California 94105
Montreal Trust Company,
15 King Street West, Toronto 1, Ontario, Canada



Thomas J. Watson, Jr., IBM *Chairman*

Orders for IBM equipment and services during 1969 continued strong in all major product areas. At year end the backlog of orders for data processing equipment was higher than at any time in the Company's history despite a high level of shipments throughout the year. The level of orders for the two major products we announced this year, the System/3 and the System/360 Model 195, has been especially gratifying.

Consolidated gross income from worldwide operations amounted to $7,197,295,441, an increase of $308,746,232 over 1968. Earnings were $933,873,194, a $62,375,203 increase over the previous year.

Earnings per share were $8.21 based on the 113,718,068 shares outstanding at the end of the year. This compares with earnings of $7.71 per share on the 112,968,369 shares outstanding on December 31, 1968.

Operations outside the United States, included in consolidated results, showed gross income of $2,495,992,944, an increase of $455,808,585 over 1968. Earnings from these operations were $397,783,172, an increase of $127,236,917 over the year before.

For the year 1969, IBM's gross income and earnings showed relatively modest rates of growth. Stockholders will recall that outright sales of data processing equipment were abnormally high in 1968, and that we pointed out on a number of occasions that outright sales, unlike rentals, increase current income at the expense of future periods. While the total Company grew in both gross income and earnings during 1969, the marked decline in purchase activity in the United States was sufficient to cause a decline in gross income and earnings from domestic operations.

The variation in the level of outright sales of data processing equipment between the years 1968 and 1969 does not alter the fundamental prospects of the Company. IBM's gross income from rentals and service increased by 15.1% during 1969. Because IBM's business is primarily rental, we believe this to be a significant measure of the Company's progress during the year.

On June 23, 1969, we announced a change in the way we would charge for and support our data processing equipment. Basically, the change was to offer certain systems engineering activities, most customer education courses and many future computer programs for a charge. In the past these had been provided to our customers without separate charge.

The new practices are now in effect after a six-month transition period which ended on December 31, 1969. Over the short term, effects of these changes on revenue are expected to be minimal. We believe that, in the long run, these changes will benefit the data processing industry as a whole, including IBM and our customers. Most of these customers and many of our competitors looked upon the changes as logical in light of current industry characteristics and the expected trends for the future. Two companies, however, have filed lawsuits, claiming the support services should continue to be provided to them without separate charge.

Data processing is one of the world's fastest growing industries with competition continuing to grow both in numbers and in marketing effectiveness. This competition has benefited the entire industry by forcing all of us to be at our creative best in lowering the cost of computation and in devising new applications for data processing equipment. This kind of innovation in the years ahead should assure our continuing success in an industry which I believe is still in its formative years and has almost limitless potential.

The decade of the Sixties was the most exciting and productive in the more than fifty-year history of the Company. I think this is a great tribute to the people of IBM in all areas of the business who by their hard work and dedication have moved the Company forward.

January 27, 1970
By order of the Board of Directors

Thomas J. Watson Jr.

Chairman of the Board

The announcement of a new way of charging for and supporting our data processing systems, and the introduction of several important new products were among the significant developments during 1969.

Under the new pricing policy, announced on June 23rd, certain systems engineering activities, most customer education courses and many future computer programs are offered for a charge. Previously, such data processing support was provided without separate charge.

The new pricing structure gives customers greater flexibility in choosing the services to fill their data processing needs. Under a Systems Engineering Services contract, for example, customers receive the assistance of skilled personnel with extensive knowledge of data processing system capabilities and experience with a wide variety of applications. To fill their educational needs, customers can select from about 90 classroom and programmed instruction courses. To get the most efficient use of their computers in performing specific data processing jobs, customers can order from a variety of program products which are offered for a monthly charge under a license agreement.

The Company also announced a new service, Custom Contract Services. Under a custom contract, IBM and the customer agree on the specific task to be accomplished through data processing. IBM then assumes responsibility for the design and analysis of the system, application and program development, and systems installation and evaluation to meet the agreed-upon criteria.

New Products and Services

Two new computers were announced during the summer. System/3, which can be rented for as little as $945 a month, is the smallest business computer in IBM's product line, while System/360 Model 195 is the most powerful computer ever built by IBM.

With the introduction of System/3 came a dramatic departure in punched card format. The system uses a new 96-column card which is about one-third the size of the traditional 80-column card. The System/3 card is now being manufactured by Information Records Division plants in the United States. Plants in other countries are also preparing to produce the new card.

System/3, which requires little more space than a couple of desks, is programmed in a special easy-to-use language. Although it was designed primarily for small business, it is also expected to find application in large firms that wish to decentralize their data processing capabilities. Customer reaction to the new system has been enthusiastic.

To assist the System/3 user, the Company announced the IBM Application Customizer Service. This service provides customers with a suggested systems design, detailed cross-referencing documentation for that design, and extensive programming aids for applications such as order writing and invoicing, inventory accounting, accounts receivable, sales analysis, payroll and general ledger accounting.

At the high end of IBM's data processing line is System/360 Model 195 which was designed to solve very difficult computing problems over a broad spectrum of applications. For example, it can be the central control point of the most complex airline reservation systems or coast-to-coast time-sharing networks. It can also be used in massive scientific studies involved in global weather forecasting and space exploration. Most programs from other large System/360 models can be used on the Model 195 without modification, making it an outstanding avenue of growth for users of IBM systems.

Another popular IBM computing product, the IBM 1800 Data Acquisition and Control System, was improved significantly with a main memory double the former size and the addition of a communications capability that allows it to work in data networks of 1800s and other IBM computers by using telephone lines.

Two major additions to the Company's teleprocessing product line were made during the year. The first, the IBM 2770 Data Communication System, is a general purpose control device that allows a customer to match a variety of input and output devices to his specific needs. The other is the IBM 2790 Data Communication System. It can collect information from more than a thousand remote points in a manufacturing plant via small data entry units, and feed computer-processed information back to the production floor where it is needed.

the console of System/360 Model 195. Shipments of this new computer are scheduled to begin during the first quarter of 1971.

Field Engineering

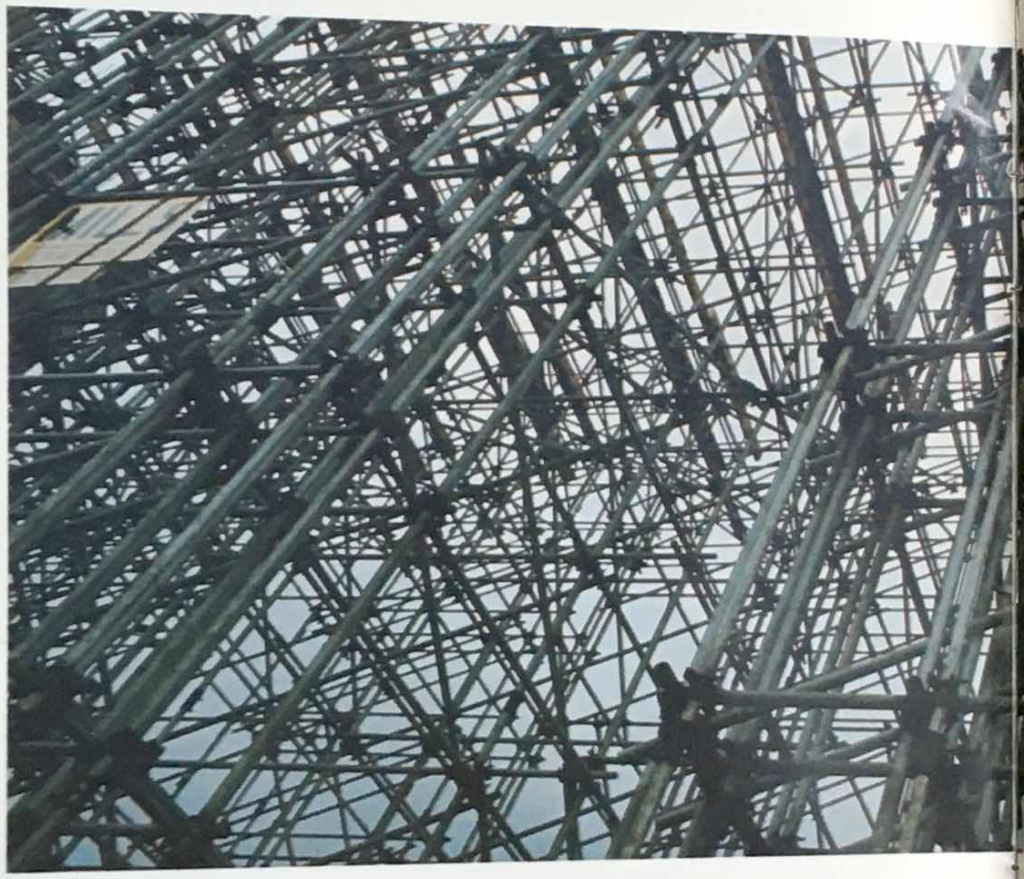
To provide fast and efficient product maintenance for the increasing number of computer installations, the Company continued its emphasis on training customer engineers and developing new tools and techniques. Customer engineers, for instance, took approximately 400,000 hours of computer-assisted instruction at terminal units located in their own branch offices across the country. Courses at more than 200 branch offices were given through programs stored in a System/360 Model 50 in Poughkeepsie, New York.

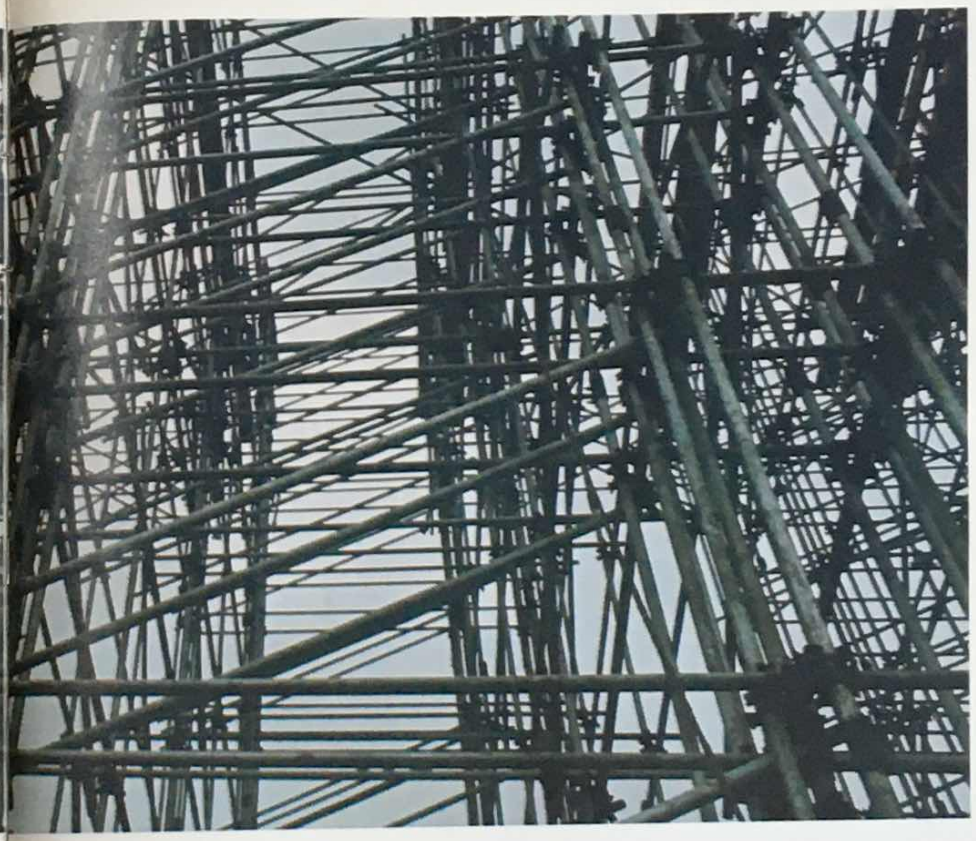
The Field Engineering Division also devised a procedure called System Analysis to assure a high level of productive operation of four widely used System/360 models. The customer processes a special three-minute program on his system. A resulting printout assists IBM specialists, or the customer himself, in detecting changes in performance that might indicate future problems unless preventive steps are taken. This program also identifies the most likely unit or units causing a problem when one does arise.

Programming

Time-sharing—the simultaneous use of a single computer system by a number of persons at various remote locations—has become a major data processing technique largely through the development of new programming systems that expand time-sharing capability. The Company announced three new time-sharing programming packages for a wide range of System/360s—from the Model 25 to the Model 195. With these programs, users located at re-

A web of steel framework marks progress on the Rio-Niteroi bridge which will span Guanabara Bay in Brazil. An on-site IBM 1130 computer helps control the flow of materials and speed engineering calculations.





mote terminals can solve problems and develop new programs. They can also run existing programs from their terminals. Examples of program products offered during the year include the Customer Information Control System, which is used in public utility information systems; Generalized Information System, which helps executives and managers find answers to "what if" questions; Information Management System, which organizes a central data file to permit rapid access for a high volume of inquiries from many locations; Medical Information System Programs, which simplify the installation of applications in hospitals; Project Management System, which provides programs for cost and schedule planning and control; and Law Enforcement Manpower Resource Allocation System, which helps police departments forecast when and where their services may be required.

New System/3 punched cards, a dramatic departure from the traditional cards, are carefully checked during manufacturing.

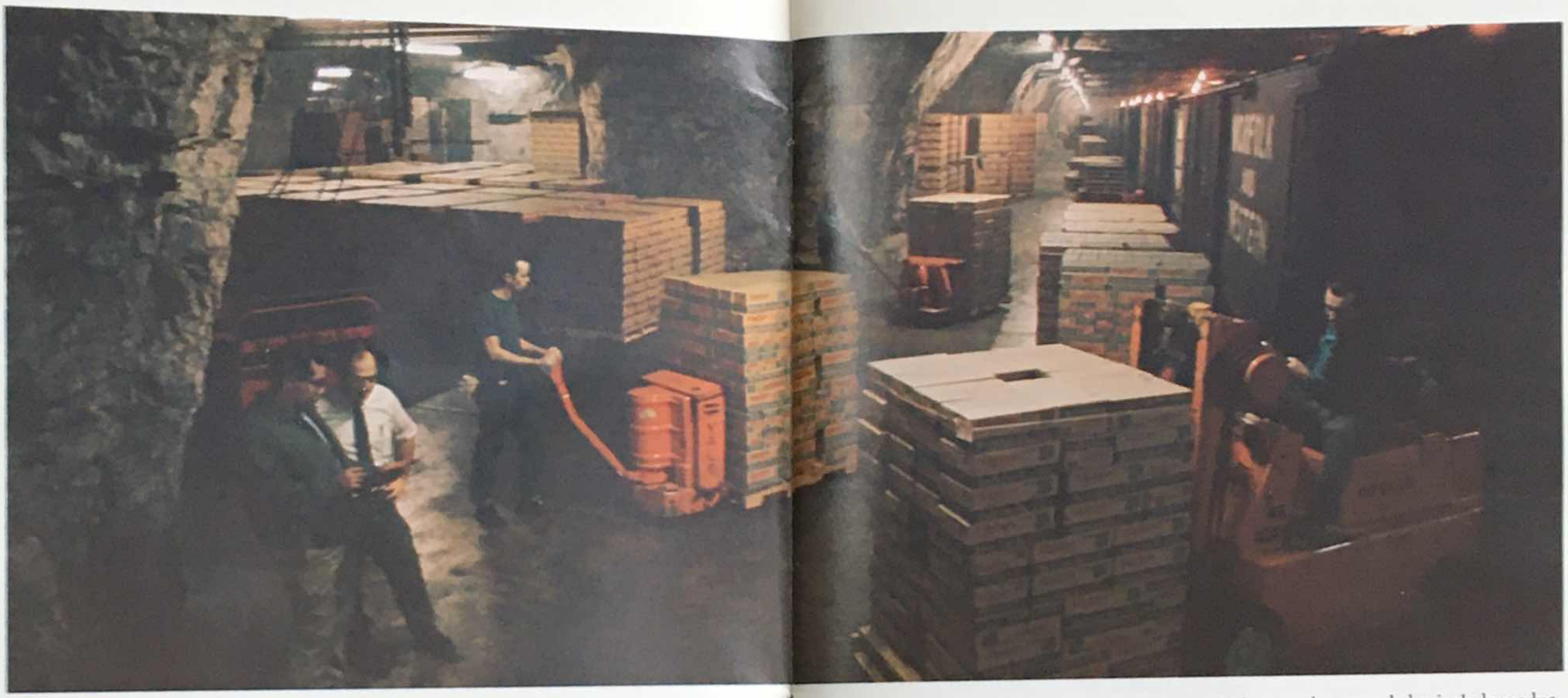
Data Processing Development and Manufacturing

The Company continued to make progress with microminiature electronic components by reducing their size and cost while increasing circuit density and speed. One example is the monolithic integrated circuitry developed and manufactured for the two new computers IBM announced in 1969, the System/3 and the System/360 Model 195.

The logic portion of System/3 uses an advanced circuit packaging technique called Monolithic Systems Technology, an evolutionary extension of Solid Logic Technology. Both are manufactured with highly automated mass production equipment and processes, providing, as a result, favorable cost/performance ratios. In the Model 195, extremely fast monolithic integrated circuits are used for the arithmetic and logic operations in the central processor and as the storage medium in the buffer memory. As many as 664 transistors, diodes and other components—the equivalent of 64 complete circuits—are placed on a single silicon memory chip less than an eighth of an inch square.

In the area of equipment development, Company engineers are studying new ways to improve product reliability by building in provisions for automatic monitoring and diagnosis of system components. Advanced programming techniques under exploration include the use of time-sharing to speed work on new programs, high-level language studies, and methods to aid in the translation of one programming language to another.

In this former mine, now a 35-million-cubic-foot warehouse, an IBM computer and strategically located display terminals help keep track of orders and inventory on a current basis.



Several innovative manufacturing procedures and techniques were initiated during the year. A Satellite Process Control System, now in operation at one plant, links a large central computer to smaller computers located throughout the plant to control various manufacturing processes and testing operations. Similar systems are being installed in other plants. Other innovations include electron beam welding of dissimilar metals, and the use of fiber optics in testing operations.

A new Manufacturing Research Laboratory was established during 1969 to concentrate on finding and applying innovative technologies to the manufacturing process. The lab conducts investigations of critical manufacturing processes and disseminates its findings to the plants through technical seminars and consultant activities.

Among the new products entering manufacturing was System/3, which was put into initial production at Rochester, Minnesota. It is now a responsibility of the Boca Raton, Florida, plant with major peripheral units being supplied by both the Rochester and Endicott plants. System/360 Model 195 is being produced at Poughkeepsie, New York, and production of the IBM 2770 and IBM 2790 Data Communication Systems has begun at Raleigh, North Carolina.

The Company's inner-city manufacturing location in the Bedford-Stuyvesant area of Brooklyn, New York, continued to expand and by year end, more than 300 local residents were employed there. The plant's mission was also expanded to include production of computer power supplies in addition to the production of electrical cables.

One new location, Manassas, Virginia, went into production of electronic component materials less than six months after breaking ground for its first building. Work on additional plant and laboratory facilities has started at that location. This and other major construction projects are listed on page 42.

In the Research Division much attention has been given to making ultra-small electronic components even smaller. The circuits for present computers are made by a photographic and etching process that is ultimately limited to patterns with lines about one micron (1/25,000 inch) wide, because this approaches the wavelength of ultraviolet light. By using an electron beam, which has a wavelength far smaller than ultraviolet light, scientists have produced working experimental transistors with lines 1/2 micron wide. These studies are promising in their potential for higher-speed data processing equipment.

The Company's continuing research on semiconductors—the materials from which most solid-state electronic devices are made—produced further evidence that semiconductor materials could be "tailored" for certain applications. IBM Research physicists were able to combine semiconductor compounds in ways that produced electronic properties particularly advantageous for emission of light in one case and production of microwave power in another.

Expansion of the Company's own use of computers in scientific research continued during 1969 with the installation of two powerful System/360 computers by the Research Division. These machines are being used to study such diverse problems as atmospheric pollution, conduction of electricity through semiconductors, the evolution of galaxies, the sources of weather, changes of genes with aging, and the dynamics of fluid flow past obstacles. These studies illustrate the increasingly vital role computers are taking in revolutionizing many scientific disciplines.

IBM Research chemists are combining programming with the power of a System/360 to continue their studies in computational chemistry. During 1969, they made major progress in a study of a behavioral aspect of DNA, the substance of genes. The DNA computation tests a theory concerning a possible mechanism of aging in which an accumulation of "mistakes" in reproduction of DNA molecules causes a gradual deterioration of an organism. In calculations of more immediate practical use, a System/360 is used to analyze integrated circuit arrays and to refine mathematical models used in studying the arrangement of atoms on a crystal surface.

The Advanced Systems Development Division has developed experimental devices using magnetic stripe technology for encoding digital information on credit cards, mass transit tickets and airline flight coupons. These devices, which record and read information stored on small pieces of magnetic tape bonded to plastic and paper documents, make these documents readable by computers. It is hoped that eventually this development will result in faster service for commuters on rapid transit trains and at airports.

Another ASDD-developed technology, based on the elasticity of thin film, was incorporated into the keyboards or card-badge readers of six IBM products announced during 1969. The technology eliminates the need for individually assembled switch

With specially designed equipment and an IBM computer, doctors at the University of Texas Southwestern Medical School are producing maps of the eye's field of vision as an aid to early diagnosis and treatment of disease.

contacts by forming them from metallic patterns on the film. Thus, several switches, or even hundreds can be made on a single sheet of film. When a key is pressed, the resulting pressure bends a portion of the pattern to make electrical contact. When the key is released the film snaps back to its original state. The technology makes it possible to produce compact keyboards and other devices with high reliability and long life.

Below: At the UCLA School of Dentistry an IBM computer matches the qualifications of several hundred dental students with the varying needs of patients so that each patient receives the proper care.

Increasing acceptance of the importance of "word processing"—the systems, procedures and equipment that transfer thoughts to written communications—accounted for the Office Products Division's excellent results in all product areas in 1969.

Highlighting the year was the October announcement of the IBM Mag Card "Selectric" Typewriter. With this new unit a secretary's initial typing draft is simultaneously recorded on magnetic cards, each of which has a capacity equivalent to more than a full page of copy. Corrections are made simply by typing over errors on the draft, which automatically records the corrections on the card. Once the secretary has completed her typing, she inserts a fresh piece of paper, presses a button, and the Mag Card "Selectric" unit accurately types out a corrected letter or other document at a rate of 150 words a minute.

The magnetic card, which is prenumbered for filing convenience, may be stored for future production of the same document, or it may be used immediately again to record and play back new material. The new card was developed by the engineering organization of the Information Records Division.

New equipment uses helped establish sales records for IBM "Executary" dictation equipment. Law enforcement agencies, for example, expanded their use of this equipment, and more schools established audio-response classrooms employing dictation equipment to help students improve their reading, writing and speaking skills.

The IBM "Selectric" typewriter, with its technologically advanced single-element typing principle, set the pace for continued growth of all IBM typewriter sales in 1969. Key areas for "Selectric" typewriter sales included financial, legal and insurance organizations.

The division's composing products made important sales gains as customers increasingly used the IBM Magnetic Tape "Selectric" Composer to produce correspondence and reports in addition to high-quality direct-impression copy for reproduction by business, government and institutional "in-plant" printing operations.

At the Company's plant in Austin, Texas, a product test technician checks robot devices which prove reliability of new Mag Card "Selectric" units.

During 1969, IBM's Federal Systems Division made significant contributions to one of man's most historic achievements—the landings of American astronauts on the moon. FSD people developed and built the computer that is included in the Instrument Unit stage of each Saturn moon rocket. The Instrument Units, which are assembled and tested by FSD people in Huntsville, Alabama, control and guide the Saturn rockets from liftoff to the spacecraft's departure from its earth orbit.

The Federal Systems Division was also deeply involved in ground support of the Apollo missions. IBM people programmed, maintained and operated the computer complex at Cape Kennedy that performed the stringent testing and checkout of the launch vehicles. At the Goddard Space Flight Center in Greenbelt, Maryland, FSD people and equipment helped NASA test and operate the worldwide network which tracked the Apollo missions and relayed information to and from the spacecraft.

In Houston, Texas, other IBM people programmed, maintained and operated the five large IBM System/360 computers at the Manned Spacecraft Center's Real-Time Computer Complex. In addition to analyzing radar tracking data and performing flight computations, the Complex monitored the performance of systems aboard the spacecraft as well as the physical condition of the astronauts themselves, and provided this vital information to flight controllers.

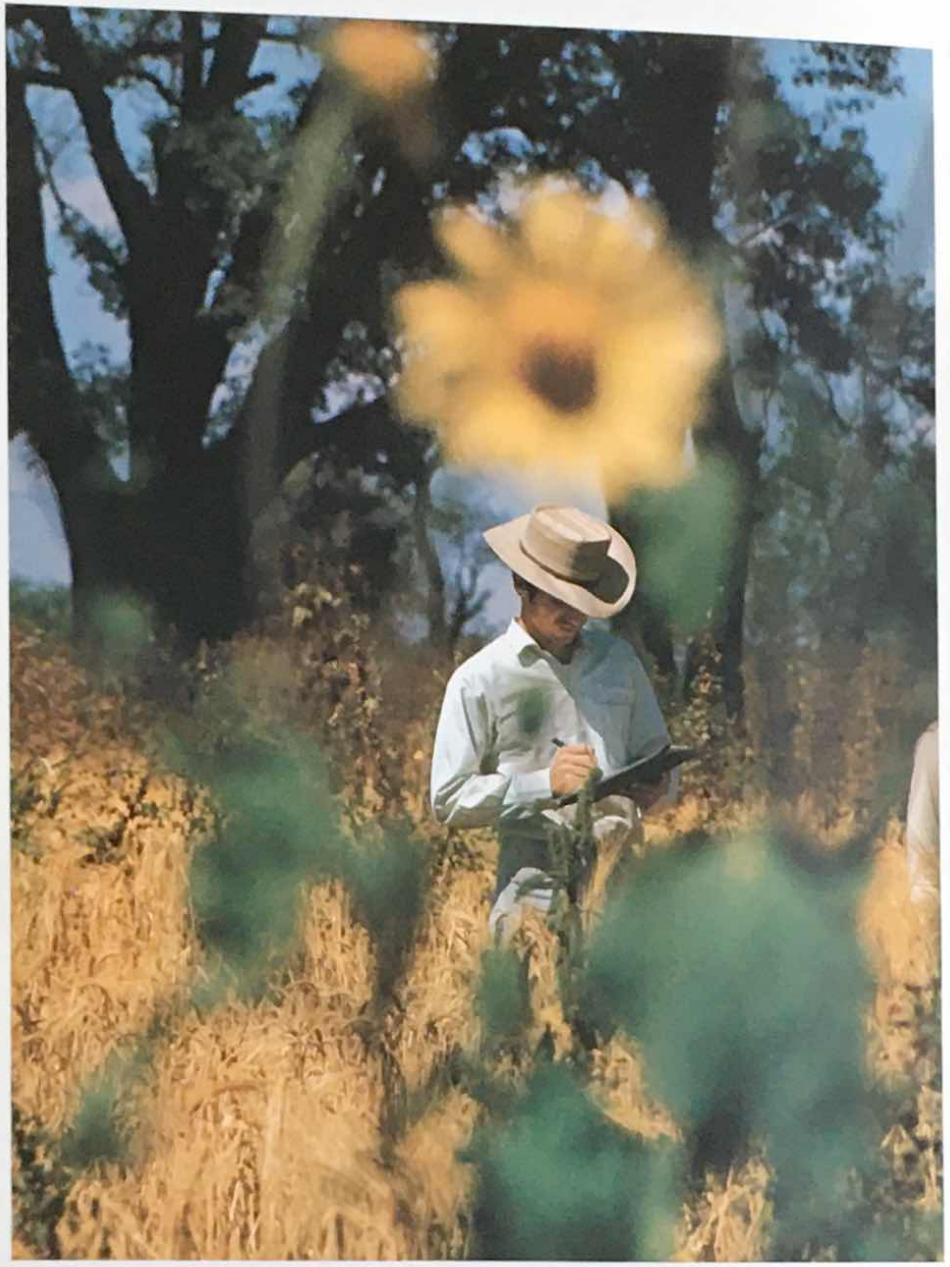
Orbiting Astronomical Observatory-II completed a full year of operation, gathering valuable new information about the stars,

Two System/360s and more than 170 communication terminals all over the country allow an air freight company to track more than 10,000 daily shipments by providing instant information on routing and manifests, in addition to producing customer bills and detailed business reports.

with IBM data processing equipment working flawlessly on board the satellite.

Working in Gaithersburg, Maryland, FSD engineers and programmers are helping a Japanese newspaper achieve more efficient production by solving problems caused by the number of characters in the Japanese language. FSD's solution is to use TV-like displays and photocomposition instead of the traditional "hot lead." The display terminals, along with other IBM equipment, allow editors to correct or change material and then insert the new material into the system. Subsequent layout of the newspaper is greatly simplified by the use of these display terminals.

An IBM computer is helping the National Agriculture School in Mexico make impressive progress in increasing the yield of maize and wheat on small farms. The computer is used to study seed quality, soil tests and rainfall patterns.



IBM World Trade Corporation

Outside the United States, the Company's business is conducted by a wholly owned subsidiary, the IBM World Trade Corporation. Nearly 99,000 World Trade people are employed in 336 sales locations, 17 manufacturing plants, seven development laboratories and other facilities in 108 countries around the world.

As in the United States, World Trade customers continued to use System/360s and other IBM products for a broad variety of applications, with special emphasis in the areas of teleprocessing, process control and large-computer usage.

In France, for example, one of the country's most important mail-order companies uses two System/360s and a network of over 100 IBM visual display terminals to process an average of 60,000 orders per day. In Tokyo, a travel agency has linked two System/360s to a network of 65 IBM terminals in field offices throughout the country. The system will provide information on 22,000 hotel rooms and make other travel reservations for tourists in Japan. Installation of the new system is appropriately timed, since this year Japan expects more than 30 million visitors to Expo/70, the international exhibition to be held in Osaka.

A bank in West Germany has linked its System/360 to display terminals on brokers' desks to provide them with up-to-the-minute information on securities and customers' portfolios. Much of a broker's working time, previously spent in research and paperwork, is now available to advise bank customers on securities transactions. In England, the architectural department of a county council uses a graphic display terminal to design municipal buildings such as schools, welfare and health centers, fire stations and libraries.

During the year, the use of the IBM 1800 Data Acquisition and Control System was expanded into a variety of application areas. Doctors in European countries have begun using electronic systems to control the entire flow of information between hospital wards and laboratories. In one application, an 1800 system simultaneously handles data from 17 measuring stations in clinical laboratories where as many as 5,000 tests are made every day.

Two ships set sail from the United Kingdom and Italy with IBM 1800 computers on board. The British National Institute of Oceanography's vessel, Discovery, used its shipboard computer as a research and navigation aid, while the Esquilino left Genoa in July on one of several missions in ship automation research commissioned by Italy's National Council of Research. The Esquilino's studies will help to determine if such things as navigation and course optimization, propulsion and auxiliary systems can be controlled by an onboard computer.

The IBM 2750 Voice and Data Switching System, developed by Company laboratories in France and Germany, was announced by IBM France and IBM Italy. The system extends IBM's information-handling services to private branch exchanges, which handle internal telephone traffic and which are also linked to public networks for outside communication. The 2750 combines a private telephone system with a data collection

An IBM 1800 Data Acquisition and Control System, reading information from more than 300 points, monitors the quantity and quality of nearly a billion gallons of water flowing through this Chicago water filtration plant each day.

system using pushbutton telephone sets as low-cost input or inquiry terminals.

When data processing equipment is linked to the IBM 2750, the pushbutton telephone sets transmit information to the computer and spoken answers are returned via an audio-response unit. Additional telephone capabilities are made possible by the system. For example, rather than requiring many-digit numbers to be dialed, IBM 2750 will accept a two-digit number from a caller, look up a corresponding number in its memory and call it—regardless of whether it is a local call of six digits or an international call.

The close relationship of IBM's worldwide network of plants and laboratories is illustrated by the new IBM System/3 which was a multinational effort. IBM Germany was a major contributor in developing the printer, and IBM United Kingdom developed the disk storage files. The German laboratory and IBM France's components plant at Corbeil-Essonnes also participated in the development of Monolithic Systems Technology used in the System/3. World Trade plants in Italy and Japan will manufacture the computer, with units and components supplied by other plants in Europe, Latin America and Canada.

In World Trade, sales of typewriters and other office products continued to increase. Substantial orders for IBM Composer systems continued to come from newspaper publishers, commercial printers and other firms dealing in volume typesetting. One example is a publishing company in Manila, which uses four IBM Composer systems to set type for three daily newspapers.

World Trade's Data Center Services organization, which offers data processing services for a fee in 72 countries, continued to move into the use of more complex systems. Expansion of time-sharing services, particularly in Europe, Canada and Australia, is enabling more customers to use IBM data centers directly from their own offices.

New and expanded World Trade facilities were completed and under construction in many parts of the world. Projects range from education centers to card and computer manufacturing plants, laboratories and headquarters buildings. A list of construction projects is on page 42.

The aluminum-walled theatre will be one of the highlights of IBM's "Man, the Problem Solver" pavilion at Expo/70 in Osaka, Japan.

The Service Bureau Corporation

Below: Time-sharing services extend the power of the computer to a variety of customers and applications. Top, a time-sharing terminal in the office of an auto salvage company; bottom, a similar terminal helps a company developing new transportation technologies.

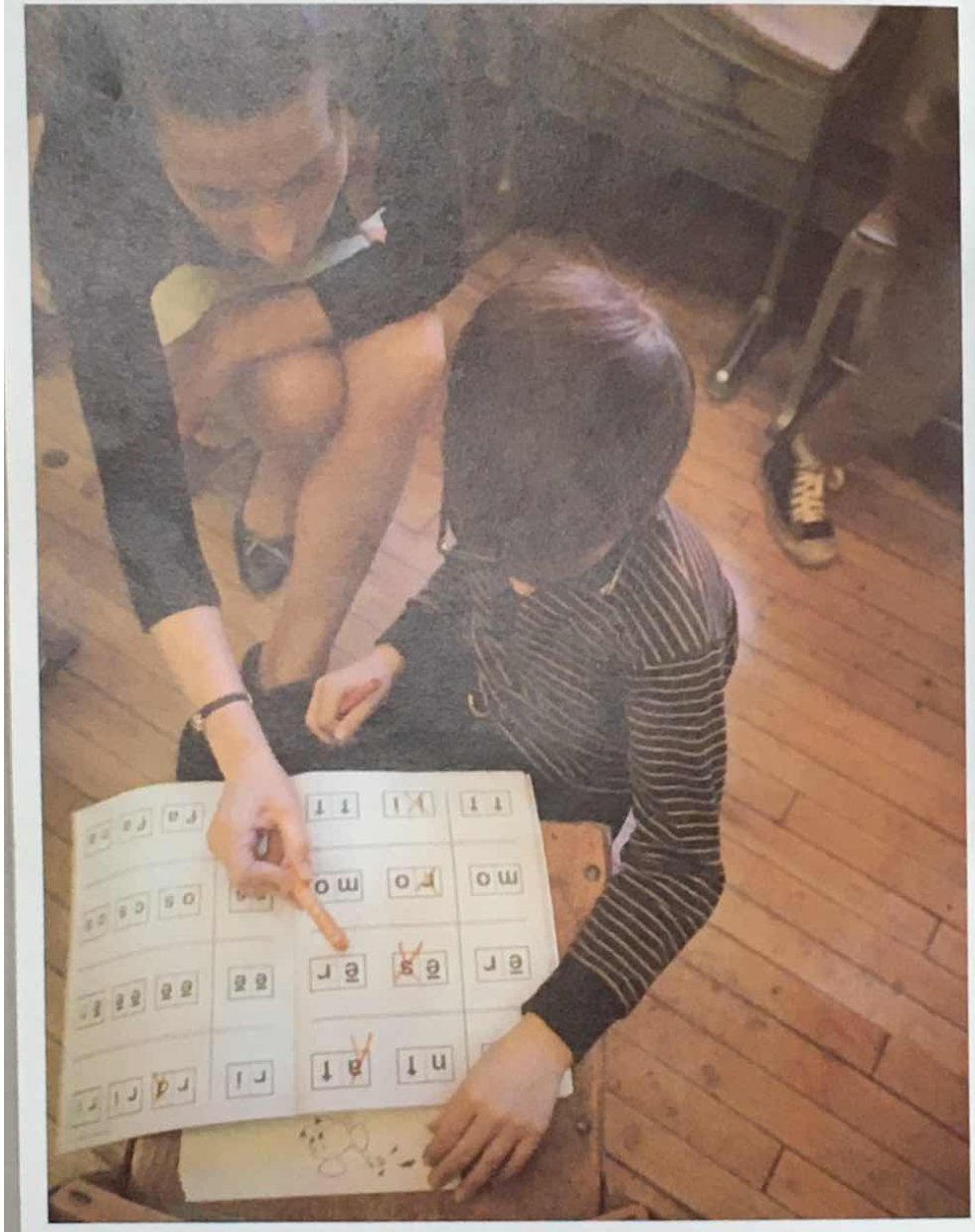
The Service Bureau Corporation, a wholly owned and independently operated subsidiary of IBM, offers data processing services and computer programming services to a wide spectrum of American industry.

Services range from performing customers' data processing operations at SBC's offices, to the marketing of pre-planned computer applications in such areas as payrolls, accounts receivable and installment loan accounting, or specialized programs as required by individual customers. SBC analysts and programmers also work at customer locations developing such applications as are required to process medical assistance claims or control a new car order system.

Powerful, large-scale computers installed at SBC operations centers are also available to all businesses through the technique of time-sharing which makes the computers as accessible as the nearest telephone. Communication terminals connected to telephone lines are now installed in such diverse locations as a barge on the Mississippi River, a farmhouse in central Michigan and in the home of a brokerage company executive. Subscribers to SBC's time-sharing service can communicate with a System/360 using English and simple algebraic expressions. During the year, SBC offered an additional time-sharing capability which combines the effectiveness and responsiveness of SBC's basic time-sharing system with a more powerful programming language. This permits the user to write more complex programs and gives him greater flexibility in combining computer and program capabilities to fit a particular job.

As Apollo 11 lifted off to man's first landing on the moon, its success depended to a great extent on IBM equipment and the efforts of thousands of IBMers. The historic achievement will always be a great source of pride to them and the Company.

Teachers and students enjoy working with SRA's DISTAR instructional programs, introduced during 1969.



Science Research Associates

Below: Although these candles are made by a painstaking hand-dipping process, the manufacturer uses an IBM System/360 to handle the inventories, orders and accounting involved in national distribution.

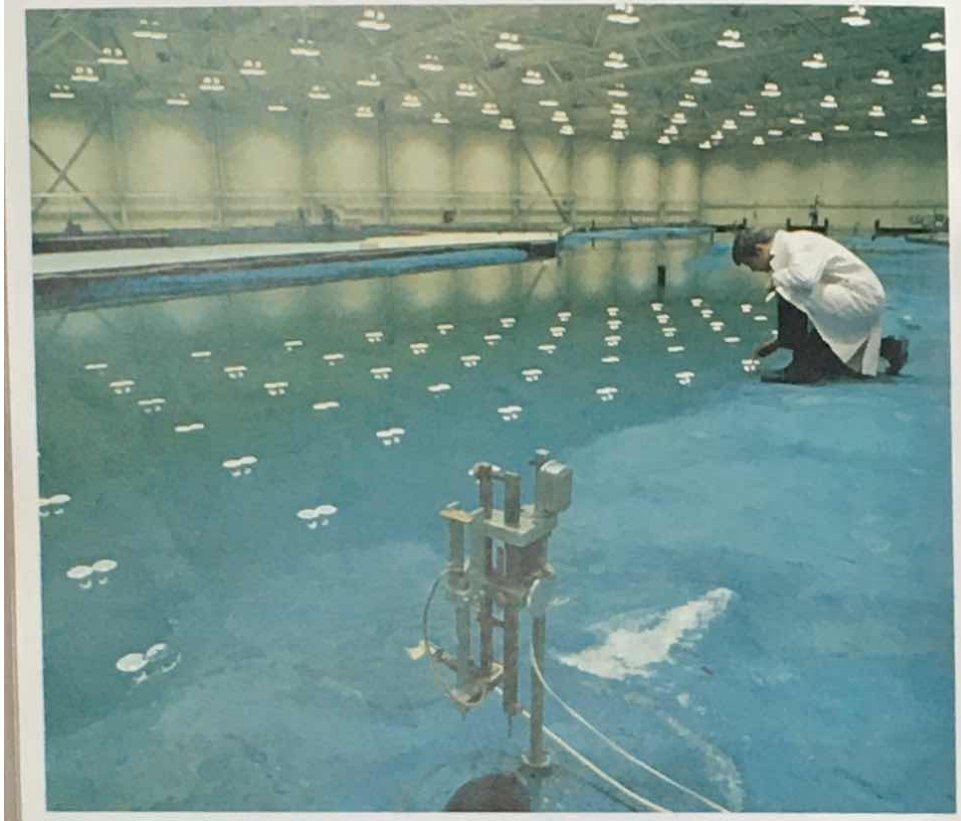
Science Research Associates, Inc., the wholly owned educational publishing subsidiary of IBM, added a number of new educational programs to its product line during 1969. SRA's published programs span all age levels from early childhood through college.

Among the most promising products introduced in 1969 are the DISTAR instructional programs, designed to teach basic reading, language, and arithmetic concepts and skills to preschool and primary grade children. In extensive testing, the program has proved especially successful with educationally disadvantaged children and those needing special remedial assistance. Characterized by a fast-paced presentation, student participation, and periodic evaluation, the materials are carefully sequenced so that children feel the satisfaction of succeeding in each segment.

In 1969 SRA announced the Arithmetic Proficiency Training Program, a computer-assisted instructional program which combines diagnostic testing and sustained drill to assist the student in achieving an acceptable level of basic mathematical literacy.

Other new programs published in 1969 include Inner-City Simulation Laboratory, a training program for teachers; We Are Black, a reading program for inner-city students; Growing in Composition, a program for elementary grade language arts students; the Arithmetic Fact Kit and the Algebra Skills Kit, for elementary and high school students, respectively; and Social Science Laboratory Units, materials that allow elementary students to explore human behavior while utilizing some of the methodology of the social scientist.

The National Research Council of Canada uses this huge scale model of the St. Lawrence River to study the effects of environmental changes. Information from dozens of measuring instruments is collected, then processed by an IBM computer.



A Quarter Million Stories

IBM is a quarter of a million individuals. The annual report, therefore, is not just one story of one Company, but is really a quarter of a million stories of individual enterprise and effort.

Each is unique.

Together, they reflect not just the difference in people, but the differences in generations, in nationality, in language and in talents.

In this diversity is IBM's strength.

The IBM team is brought together by the common language of business and technology. It thrives because of the aspirations that all men share — the desire for a good job and opportunity.

On the next five pages are a few of these individual stories, as caught by the camera.

The Company is relying more and more on women as a source of managerial talent. Catherine Selleck, who joined IBM in 1955 as a systems service representative, was promoted to manager in 1963. Here she meets with members of the Western Region Field Services Department, which she now heads, to discuss the recent changes concerning data processing support services.

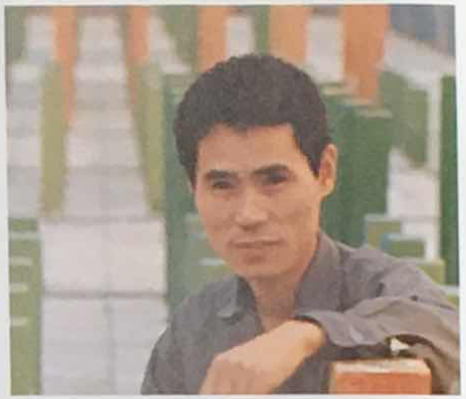
The creativity of IBMers all over the world produces a constant flow of ideas on how to improve the Company's products, services or procedures. Makoto Osada, who works in IBM Japan's Fujisawa plant, devised a better way to wash core plane frames during production, for which he was awarded $707. During the year, the Company received more than 250,000 suggestions from employees and paid more than $3.3 million for those that were accepted.

Although automated equipment and processes play a big role in modern manufacturing, they must be carefully controlled by people who take pride in fine workmanship. Here, at IBM's Kingston plant, Ralph Stickle applies his skill and careful touch to making a delicate adjustment during the process of wiring a magnetic core plane.

Since September 1968, Robert Van Buren has been a full-time employee at IBM Poughkeepsie and a part-time student at the local Dutchess County Community College. By studying on this part-time basis, he expects to earn his degree in business administration. Many IBMers, like Bob, take advantage of several programs the Company offers to encourage continuing education.

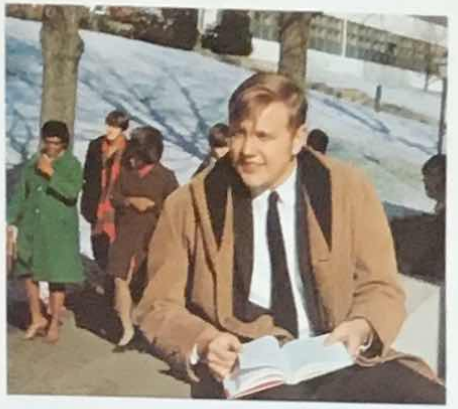
To Dave Evans, center, facing camera, senior associate engineer at IBM Huntsville, a quality education is one key to social improvement. Dave's master's degree is from Princeton University, and his personal mission is to convince deserving youngsters to apply to colleges and then guide them through admission procedures. His work has led to acceptances from Princeton, Smith, Dartmouth, Brandeis and Harvard for youngsters, some of whom might otherwise have stopped their education at high school.

The Company is relying more and more on women as a source of managerial talent. Catherine Selleck, who joined IBM in 1955 as a systems service representative, was promoted to manager in 1963. Here she meets with members of the Western Region Field Services Department, which she now heads, to discuss the recent changes concerning data processing support services.



The creativity of IBMers all over the world produces a constant flow of ideas on how to improve the Company's products, services or procedures. Makoto Osada, who works in IBM Japan's Fujisawa plant, devised a better way to wash core plane frames during production, for which he was awarded $707. During the year, the Company received more than 250,000 suggestions from employees and paid more than $3.3 million for those that were accepted.

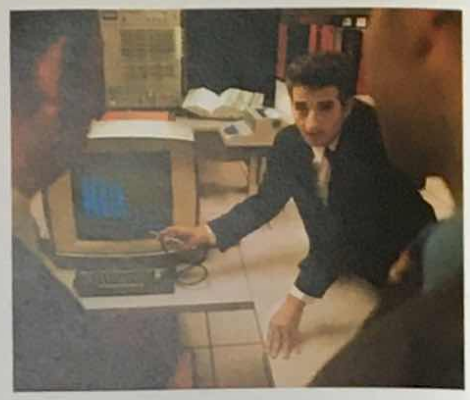
Although automated equipment and processes play a big role in modern manufacturing, they must be carefully controlled by people who take pride in fine workmanship. Here, at IBM's Kingston plant, Ralph Stickle applies his skill and careful touch to making a delicate adjustment during the process of wiring a magnetic core plane.



Since September 1968, Robert Van Buren has been a full-time employee at IBM Poughkeepsie and a part-time student at the local Dutchess County Community College. By studying on this part-time basis, he expects to earn his degree in business administration. Many IBMers, like Bob, take advantage of several programs the Company offers to encourage continuing education.

To Dave Evans, center, facing camera, senior associate engineer at IBM Huntsville, a quality education is one key to social improvement. Dave's master's degree is from Princeton University, and his personal mission is to convince deserving youngsters to apply to colleges and then guide them through admission procedures. His work has led to acceptances from Princeton, Smith, Dartmouth, Brandeis and Harvard for youngsters, some of whom might otherwise have stopped their education at high school.

The responsibilities of IBM's customer engineers have been heavily affected by the complexity of today's computers and by the great number of installations. John B. East, with IBM three years, is a customer engineer working in program support. His training, rather than being concentrated on equipment maintenance, is in program maintenance, a growing area of competence for many customer engineers.



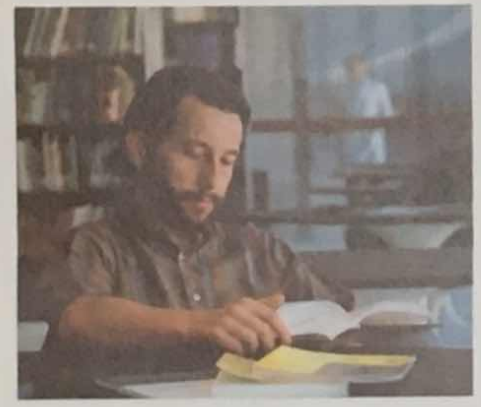
In an ancient Venetian square, Luciano Lippi, left background, gathers on-the-scene data for computer study. Among the wide variety of challenging assignments faced by the Company's systems engineers, Mr. Lippi's is one of the most unusual. As manager of IBM Italy's Venice Scientific Center, he is helping a select team of experts apply computer simulation in searching for a way to keep that historic and picturesque city from sinking into the sea.

Dr. Raymond E. Bonner is an engineer with an added dimension. His work in exploring new areas of advanced computer applications for the Advanced Systems Development Division has made him a recognized expert in one field of medicine—electrocardiography. He was invited by the American College of Cardiology to report on his progress in interpreting electrocardiograms by computer and was cited by the American Medical Association for related work.

In Los Angeles, IBM cooperates with the Urban League and the Bank of America Foundation in running the Urban League Data Processing Training Center for the disadvantaged. IBM's man-on-the-scene is John Adams, right, who works full time as the Center's manager of instruction. Under his direction, the Center graduated and placed more than 130 students in 1969.

Out at the point of sale, in the customer's office, is where teamwork in decision-making is all-important. Here, systems engineer Lynn Chemerys and salesman Joe Joyce consider solutions to a customer problem that may require a change in procedure or additional equipment.

Raymond Jones, left, was a reproduction machine operator, and James Flynn, right, was an assembler. Now, they are enrolled in a 52-week training program at East Fishkill which will qualify them as electrochemical technicians. Their instructor is Ernest Rueger. Retraining has become an important aspect of career development as changing technology offers new opportunities for more challenging and rewarding jobs.



An inquisitive mind, a creative atmosphere and good equipment are the materials of scientific research. Gary Hachtel works at the Yorktown Research Lab with one of IBM's most powerful computers to develop a more efficient mathematical formula for solving certain design problems. Gary joined the Company in 1965 after receiving his Ph.D. in electrical engineering from the University of California, Berkeley.

Len Simon, IBM marketing manager in Buffalo, connected a local need for key-punch operators with the problem of black unemployment and began a training program in which the Company plays a modest role. The training center which he started in the branch office is now part of the local Urban Center. Mr. Simon continues to provide advice and counsel while he looks for other ways to help his community.

To conduct its business throughout the world, IBM is organized into 12 divisions and three wholly owned subsidiaries.

Divisions:

Advanced Systems Development: explores product and business areas new to the Company, establishes their potential value, and then transfers responsibility to another operating group for further development, manufacturing and marketing.

Components: develops, manufactures and purchases electronic components used in IBM data processing systems.

Data Processing: markets IBM's full line of information-handling systems, equipment, program products, systems engineering, education, custom contracts and other related services through offices across the United States.

Federal Systems: concentrates on advanced technology and systems for the ground-based, airborne and spaceborne information-handling and control needs of the U.S. Government.

Field Engineering: provides maintenance and related services for the Company's domestic information-handling systems, equipment, and programming systems.

General Systems: develops and manufactures low-cost information-handling systems and equipment and provides related programming systems support.

Information Records: develops, manufactures and markets data processing cards, magnetic tape and cards, business forms and other consumable products used in information-handling systems.

Office Products: develops, manufactures, markets and services electric typewriters, magnetic media typewriters, dictation equipment, direct-impression composing equipment, and related supplies.

Real Estate and Construction: manages the selection and acquisition of sites; the design and construction of buildings; and the purchase or lease of facilities.

Research: develops advanced concepts, technologies, devices and computer applications to provide new and better solutions to customers' information-handling requirements.

Systems Development: develops, through a multinational effort, IBM's mid-range and large information-handling systems and associated peripheral equipment, including system-related programming support.

Systems Manufacturing: manufactures System/360 data processing systems and associated equipment.

Subsidiaries:

IBM *World Trade Corporation:* conducts IBM's business outside the United States directly or through subsidiaries.

Science Research Associates, Inc.: develops and publishes a wide range of modern learning systems and guidance materials as well as intelligence, aptitude and achievement tests for schools, government, and industry.

The Service Bureau Corporation: offers to American business time-sharing and other data processing services as well as computer programming services on a daily, weekly, monthly, or one-job basis.

Gross Income

Gross income from worldwide IBM operations amounted to $7,197,295,441 last year, an increase of $308,746,232 over the $6,888,549,209 total for 1968.

During 1969, sales, service and rentals of data processing machines and systems accounted for approximately 79% of gross income; other regular products and services accounted for 17%, while special products and services for United States space, defense and other agencies contributed 4%.

Earnings

The Company's earnings before taxes totaled $1,978,873,194, which was $114,375,203 more than the $1,864,497,991 earned in 1968.

U. S. Federal and foreign income taxes were $1,045,000,000 in 1969, an increase of $52,000,000 over the $993,000,000 in 1968.

IBM's earnings after taxes were $933,873,194, or $62,375,203 more than the $871,497,991 earned in 1968.

IBM's earnings in 1969 equaled $8.21 a share on the 113,718,068 shares of capital stock outstanding at the end of the year. This compares with $7.71 a share for 1968 based on the 112,968,369 shares outstanding on December 31, 1968.

Cash Dividends

Cash dividends totaling $407,825,977 were paid to stockholders in 1969 compared with $292,646,157 in the previous year.

The regular quarterly cash dividend payable March 10, 1970, will be at the rate of $1.20 per share, an increase of $.20 a share over the previous rate. This dividend will be IBM's 220th consecutive quarterly cash dividend.

Capital Expenditures

During 1969, IBM's growing business, together with its need to replace obsolete equipment, required a worldwide investment of $1,647,118,305 in plant, rental machines and other property.

Retirements amounted to $612,352,240, covering obsolete and dismantled equipment, as well as rental machines sold which previously were under lease to customers. These write-offs were charged against reserves provided out of prior and current years' earnings, or to cost of sales.

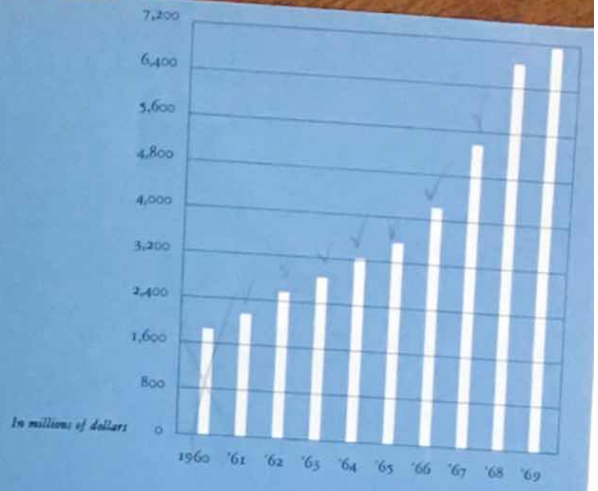
Listed on the following page are the significant facilities that were completed or under construction throughout the world during the year. Also in 1969, the Company occupied a number of newly leased or purchased facilities.

United States	Purpose	Square Feet
Chicago, Illinois	*Adm. & Mktg.*	1,830,000
† East Fishkill, New York	*Mfg.*	800,000
Boca Raton, Florida	*Mfg. & Dev.*	636,000
*† East Fishkill, New York	*Mfg. & Dev.*	400,000
Manassas, Virginia	*Mfg. & Dev.*	400,000
† White Plains, New York	*Adm.*	400,000
Franklin Lakes, New Jersey	*Adm.*	350,000
*† San Jose, California	*Mfg.*	346,000
*† Gaithersburg, Maryland	*Dev. & Adm.*	266,000
Rockville, Maryland	*Adm.*	256,000
† Poughkeepsie, New York	*Dev.*	248,000
† San Jose, California	*Dev.*	245,000
† Raleigh, North Carolina	*Mfg. & Dev.*	242,000
* White Plains, New York	*Adm.*	227,000
*† Rochester, Minnesota	*Mfg. & Dev.*	184,000
† Burlington, Vermont	*Dev.*	158,000
† Rochester, Minnesota	*Dev.*	156,000
† Kingston, New York	*Mfg.*	154,000
† Boulder, Colorado	*Dev.*	136,000
† Endicott, New York	*Dev.*	136,000
Springfield, Massachusetts	*Mktg.*	120,000
*† Owego, New York	*Mfg.*	100,000
*† Poughkeepsie, New York	*Mfg.*	100,000
Hamden, Connecticut	*Mktg.*	90,000
Lexington, Kentucky	*Mktg.*	65,000
*† Huntsville, Alabama	*Dev.*	52,000

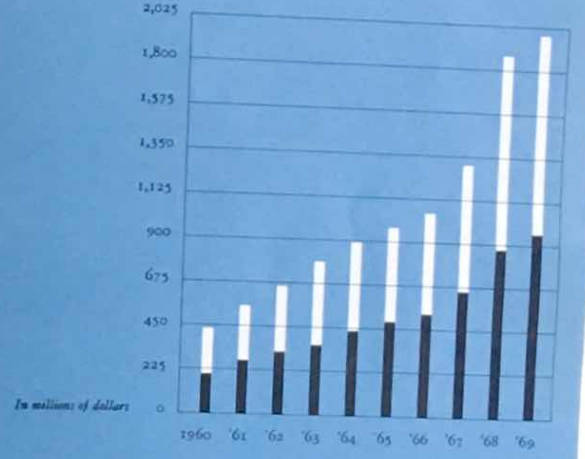
Other Countries	Purpose	Square Feet
Stuttgart, West Germany	*Adm.*	488,000
Munich, West Germany	*Adm.*	310,000
Jarfalla, Sweden	*Mfg.*	280,000
† Toronto, Canada	*Mfg.*	250,000
Zurich, Switzerland	*Adm.*	237,000
† Greenock, Scotland	*Mfg.*	200,000
† Montpellier, France	*Mfg.*	187,000
† Sindelfingen, West Germany	*Mfg.*	186,000
Havant, England	*Mfg.*	147,000
† Vimercate, Italy	*Mfg.*	146,000
† Boeblingen, West Germany	*Dev.*	140,000
† La Gaude, France	*Dev.*	137,000
† Fujisawa, Japan	*Mfg.*	129,000
† Mainz, West Germany	*Mfg.*	118,000
† Diegem, Belgium	*Adm. & Mfg.*	113,000
Bogota, Colombia	*Adm. & Mktg.*	109,000
*† Mainz, West Germany	*Mktg.*	107,000
* Hannover, West Germany	*Mktg.*	100,000
† Amsterdam, Netherlands	*Mfg.*	79,000
* Havant, England	*Adm.*	62,000
*† Montpellier, France	*Mfg.*	54,000
* Lidingo, Sweden	*Mktg.*	53,000

* *Completed in 1969.*
† *Expansion of existing facilities.*

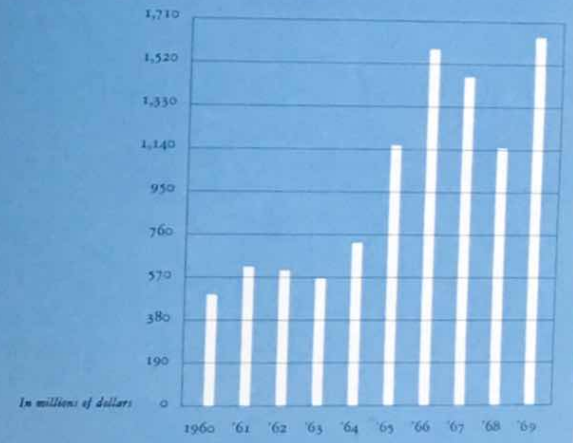
Gross Income from Sales, Service and Rentals



■ Net Earnings
□ and Income Taxes



Capital Expenditures



Trying to predict fashion trends and sales of young ladies' clothing is, at best, difficult. One popular designer gets help from a small System/360 which compares, analyzes and reports on various marketing statistics and projections.

Opinion of Independent Accountants

To the Stockholders of International Business Machines Corporation

In our opinion, the accompanying consolidated financial statements present fairly the financial position of International Business Machines Corporation and its subsidiaries at December 31, 1969, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year. Also, in our opinion, the comparative statement of operations for the past ten years presents fairly the financial information included therein. Our examination of these statements 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.

Price Waterhouse & Co.

January 27, 1970
New York, New York

Annual Meeting of Stockholders

This year's stockholders' meeting will be held at the Regency Hyatt House in Atlanta, Georgia, on Monday, April 27th at 10:00 a.m. On or about March 13th, a notice of the meeting, proxy statement, and proxy voting card will be mailed to stockholders.

International Business Machines Corporation
and Subsidiary Companies

Consolidated Statement of Earnings and
Retained Earnings for the year ended December 31:

	1969		1968	
Gross Income from Sales, Service and Rentals		$ 7,197,295,441		$ 6,888,549,209
Cost of sales, service and rentals, operating expenses, and development and engineering expense, exclusive of depreciation	$ 4,269,856,827		$ 4,066,121,483	
Depreciation of plant, rental machines and other property	1,008,644,097		975,214,205	
Interest on indebtedness	34,873,327		40,844,026	
		5,313,374,251		5,082,179,714
		1,883,921,190		1,806,369,495
Other income, principally interest		94,952,004		58,128,496
Net earnings before income taxes		1,978,873,194		1,864,497,991
Provision for U.S. Federal and foreign income taxes		1,045,000,000		993,000,000
Net Earnings for the year		933,873,194		871,497,991
Per share		$ 8.21		$ 7.71
Retained Earnings, January 1		2,473,525,338		1,894,673,504
Total		3,407,398,532		2,766,171,495
Cash dividends		407,825,977		292,646,157
Retained Earnings, December 31		$ 2,999,572,555		$ 2,473,525,338

The notes on pages 50 to 56 are an integral part of this statement.

International Business Machines Corporation
and Subsidiary Companies

Consolidated Balance Sheet at December 31:

Assets	1969	1968
Current Assets:		
Cash	$ 164,844,346	$ 216,838,060
Marketable securities, at lower of cost or market	1,206,404,966	1,609,086,088
Notes and accounts receivable...less reserve:		
1969, $32,476,738; 1968, $22,445,133	1,550,607,088	1,201,466,663
Inventories, at lower of average cost or market	268,029,656	226,286,172
Prepaid insurance, taxes, etc.	60,128,268	47,394,211
	3,250,014,324	3,301,071,194
Other Investments and Sundry Assets:		
U.S. Treasury securities maturing in 1973 and 1974, at cost plus accrued discount	239,178,820	—
Other investments and assets	37,303,575	27,320,780
	276,482,395	27,320,780
Plant, Rental Machines and Other Property...at cost:		
Land	154,550,348	112,633,018
Buildings	818,855,287	663,655,612
Factory, laboratory and office equipment	1,335,310,362	1,132,448,170
	2,308,715,997	1,908,736,800
Less: Accumulated depreciation	1,041,261,652	889,007,180
	1,267,454,345	1,019,729,620
Rental machines and parts	5,723,240,404	5,088,453,536
Less: Accumulated depreciation	3,127,233,377	2,693,143,969
	2,596,007,027	2,395,309,567
	3,863,461,372	3,415,039,187
	$ 7,389,958,091	$ 6,743,431,161

Liabilities and Stockholders' Equity	1969	1968
Current Liabilities:		
U.S. Federal and foreign income taxes	$ 388,240,995	$ 567,631,316
Accounts payable and accruals	973,987,050	899,033,842
Loans payable	73,666,670	64,336,040
	1,435,894,715	1,531,001,198
Deferred Income Taxes	53,868,648	51,896,220
Reserves for Employees' Indemnities and Retirement Plans	68,382,659	46,303,055
Long-Term Indebtedness	554,821,353	545,090,514
Stockholders' Equity:		
Capital stock...par value $5.00 per share	2,277,418,161	2,095,614,836
Shares authorized, 120,000,000; issued and outstanding, 1969—113,718,068, 1968—112,968,369		
Retained earnings	2,999,572,555	2,473,525,338
	5,276,990,716	4,569,140,174
	$ 7,389,958,091	$ 6,743,431,161

The notes on pages 50 to 56 are an integral part of this statement.

Consolidated Statement of Source and Application of Funds for the year ended December 31:

		1969	1968
Net current assets at beginning of year		$ 1,770,069,996	$ 916,382,993
Funds provided during year:	Net earnings	933,873,194	871,497,991
	Depreciation and other charges against net earnings which did not require the current outlay of funds	1,143,395,894	1,179,429,842
	Total from operations	2,077,269,088	2,050,927,833
	Sale of capital stock under employee plans	181,803,325	158,685,574
	Increase in long-term indebtedness	9,730,839	23,630,812
	Miscellaneous	(9,982,795)	(3,512,359)
	Total funds provided during year	2,258,820,457	2,229,731,860
	Total funds	4,028,890,453	3,146,114,853
Funds applied during year:	Investment in plant, rental machines and other property	1,647,118,305	1,156,578,794
	Less: Depreciation of manufacturing facilities capitalized in rental machines	79,352,258	73,180,094
		1,567,766,047	1,083,398,700
	U.S. Treasury securities classified as a non-current investment	239,178,820	—
	Cash dividends	407,825,977	292,646,157
	Total funds applied during year	2,214,770,844	1,376,044,857
Net current assets at end of year		$ 1,814,119,609	$ 1,770,069,996

Notes to Consolidated Financial Statements

Principles of Consolidation:
The consolidated financial statements include the accounts of International Business Machines Corporation and its domestic and foreign subsidiary companies.

Foreign Operations:

Net assets employed in foreign operations are summarized below together with a comparison of gross income and net earnings from these operations.

	December 31, 1969	December 31, 1968
Current assets	$ 1,291,618,752	$ 1,014,355,746
Current liabilities	735,543,554	613,401,737
Net current assets	556,075,198	400,954,009
Other investments and sundry assets	28,612,924	26,859,933
Plant, rental machines and other property, net	1,329,979,668	1,202,386,835
	1,914,667,790	1,630,200,777
Deferred income taxes	25,195,401	25,899,816
Reserves for employees' indemnities and retirement plans in certain countries	68,382,659	46,303,055
Long-term indebtedness	328,571,353	308,090,514
	422,149,413	380,293,385
Net assets employed in foreign operations	$ 1,492,518,377	$ 1,249,907,392

	Year 1969	*Year 1968*
Gross income from sales, service and rentals in foreign countries	$ 2,495,992,944	$ 2,040,184,359
Net earnings from foreign operations	$ 397,783,172	$ 270,546,255

Foreign assets and liabilities have been translated to U. S. dollars at year-end exchange rates, except that plant, rental machines and other property and long-term indebtedness have been translated at approximate rates prevailing when acquired or incurred.

Income and expense items have been translated at average rates of exchange prevailing during the year, except depreciation which has been calculated at the approximate rates prevailing when the properties were acquired.

Long-Term Indebtedness:

	December 31, 1969	December 31, 1968
International Business Machines Corporation...		
payable to The Prudential Insurance Company of America:		
3½% promissory note, due in annual installments, January 1, 1971 to 1985	$ 86,250,000	$ 92,000,000
3½% promissory note, due in annual installments, May 1, 1971 to 1988	90,000,000	95,000,000
3½% promissory notes, due December 1, 1971	50,000,000	50,000,000
	226,250,000	237,000,000
Subsidiaries operating in foreign countries...average interest rate—6.6%	328,571,353	308,090,514
Consolidated long-term indebtedness	$ 554,821,353	$ 545,090,514

Consolidated long-term indebtedness at December 31, 1969 was payable:

1971	$137,118,880
1972	39,470,777
1973	55,138,444
1974	24,391,493
1975	124,575,179
1976-1980	98,083,349
1981-1988	76,043,231
	$554,821,353

Renegotiation:
The Consolidated Statement of Earnings and Retained Earnings includes estimated provision for renegotiation of U.S. Government contracts.

Depreciation:
With minor exceptions, depreciation of domestic properties is computed using the sum of the years-digits method. Depreciation of foreign properties is generally computed using the straight-line method. However, methods which provide higher charges in early years of asset life, such as the declining-balance method, are used by certain foreign subsidiaries.

Significant Litigation:
In January 1969, the Department of Justice filed a civil antitrust complaint against IBM under Section 2 of the Sherman Antitrust Act, charging the Company with monopolizing commerce in general purpose digital computers in the United States. The government requests that IBM be forced to stop certain practices which it claims lead to a monopoly. The complaint also contains a general statement asking the court to give such other relief by way of divorcement, divestiture and reorganization as it may deem necessary to dissipate the effects of the practices charged.

Within the past 13 months, four IBM competitors—Control Data Corporation, Data Processing Financial & General Corporation, Applied Data Research, Inc. and Programmatics Incorporated (an affiliate of Applied Data Research)—each filed a civil complaint against IBM alleging, among other things, that IBM has violated the federal antitrust laws. The complainants seek extensive treble damages, injunctive and other relief.

The four private actions have been consolidated for pre-trial proceedings in the United States District Court for the District of Minnesota. The government case remains under the jurisdiction of the United States District Court for the Southern District of New York. In each of the suits, IBM and the complainant have exchanged requests for information and are beginning to collect and exchange the information requested. It is impossible to tell at this time how long this process will take.

In October 1969, Greyhound Computer Corporation and Motor Replacement Company, Inc. (the latter purporting to represent a class of purchasers of IBM equipment) filed separate suits against IBM. Complainants seek, among other things, extensive damages arising primarily from IBM's June 23, 1969 announcement pricing certain data processing support services which complainants claim should be indefinitely provided without separate charge. The Greyhound complaint also alleges monopolization.

IBM denies the charges in all of the foregoing cases and is vigorously defending itself against them.

Stock Purchase Plan for IBM Employees:
At the April 1969 Annual Meeting, stockholders authorized an additional 2,000,000 shares of unissued capital stock for issuance under the IBM Employees 1966 Stock Purchase Plan. Under this Plan, employees on the annual offering date, each July 1, who are not participants in a Stock Option Plan, may purchase IBM's unissued capital stock one share at a time through payroll deductions not exceeding 10% of their compensation. The price an employee pays for a share of stock is equal to 85% of the market price on the annual offering date or on the date he has accumulated enough money to buy the share—whichever price is lower.

Employees purchased 583,369 shares in 1969, for which $159,495,628 was paid to IBM and credited to the capital stock account. At December 31, 1969, 2,723,929 shares were reserved for sale under the 1966 Plan.

Stock Option Plans:
In April 1966, stockholders approved the continuation of a Stock Option Plan for officers and other key employees. In 1969, stockholders authorized an additional 200,000 shares of unissued capital stock for issuance under this Plan. Under the 1966 Plan, as under the 1956 and 1961 Plans, options may be granted for the purchase of IBM's unissued capital stock at 100% of the market price on the day the option is granted.

Options granted after January 1, 1964 run for a five-year term and purchases can only be made in installments commencing one year after the date of grant and extending over a period of the next four years. Options granted prior to January 1, 1964 under earlier Plans have a term of ten years and purchases can only be made in installments commencing two years after the date of grant and extending over a period of the next eight years.

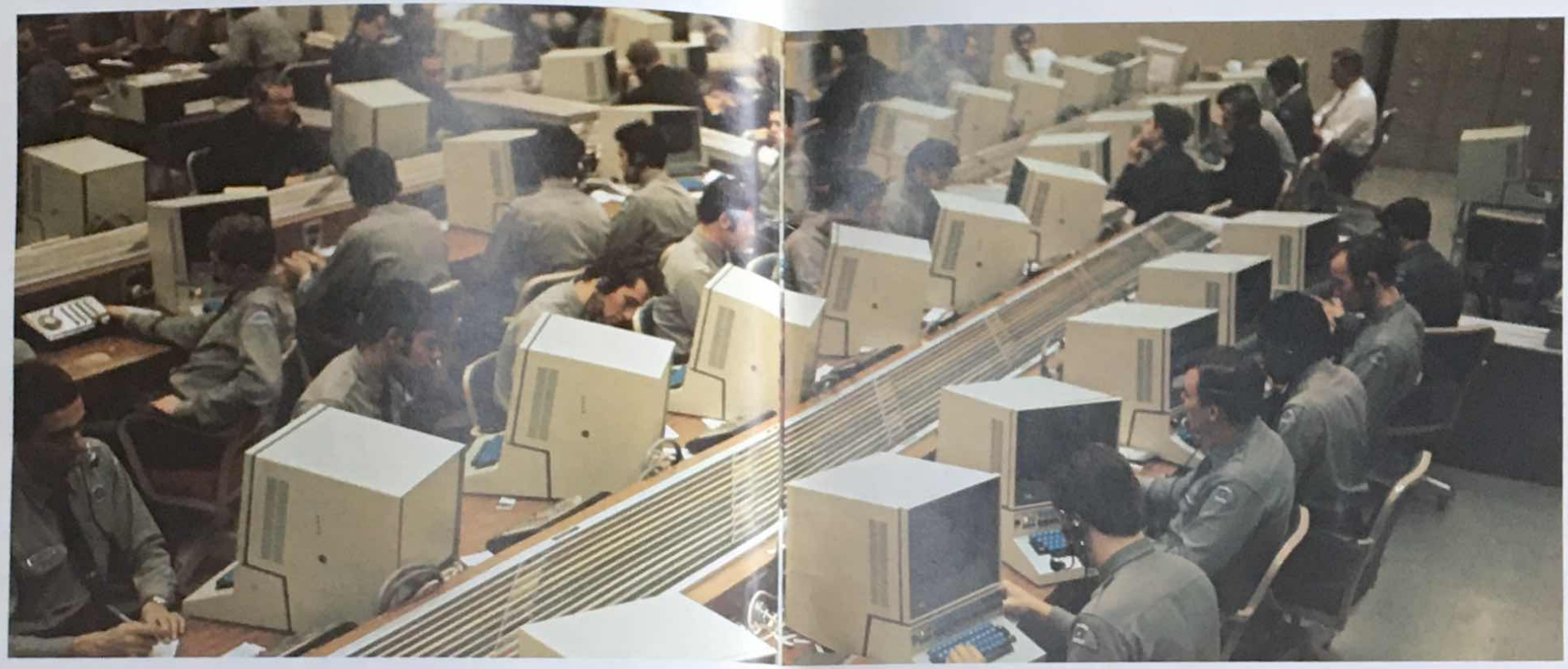
In accordance with the Plans, the number of shares that may be purchased and the price per share are adjusted for stock dividends and splits effected after the option is granted.

The following summary reflects the transactions for the Plans during 1969:

	Number of Shares	
	Under Option	Available for Option
Balance, January 1, 1969	489,703	336,545
Options granted	222,350	(222,350)
Options terminated	(21,157)	17,693
Options exercised	(166,330)	—
Additional shares reserved	—	200,000
Balance, December 31, 1969	524,566	331,888
Exercisable at December 31, 1969	114,660	

IBM received $22,307,697 for the 166,330 shares purchased during 1969, which amount was credited to the capital stock account. The 524,566 shares under option at December 31, 1969 were held by 1,021 executives at option prices ranging from $78.66 to $361.75 per share. These prices represent 100% of the market price on the date of each grant from 1960 to date,

These IBM display terminals at New York City Police Headquarters give instant information on the availability of patrol cars or other emergency assistance. Response time has been reduced dramatically since this special IBM system was installed.



adjusted for stock dividends and splits that occurred after the dates on which the options were granted. The 331,888 shares available for future option grants are all under the 1966 Plan.

Other Investments And Sundry Assets:
The Company has classified as a non-current investment $250 million face amount of U.S. Treasury securities which mature in 1973 and 1974, as it is intended to hold them until maturity.

Retirement Plans:
The Company and its domestic subsidiaries have had for many years a trusteed, non-contributory retirement plan covering substantially all their employees. Certain subsidiaries outside the United States have retirement plans under which funds are deposited with trustees, reserves are provided, or annuities are purchased under group contracts. The cost of all plans totaled approximately $108 million for the year 1969.

Ten-Year Comparative Consolidated Statement of Operations:

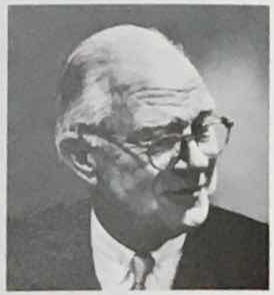
	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Gross income from sales, service and rentals	$7,197,295,441	$6,888,549,209	$5,345,290,993	$4,247,706,091	$3,572,824,719	$3,239,359,581	$2,862,732,727	$2,591,268,572	$2,202,465,009	$1,816,882,259
Net earnings before income taxes	$1,978,873,194	$1,864,497,991	$1,297,499,558	$1,054,130,192	$ 959,902,490	$ 897,159,766	$ 777,828,404	$ 652,437,641	$ 546,494,784	$ 438,394,058
U.S. Federal and foreign income taxes	$1,045,000,000	$ 993,000,000	$ 646,000,000	$ 528,000,000	$ 483,000,000	$ 466,000,000	$ 413,573,426	$ 347,711,296	$ 292,375,666	$ 233,478,553
Net earnings	$ 933,873,194	$ 871,497,991	$ 651,499,558	$ 526,130,192	$ 476,902,490	$ 431,159,766	$ 364,254,978	$ 304,726,345	$ 254,119,118	$ 204,915,505
Per share (see note)	*$8.21*	*$7.71*	*$5.81*	*$4.71*	*$4.40*	*$4.00*	*$3.39*	*$2.85*	*$2.39*	*$1.93*
Cash dividends	$ 407,825,977	$ 292,646,157	$ 243,172,836	$ 230,671,168	$ 210,767,482	$ 165,964,452	$ 118,039,971	$ 82,956,805	$ 63,299,895	$ 54,898,842
Per share (see note)	*$3.60*	*$2.60*	*$2.17*	*$2.10*	*$1.95*	*$1.54*	*$1.11*	*$ .78*	*$ .60*	*$ .52*
Stock dividend and splits*:										
Per cent	—	*100%	2½%	*50%	—	*25%	—	—	*50%	—
Shares issued	—	56,230,420	1,363,723	17,645,985	—	6,990,140	—	—	9,204,515	—
Shares sold	749,699	623,670	302,356	1,577,301	176,655	136,297	114,212	116,604	94,794	43,401
At end of year:										
Number of shares outstanding	113,718,068	112,968,369	56,114,279	54,448,200	35,224,914	35,048,259	27,921,822	27,807,610	27,691,006	18,391,697
Net investment in plant, rental machines and other property	$3,863,461,372	$3,415,039,187	$3,496,307,204	$3,098,618,614	$2,303,509,000	$1,747,924,457	$1,585,581,367	$1,533,966,694	$1,418,588,690	$1,203,566,459
Long-term indebtedness	$ 554,821,353	$ 545,090,514	$ 521,459,702	$ 458,871,518	$ 398,849,604	$ 370,429,536	$ 549,590,394	$ 590,666,327	$ 585,129,747	$ 537,661,364
Net current assets	$1,814,119,609	$1,770,069,996	$ 916,382,993	$ 723,096,414	$ 698,652,848	$ 899,938,243	$ 885,435,060	$ 681,217,864	$ 519,474,419	$ 468,751,477
Number of stockholders	549,463	501,390	359,495	328,427	275,650	266,086	233,761	230,235	197,509	127,478

Note: *Adjusted for stock dividend and splits.*

Board of Directors:


Frank T. Cary


Paul L. Davies


John Clifford Folger


John M. Fox


George L. Hinman


G. Keith Funston


Amory Houghton, Jr.


Gilbert E. Jones


John N. Irwin II


Louis H. LaMotte


Grayson Kirk


T. Vincent Learson


William H. Moore


Emanuel R. Piore


Cyrus R. Vance

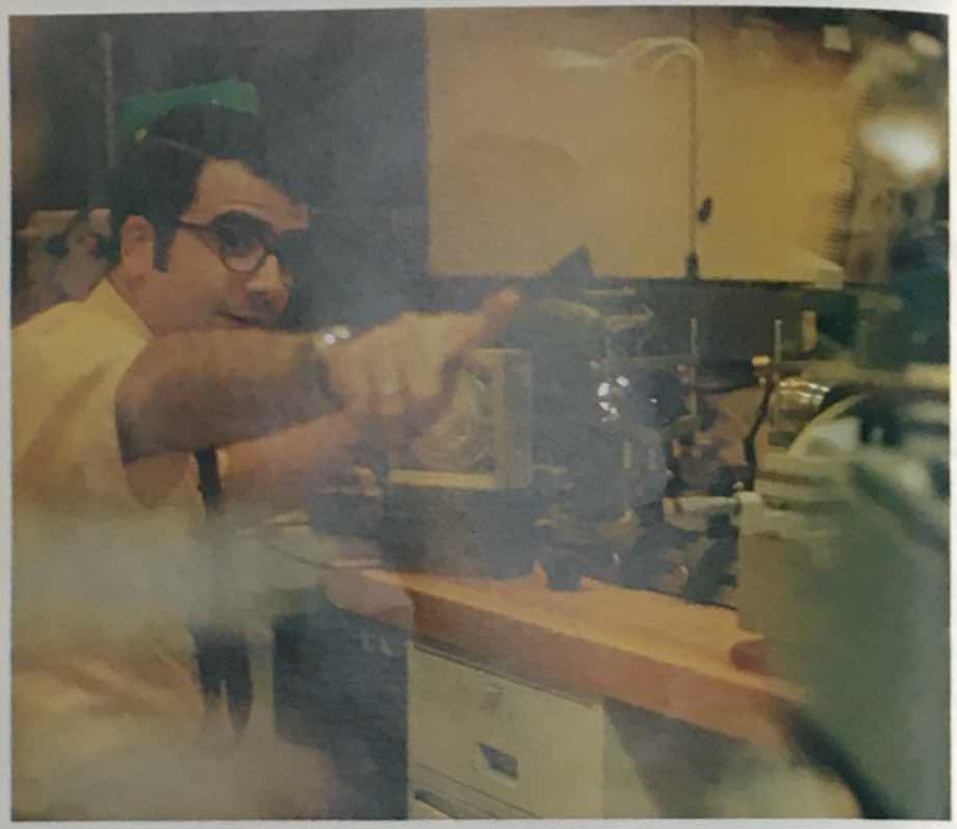

Arthur K. Watson


Thomas J. Watson, Jr.


Albert L. Williams


Bruce Bromley,
Honorary Director

Research scientist views results during experimental study of surface acoustic waves. Acousto-optic devices are a potential new technology in information processing.



Board of Directors:

Frank T. Cary	*Senior Vice President.*
Paul L. Davies	*Senior Partner, Lehman Brothers, investment bankers.*
John Clifford Folger	*Chairman of the Board, Folger, Nolan, Fleming, & Co., Incorporated, investment bankers.*
John M. Fox	*Chairman of the Board and President, United Fruit Company.*
G. Keith Funston	*Chairman of the Board, Olin Corporation.*
George L. Hinman	*Senior Partner, Hinman, Howard & Kattell, attorneys at law.*
Amory Houghton, Jr.	*Chairman of the Board, Corning Glass Works.*
*John N. Irwin II	*Partner, Patterson, Belknap and Webb, attorneys at law.*
*Gilbert E. Jones	*Senior Vice President.*
Grayson Kirk	*President Emeritus, Columbia University.*
Louis H. LaMotte	*Retired Executive Vice President.*
T. Vincent Learson	*President.*
William H. Moore	*Chairman of the Board, Bankers Trust Company.*
Emanuel R. Piore	*Vice President and Chief Scientist.*
Cyrus R. Vance	*Partner, Simpson, Thacher & Bartlett, attorneys at law.*
Arthur K. Watson	*Vice Chairman of the Board, and Chairman of the Board of IBM World Trade Corporation.*
Thomas J. Watson, Jr.	*Chairman of the Board.*
Albert L. Williams	*Chairman of the Executive Committee.*
Bruce Bromley	*Honorary Director, Partner, Cravath, Swaine & Moore, attorneys at law.*

Executive Committee:

Albert L. Williams, *Chairman*	
John Clifford Folger	William H. Moore
Louis H. LaMotte	Arthur K. Watson
T. Vincent Learson	Thomas J. Watson, Jr.

Officers:

Thomas J. Watson, Jr.	*Chairman of the Board*
T. Vincent Learson	*President*
Arthur K. Watson	*Vice Chairman of the Board*
Frank T. Cary	*Senior Vice President*
Richard H. Bullen	*Senior Vice President*
Warren C. Hume	*Senior Vice President*
Gilbert E. Jones	*Senior Vice President*
Burke Marshall	*Senior Vice President*
John R. Opel	*Senior Vice President*
George B. Beitzel	*Vice President*
Robert W. Hubner	*Vice President and Group Executive*
Jacques G. Maisonrouge	*Vice President*
Dean R. McKay	*Vice President*
Arthur G. Anderson	*Vice President*
James W. Birkenstock	*Vice President*
Young P. Dawkins	*Vice President*

John W. Gibson	*Vice President*
David L. Grove	*Vice President and Chief Economist*
Jerrier A. Haddad	*Vice President*
Lincoln L. Horn	*Vice President*
Nicholas deB. Katzenbach	*Vice President and General Counsel*
Paul W. Knaplund	*Vice President*
John C. McPherson	*Vice President*
H. Wisner Miller, Jr.	*Vice President*
Gordon M. Moodie	*Vice President*
Ralph L. Palmer	*Vice President*
Theodore C. Papes, Jr.	*Vice President*
Walter J. Pedicord	*Vice President*
Dean P. Phypers	*Vice President*
Emanuel R. Piore	*Vice President and Chief Scientist*
Paul J. Rizzo	*Vice President and Controller*
Orland M. Scott	*Vice President*
Harry M. Sibley	*Treasurer*
Henry W. Trimble, Jr.	*Secretary*
Hilary A. Faw, Jr.	*Assistant Treasurer*
George H. Ryniker	*Assistant Treasurer*
Karl W. Kaufmann	*Assistant Controller*
C. Arthur Northrop	*Assistant Controller*
John H. Grady	*Assistant Secretary*

Division and Subsidiary Chief Executives:

Arthur G. Anderson	*Director of Research*
Sheldon I. Euler	*President, Information Records Division*
Bob O. Evans	*President, Systems Development Division*
John W. Gibson	*President, Components Division*
Richard A. Giesen	*President, Science Research Associates, Inc.*
Robert H. Howe	*President, Real Estate and Construction Division*
John B. Jackson	*President, Federal Systems Division*
Jacques G. Maisonrouge	*President, IBM World Trade Corporation*
*Harold F. Martin	*General Manager, Advanced Systems Development Division*
Frank G. Paul	*President, Systems Manufacturing Division*
Francis G. Rodgers	*President, Data Processing Division*
Clarence B. Rogers, Jr.	*President, General Systems Division*
Orland M. Scott	*President, Field Engineering Division*
Bart M. Stevens	*President, Office Products Division*
John F. Williams	*President, The Service Bureau Corporation*

**Effective 1/27/70*

International Business Machines Corporation
Armonk, New York 10504
Stockholder Relations Department
717 Fifth Avenue, New York, N. Y. 10022

802-3000-2 PRINTED IN USA