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1962

IBM Annual Report 1962

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IBM *Annual Report*

for the year ended

December 31, 1962

Cover picture: Miniaturized computer circuits, that are smaller than postage stamps, being soldered to a circular metal panel. A number of these panels will later be assembled to form the electronic circuitry used in an advanced space guidance computer developed by IBM.





Dr. Emil Hopner sees the first oscilloscope signals confirming IBM's success in sending computer data over television channels at the fastest rate ever recorded.

Highlights of the year:

	1962	1961
Gross income from sales, service and rentals in U.S.	\$ 1,925,221,857	\$ 1,694,295,547
Net earnings before taxes	\$ 494,387,268	\$ 425,727,597
U.S. Federal income taxes	\$ 253,000,000	\$ 218,500,000
Net earnings	\$ 241,387,268	\$ 207,227,597
Per share	\$ 8.72	\$ 7.52
Cash dividends	\$ 82,813,720	\$ 63,265,677
Per share	\$ 3.00	\$ 2.30
Stock split	—	50%
Expenditures for rental machines and parts, factory and office equipment, and land and buildings	\$ 368,950,061	\$ 386,526,082

At end of year:

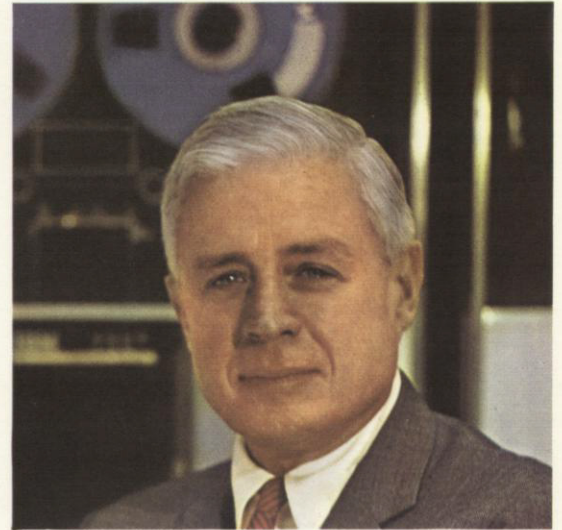
Total assets	\$ 1,984,540,202	\$ 1,768,649,296
Net investment in factories, offices, rental machines and parts	\$ 960,409,952	\$ 936,905,005
Long-term indebtedness	\$ 425,000,000	\$ 425,000,000
Net current assets	\$ 616,172,426	\$ 469,333,477
Number of employees . . . domestic	81,493	75,954
Number of employees . . . IBM World Trade Corporation	45,975	40,322
Number of employees . . . total	127,468	116,276
Number of stockholders	228,632	195,674

Registrar and Agent for Receipt of Stock Certificates:

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York 15, N. Y.

Stock Transfer Office:

International Business Machines Corporation, 590 Madison Avenue, New York 22, N. Y.



Chairman Thomas J. Watson, Jr.

To the Stockholders:

The IBM Company's success in creating a steady flow of new products and services of value to customers was responsible for its continued growth during 1962.

The Company's gross income from its domestic operations amounted to \$1,925,221,857, an increase of \$230,926,310 over 1961.

Earnings were \$241,387,268, a \$34,159,671 increase over the prior year.

Earnings per share were \$8.72, based on the 27,678,322 shares outstanding at the end of the year. This compares with earnings of \$7.52 per share based on the 27,561,531 shares outstanding on December 31, 1961.

The IBM World Trade Corporation, a wholly-owned subsidiary which carries on IBM's business through its subsidiaries outside the United States, had a gross income of \$653,115,213, an increase of \$155,513,251 over 1961. IBM World Trade's earnings were \$86,679,086 last year, an increase of \$22,198,550 over the year before.

IBM earnings include \$24,555,899 of IBM World Trade's results in 1962, compared with \$18,540,853 in 1961. The undistributed net earnings of IBM World Trade's foreign subsidi-



President Albert L. Williams

aries continue to be excluded from IBM's reported net earnings.

The range of IBM's products and services has been extended steadily in order to meet the growing data handling requirements of our customers.

A new key-driven accounting system that can handle smaller business requirements with greatly increased efficiency was announced a few weeks ago, and a new low-cost computer that promises to bring advanced data processing to many firms for the first time was introduced earlier last year.

Our customers' needs for increasingly larger systems were also met with the introduction of two new products including one of the most powerful computing systems ever offered by IBM.

We are particularly proud of IBM's participation in our country's space program. The Company helped create the ground-based computer systems used for the earth orbiting flights of the Mercury astronauts, and has been asked to supply a still more advanced system for use in the program to send a spacecraft to the moon.

Work has begun on the IBM guidance computer which will help steer the two-man Gemini

capsule into a rendezvous with a booster rocket while they are both in orbit. IBM also delivered the first guidance computer for the Saturn series of rockets which represent a step in the development of boosters to lift a three-man Apollo capsule to the vicinity of the moon.

Substantial investments were made in the Company's research and development programs during 1962. These programs are designed to produce the new IBM products and services of the future.

Notable progress was made last year in IBM's research work on a device called a laser which can produce a powerful beam of light potentially capable of carrying enormous amounts of computer information.

IBM engineers also utilized television channels to transmit experimentally computer information at the highest speed yet reported, and succeeded in passing data between IBM computers located on opposite sides of the Atlantic Ocean via the Telstar satellite.

Among other important IBM scientific advances of the past year were a number of developments in the key technical area of components research which will strongly influence the performance of future information handling systems.

IBM's greatest asset has always been its employees, and last year they continued to expand their knowledge of our business, learn vital new skills, and accept demanding new assignments so that the Company can meet the growing, and increasingly complex requirements of its customers. During 1962, our expenditures for employee compensation and benefits amounted to \$778,654,864 in the United States.

The Company's progress during 1962, as well as its current organizational philosophy, is described in greater detail in the next section of the report.

January 22, 1963 By order of the Board of Directors,

A L Williams

President

Thomas J. Watson Jr.

Chairman of the Board

Creating New Services of Value to Customers Around the World

IBM products were in use throughout the free world last year helping men study the weather, keep track of inventories, design ships, process bank checks, investigate the planets, and find solutions to a growing number of other business and scientific problems.

To create new services of value to its customers, the Company has been steadily strengthening its world-wide marketing, manufacturing and research facilities. Many new problem-solving services have resulted from this effort, and significant progress is being made toward continuing this flow in the years ahead.

The range of the Company's data processing systems was broadened during the year, for example, by a number of announcements including three new information handling systems of importance to a wide range of customers.

Of particular importance was the low-cost IBM 1440 data processing system, designed for the growing number of customers whose needs have exceeded basic punched card systems, but who do not yet require the capability of a larger computer.

The most striking element of this new system is a lightweight disk pack containing six magnetic memory disks capable of holding a total of three million characters of information. A com-

pany can use these disk packs to maintain a wide variety of business records such as accounts receivable, payroll, and inventory.

The Company also announced the IBM 7010 data processing system last year. This system combines increased information handling capability with the processing power of IBM's larger computers.

The third new system introduced in 1962 was the IBM 7094 which is one of the most powerful computing systems ever offered by IBM. Installation of this new computer began last fall.

Over the years, many of our customers have installed multiple computer systems. Ways had to be found to enable these installations to communicate with one another. IBM TELE-PROCESSING systems are increasingly being used to do this job because they can transmit large amounts of information between locations using private and commercial communications facilities.

The ability of IBM's computers to communicate with each other was expanded last year by the development of the IBM 7710 Data Communication Unit. This device permits computers in different locations to exchange information via high-speed facilities such as micro-wave and coaxial cable.

While the 7710 speeds communication between two computers, another important new product called the IBM 7750 allows a single computer to communicate with large numbers of widely-separated terminals often located hundreds of miles away.

A large IBM TELE-PROCESSING system known as SABRE will soon be in use in many cities to handle passenger reservations for American Airlines. IBM is currently working toward installation of a global reservations network for Pan American World Airways. This new system, known as PAN-AMAC, will connect 114 cities on six continents to a computing center in New York City. Work is



Wisp of vermilion light from an experimental laser developed by IBM scientists that can produce an infrared beam potentially capable of carrying vast amounts of computer information.

also progressing on a computer-based reservations system for Delta Air Lines.

IBM also introduced new products last year which were specifically designed for customers in the banking field.

The new IBM 1420 bank transit system, for example, can sort and process up to 1,600 magnetically-encoded checks and documents per minute. This machine was developed for the Federal Reserve System and large commercial banks with high-volume check-handling requirements.

The Company also announced the IBM 1062 teller terminal which places information about customer accounts at a teller's fingertips. This unit relays transactions from the teller to a central computer for processing, and prints out the customers' new balances at the teller's station a few seconds later. When these terminals are linked in a data processing system such as the IBM 1440, they can expedite the handling of such key tasks as savings, mortgage loan, and installment loan accounting. The first IBM teller system will be installed in a major Chicago bank later this year.

Process Control for Industry

IBM process control equipment is playing a growing role in increasing the efficiency of continuous industrial operations. A manufacturer, for example, is using an IBM 1710 process control system to improve the quality and production of a product used in paints and resins. Similar systems planned for the cement industry will make the computations necessary to adjust automatically the speed, pressure, and temperatures inside cement kilns; and in the utility industry these systems will help control the operations of electric generating and distribution facilities.

Information handling systems can perform extraordinary computational feats in the twinkling of an eye, yet before they can begin solving the most simple problems they must be given pre-

cise, step-by-step instructions telling them exactly what to do. These instructions make up the programs that data processing systems use to carry out their problem-solving assignments. Last year, IBM people developed a number of new programs of value to our customers.

Two examples are AUTOMAP and AUTOSPOT which were designed for use with the compact IBM 1620 data processing system. These programs can be used to produce instructions which, when fed to numerically-controlled machine tools, will enable them to mill intricate metal parts. A major shipbuilder on the West Coast is using the AUTOMAP program, for example, to develop numerical instructions used to control the production of structural components for ships.

New Concept in Accounting Systems

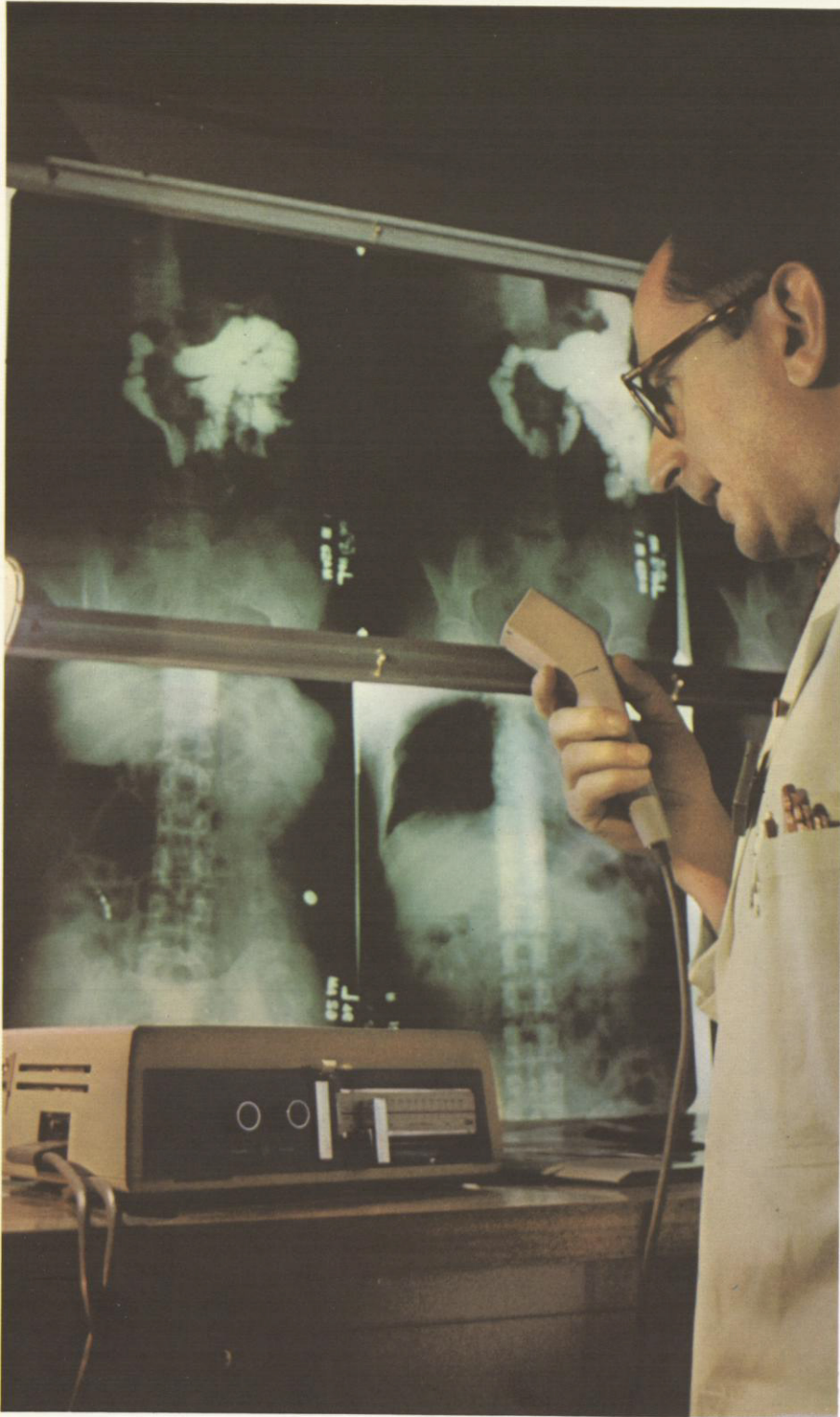
IBM's effort to meet its customers' problem-solving requirements has led to several advances in the accounting machine, electric typewriter, and dictation system areas.

A few weeks ago, for example, the Company announced an advanced key-driven accounting system capable of handling a wide variety of business applications. It is called the IBM 6400 Magnetic Ledger Accounting Machine, and it features the first ledger cards on which both letters and numbers can be magnetically stored.

A company using the 6400, for example, can store on its ledger cards basic information such as a customer's name, address, and credit terms. The data can be read automatically by the machine as it calculates the customer's running balance, or prints his monthly statement.

The 6400 can perform many general applications for small firms, and specialized applications in departments or branches of larger companies.

IBM's conventional electric typewriters, and its SELECTRIC typewriters, continued to enjoy widespread customer approval last year. The SELEC-



A doctor in the radiology department of a New York City medical center using an IBM dictation machine to speed the preparation of his patient's X-ray reports.

TRIC typewriter uses a single sphere-shaped element covered with raised characters which moves across the page as letters and numbers are typed. The single element permits a typist to change type styles in a few seconds by simply replacing one typing sphere with another. The variety of SELECTRIC typewriters was increased last year by the introduction of a third model.

IBM's line of dictation equipment was also broadened by the introduction of a new system which permits one secretary to take dictation from a number of executives without leaving her desk. The executives speak into microphones on their desks, and the dictation is taken down by a remotely-located recording unit next to the secretary who transcribes the information into letters and reports.

Space and Defense

IBM equipment is making a contribution to our country's space and defense programs.

IBM scientists and engineers, for example, helped to design, develop and maintain the ground-based computer system used by the National Aeronautics and Space Administration in connection with last year's successful earth orbiting flights of Mercury astronauts Glenn, Carpenter, and Schirra.

NASA's vast tracking and control system included IBM 7090 computers to process information dealing with an astronaut's flight as he passes over stations around the world. The system helps answer such questions as whether the spacecraft should be allowed to go into orbit after it blasts off its launching pad, where the spacecraft is from second to second as it circles the globe, when its retro-rockets should be fired to bring it back to a predetermined area on earth, and where its impact point will be so that recovery craft can be speeded to the scene.

NASA has asked the Company to supply a still more advanced computer system for its new



Engineers examining the information storage unit of the new IBM 1440 computer which promises to bring advanced data processing to many smaller firms for the first time.

Manned Spacecraft Center in Houston, Texas. This system will be part of the world-wide tracking and control network which will be used in the next phase of NASA's space flight program. This consists of orbiting a Gemini spacecraft, and sending a three-man Apollo spacecraft to the moon.

Work has begun on the IBM guidance computer which will help steer the two-man Gemini capsule into a rendezvous with a booster rocket while they are both orbiting at a speed in the neighborhood of 17,000 miles per hour. IBM also delivered the first guidance computer for flight test in the giant Saturn rocket. The initial Saturn series is a step in the development of more powerful rockets capable of launching large vehicles such as the Apollo spacecraft.

A prototype IBM advanced memory system for NASA's Orbiting Astronomical Observatory also was delivered. The Astronomical Observatory is designed to place telescopes above the screen of the earth's atmosphere to examine the nature of celestial bodies more clearly.

The Company continued to deliver computers for the all-inertial Achiever guidance system that directs the TITAN II intercontinental ballistic missile to its target. A specially-developed IBM system was shipped to the Offutt Air Force Base in Omaha, Nebraska, for use in processing data needed to plan and control the Strategic Air Command's world-wide resources. The Government has selected IBM to develop an advanced information processing and display system to help keep vital military messages moving under normal and emergency conditions.

SBC's Growing Customer Services

Customers whose problem-solving requirements can best be served on a contract basis are increasingly turning to The Service Bureau Corporation, a wholly-owned but independently operated subsidiary of IBM.

SBC offices in 71 cities are meeting their clients' needs on an hourly or job basis with an expanding array of advanced data processing services.

SBC developed a number of new computer programs last year, for example, which make it possible for customers to adapt more easily certain business operations so they can be handled by the Service Bureau's data processing facilities.

One of these programs is EASI, electronic accounting for the securities industry, which permits stock brokers to convert their accounting operations to IBM 1401 processing in a short period of time. EASI helps stabilize the broker's costs by absorbing the day-to-day accounting load resulting from sharp fluctuations in trading volumes.

Another new program called ARM – for automated route management – provides daily sales and production reports for dairies, bakeries, and other businesses with route distribution operations.

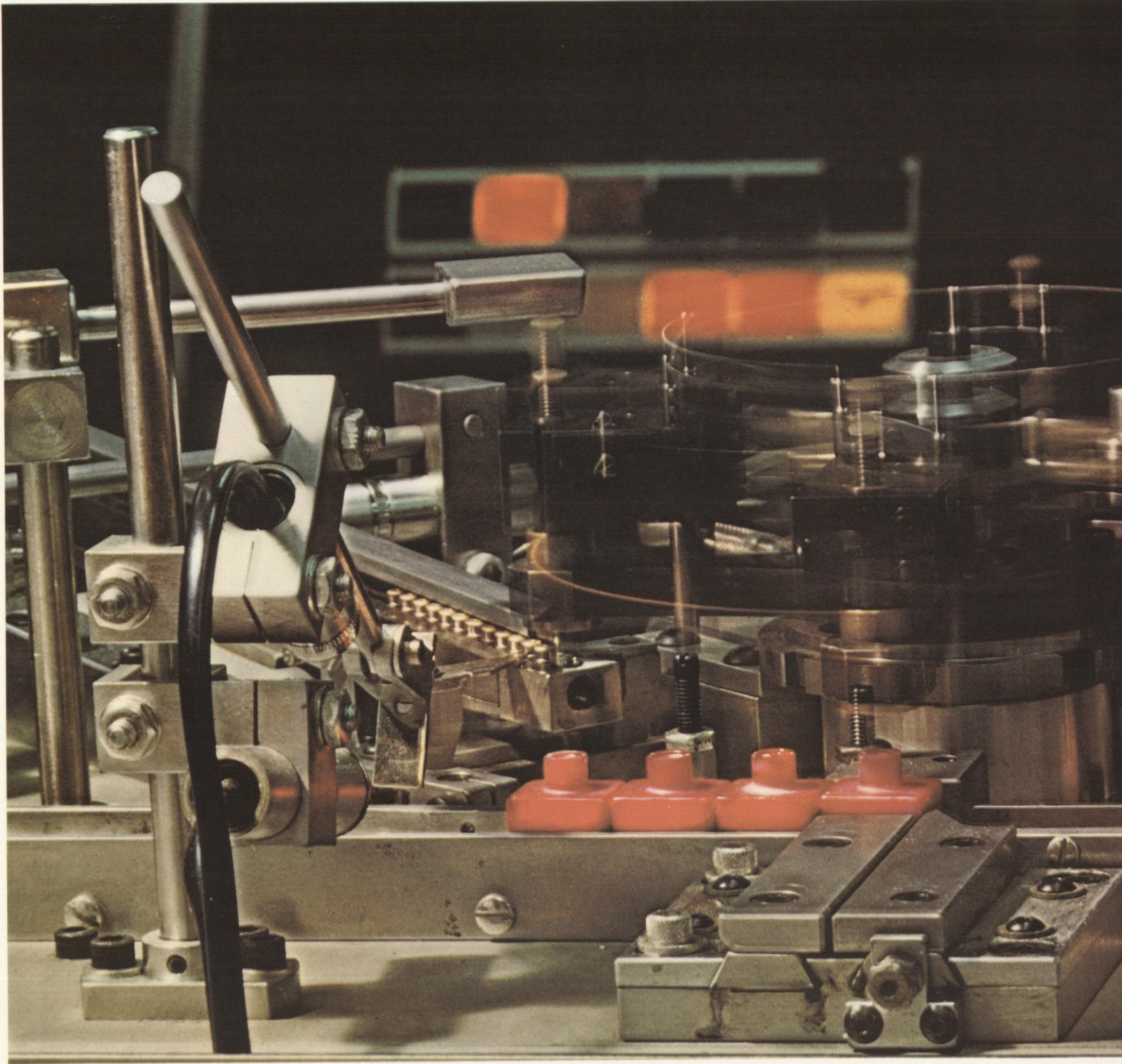
Advances in Research and Development

The ability to provide customers with a continuing flow of new IBM problem-solving services depends, to a large extent, on the work of the scientists, engineers, and other technical people in our research and development laboratories.

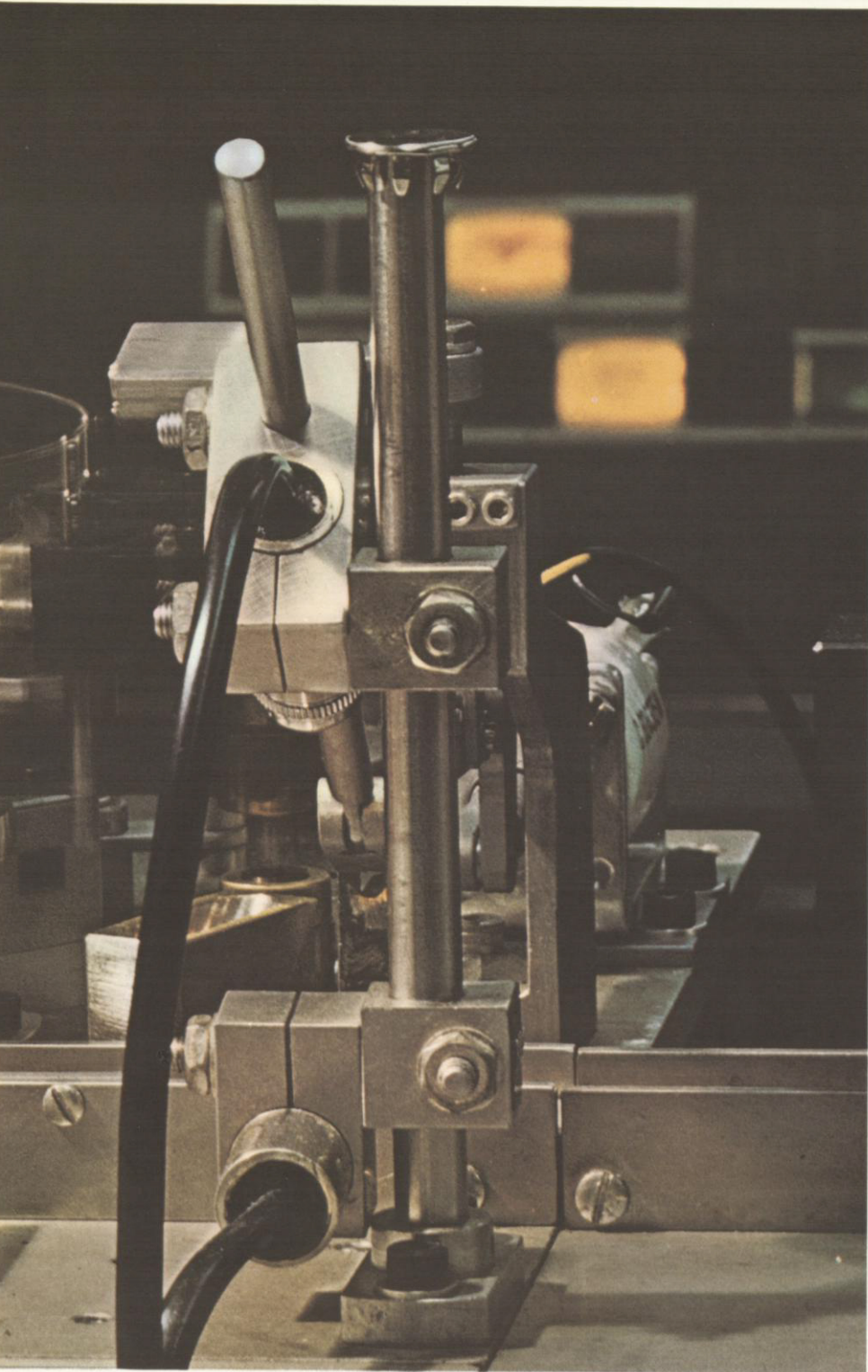
These highly-skilled people made considerable progress last year in developing a number of new techniques which could be of some significance to our customers in the years ahead.

One of the most notable advances was achieved by scientists at IBM's Thomas J. Watson Research Center in Yorktown, New York, who succeeded in operating a semiconductor diode laser powered directly by an electric current rather than an external light source.

Lasers are important because they can produce a powerful beam of light capable of carrying enormous amounts of computer information. The advanced laser announced by IBM is significant because the light it produces can easily be modu-



Automatic production line designed by IBM that can assemble tiny transistors at the rate of one a second for use in the Company's data processing equipment.



lated at high frequencies, thus promising to overcome one of the chief barriers to the use of laser beams in computer communications.

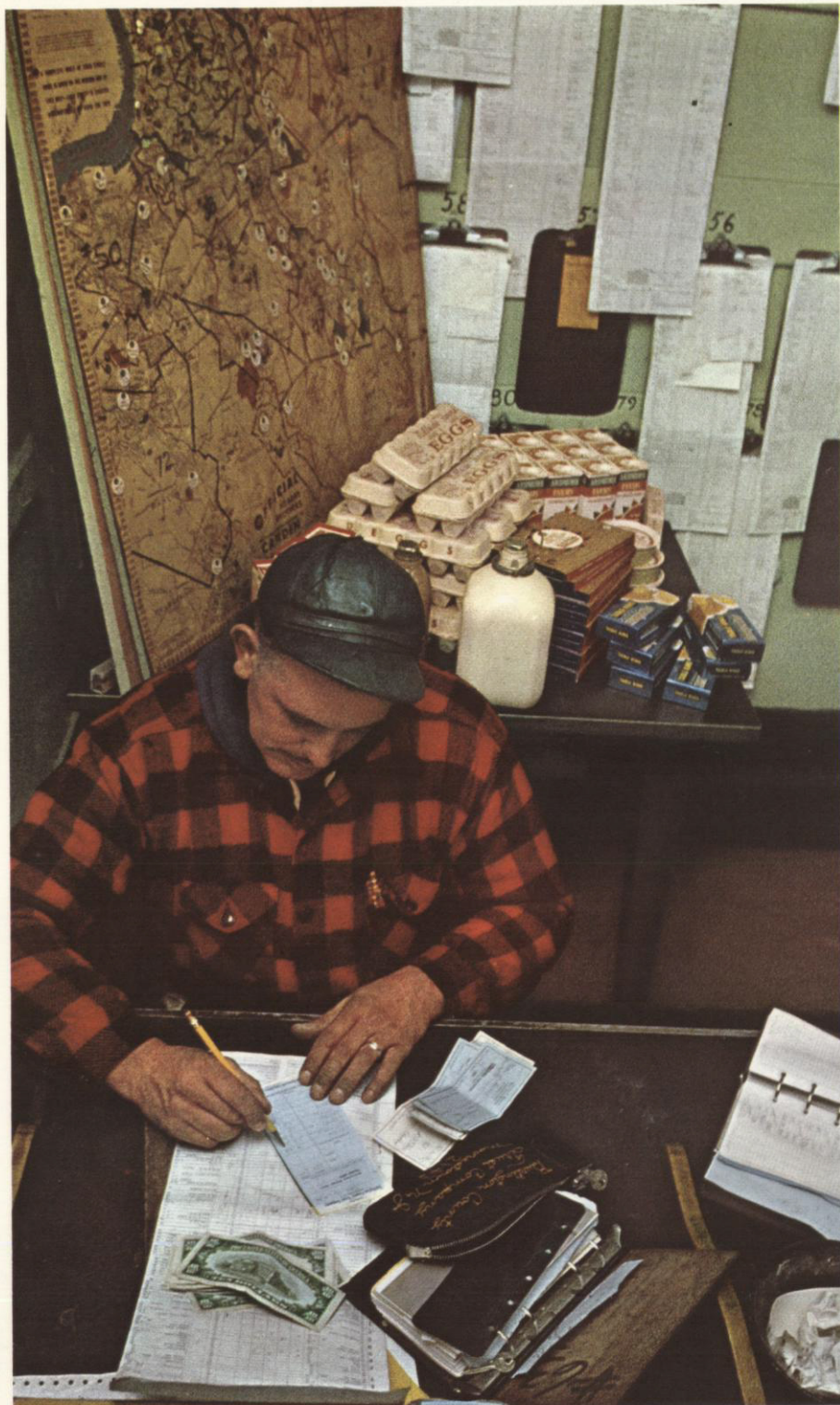
IBM scientists also developed two new preparation techniques last year which permit a significant increase to be made in the purity of gallium arsenide compounds. These techniques contributed to the successful fabrication of the diode laser, and produced a new kind of semiconductor diode which permits an information-carrying electric current inside a computer to be switched from one position to another in trillionths of a second.

Earlier in the year, an experimental thin film memory was demonstrated which operates at a speed of 100 billionths of a second. This speed is about four times faster than any other operating thin film memory system thus far reported. The memory can hold only a small amount of information, but because of its exceptional speed it is useful in storing "scratch pad" data.

An experimental technique which can convert cloud photographs into numbers, reconstruct them in a computer, and then reproduce them as a Mercator projection also was introduced. This technique makes it possible to produce composite cloud photo maps covering large land areas – including continents – for the first time.

Automatic character recognition is an important research and development area at IBM, and during the year two new experimental machines were demonstrated which can scan certain kinds of printed and written information, and feed it directly into a computer for processing without first converting it into punched cards. One of these experimental machines can automatically recognize certain printed type styles and sizes. The other machine can recognize some kinds of handwritten numbers.

By utilizing the American Telephone and Telegraph Company's Telstar satellite, IBM engineers were able to pass computer information back and



Milkman listing his day's deliveries and receipts which The Service Bureau Corporation uses in producing the dairy's daily sales and production reports.

forth between IBM 1401 systems in Company laboratories in Endicott, New York, and La Gaude, in the south of France. This successful test brought global communication between computers a bit closer to reality.

IBM engineers also succeeded in transmitting 20 million bits of computer information per second over a television channel – by far the fastest speed ever reported. This is equivalent to transmitting the more than 1,500,000 words in a typical volume of the Encyclopedia Britannica in three seconds. IBM computer engineers believe this test indicates that television channels may become an important medium for fast and economical world-wide business communications, particularly in view of the recent achievements in television transmission by satellite.

IBM Outside the United States

The burgeoning economic strength of countries throughout the free world is creating a demand for IBM services of all kinds.

This demand is being met by the IBM World Trade Corporation whose facilities include 15 manufacturing plants, 5 development engineering laboratories, and 314 sales locations in 95 countries outside the United States.

IBM World Trade continued its international expansion program last year by completing its development engineering laboratory at La Gaude, France; dedicating a nine-story administration building in West Berlin; and building an education center in Cuernavaca, Mexico, to serve customer executives in Central America and the Caribbean area.

New Datacenters to make IBM's most advanced systems available to customers were opened in Düsseldorf, Tokyo, and Toronto.

The kind and quantity of IBM equipment being produced abroad were increased last year by initial deliveries of data processing machines from IBM

World Trade's new plant in Argentina, and by shipments of IBM 1410 data processing systems from its plant in France.

Some of the first IBM 1440 data processing systems were ordered by IBM World Trade customers including a West German optics manufacturer, an Italian drug company, and a Japanese chemical firm. IBM World Trade will produce 1440 systems at its plant in Sindelfingen, West Germany.

All during 1962, IBM World Trade customers were solving many different kinds of information handling problems.

A Swedish transit company used an IBM data processing system to help keep traffic moving in Stockholm. A shoe company with more than

1,000 sales outlets in India relied on IBM equipment to handle its extensive customer billing work. And the United Nations Economic Commission for Africa employed IBM data processing machines in Ethiopia to prepare census material and African import-export statistics.

IBM's investment in and advances to the IBM World Trade Corporation increased to \$203,678,518 from \$179,117,052 in 1961 as a result of the year's transactions, and net earnings of IBM World Trade Corporation in 1962 of \$24,555,899. The net earnings of IBM World Trade Corporation represent cash dividends, royalties and income received by it in the United States less expenses and foreign and U. S. income taxes. The



An engineering team, at IBM's East Coast Systems Laboratory in New York, discussing experimental techniques for transmitting data.



*Swiss Federal Railways' express racing through the Alps.
SFR uses IBM data processing systems to solve problems ranging
from train scheduling to traffic forecasting.*

undistributed net earnings of IBM World Trade's foreign subsidiaries continue to be excluded from IBM's reported net earnings.

The Company's equity in the consolidated net assets of IBM World Trade Corporation and its foreign subsidiary companies on December 31,

1962, totaled \$473,683,730 as compared with \$386,999,077 in 1961. A comparative summary of the consolidated net assets and a comparison of the results of operations of the IBM World Trade Corporation and its foreign subsidiary companies is as follows:

IBM World Trade Corporation and Subsidiary Companies

<i>Summary of Consolidated Net Assets—at December 31:</i>	1962	1961
Net working capital	\$ 59,228,829	\$ 54,615,964
Factories, office buildings, rental machines and parts, other property, net	573,105,542	481,280,985
Goodwill less amortization	19,018,655	21,018,655
	<u>651,353,026</u>	<u>556,915,604</u>
Long-term indebtedness to banks and others	165,666,327	160,129,747
Reserves for employees' indemnities and retirement plans . . .	12,002,969	9,786,780
	<u>177,669,296</u>	<u>169,916,527</u>
Total	<u>\$ 473,683,730</u>	<u>\$ 386,999,077</u>
<i>IBM's Equity Represented by:</i>		
Accounts payable	\$ 9,083,487	\$ 9,077,920
Long-term indebtedness	85,500,000	85,500,000
Capital and retained earnings	379,100,243	292,421,157
	<u>\$ 473,683,730</u>	<u>\$ 386,999,077</u>
<i>Results of Operations for the Year:</i>		
Gross income from sales, service and rentals in foreign countries	\$ 653,115,213	\$ 497,601,962
Net earnings for the year	<u>\$ 86,679,086</u>	<u>\$ 64,480,536</u>
Portion of above net earnings included in IBM net earnings . .	<u>\$ 24,555,899</u>	<u>\$ 18,540,853</u>

How the IBM Company is Organized

The IBM Company has a decentralized organizational structure designed specifically to create operating units which can respond quickly to customer needs and to new markets. The operating or "line" responsibilities of the Company are assigned to the following ten divisions or wholly-

owned subsidiaries, each of which is charged with meeting today's needs, and with developing plans for future growth, in their respective areas of customer and product responsibility.

The Data Processing Division is responsible for marketing and servicing most of the information handling systems and equipment.

The Data Systems Division for developing and manufacturing larger electronic information handling equipment.

The General Products Division for developing and manufacturing smaller electronic systems and electro-mechanical units.

The Components Division for developing, manufacturing, or purchasing all solid-state components used in the production of IBM information handling equipment.

The Electric Typewriter Division for developing, manufacturing, and marketing a full line of electric typewriters, dictation equipment, electronic operator-controlled accounting machines, and related supplies.

The Federal Systems Division for servicing the U. S. Government's requirements for information handling and control systems, and for special technical computing methods.

The Supplies Division for providing punched cards, magnetic tapes, ribbons, and other supplies for use with data processing machines.

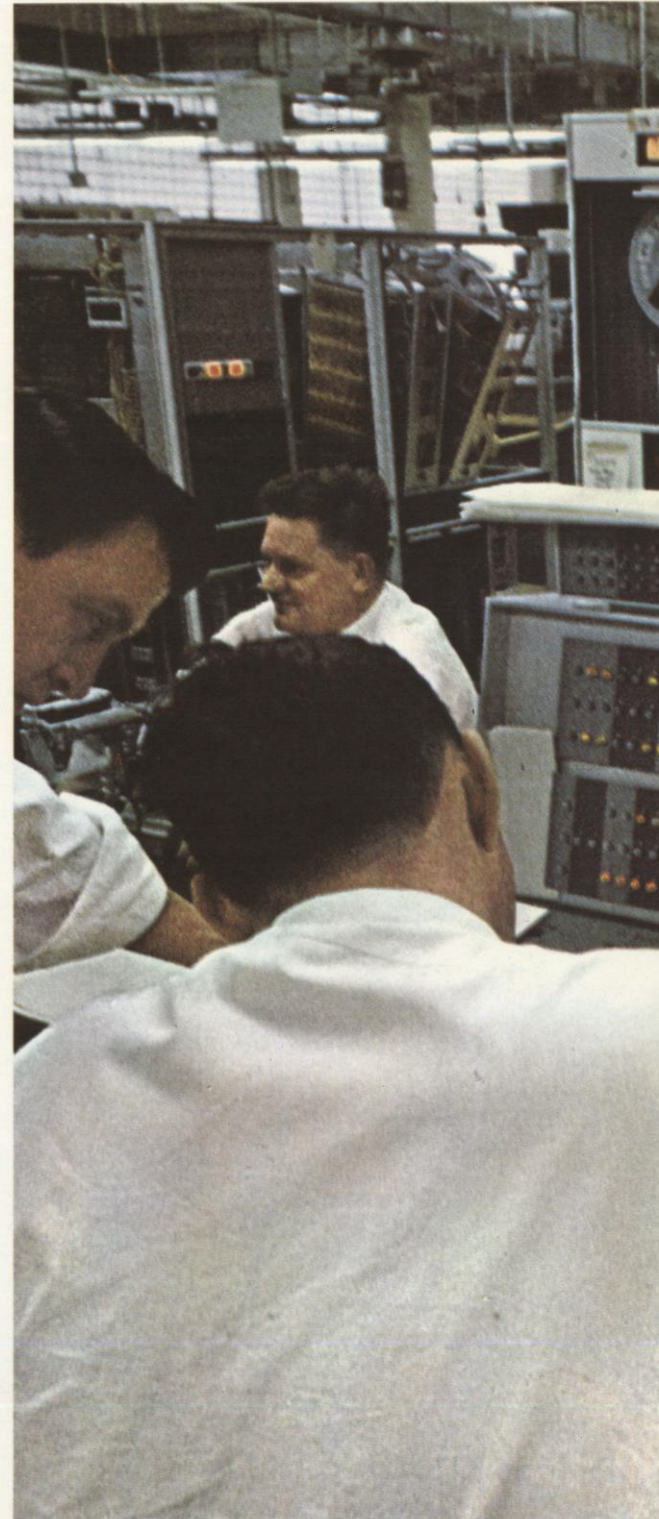
The Advanced Systems Development Division for creating new systems to pioneer IBM's entry into new commercial markets and applications.

The Service Bureau Corporation for offering data processing services on a contract basis.

The IBM World Trade Corporation for serving IBM customers outside the United States.

These operating divisions and subsidiaries receive advice and counsel from the IBM Corporate Staff. This staff consists of specialists in the various functions which make up the business such as legal, financial, and personnel.

The Corporate Staff also includes certain basic Corporate functions – one of the most important of which is basic research. The IBM Research organization is responsible for creating the advanced techniques necessary to find IBM solutions to our customers' information handling requirements in the years to come.





Engineers running final tests on a powerful new IBM 7094 computer before it is delivered to a customer in the public utility industry.



Construction workers installing the stainless steel exterior of a 13-story building that will house IBM's new branch office in Pittsburgh.

Financial Review:

Gross Income and Net Earnings:

IBM's gross income from the sale, service, and rental of its products in the United States totaled \$1,925,221,857 last year, an increase of \$230,926,310 over the \$1,694,295,547 reported for 1961.

The Company's earnings before taxes totaled \$494,387,268, which was \$68,659,671 more than the \$425,727,597 earned in 1961.

U.S. Federal income taxes were \$253,000,000 in 1962, an increase of \$34,500,000 over the \$218,500,000 in 1961.

IBM's earnings after taxes were \$241,387,268, or \$34,159,671 more than the \$207,227,597 earned in 1961.

IBM's earnings in 1962 were equivalent to \$8.72 a share on the 27,678,322 shares of capital stock outstanding on December 31, 1962. This compares with \$7.52 a share earned on the 27,561,531 shares outstanding at the end of 1961.

Dividends:

Cash dividends totaling \$82,813,720 were paid to stockholders in 1962 compared with \$63,265,677 in the previous year.

The regular quarterly cash dividend payable March 9, 1963, will be at the rate of \$1.00 per share. The former quarterly dividend rate was 75 cents per share. This dividend will be the one hundred and ninety-second consecutive quarterly cash dividend paid by IBM.

Capital Expenditures:

The IBM Company's growing business in 1962, together with its need to replace obsolete equipment, required an investment of \$368,950,061 in rental machines and parts, factory and office equipment, land and buildings.

Retirements amounted to \$232,358,207, covering dismantled and obsolete equipment, and rental machines sold, previously under lease to

customers. These write-offs were charged against reserves provided out of prior and current years' earnings, or to cost of sales.

Under the investment incentive tax credit legislation passed in 1962, a tax credit against Federal income taxes is granted for investment in certain depreciable property. The manufacture of rental machines forms the major portion of IBM's capital expenditures for depreciable property.

Under the new legislation, lessors may pass the tax credit on to their customers. IBM has chosen to do this with respect to equipment rented. The tax credit claimed on other capital expenditures will be included in earnings through reduced depreciation charges over the life of the equipment.

IBM continued to expand its facilities during 1962 to meet the growing requirements for its products and services.

Among the highlights of last year's expansion program were the completion of a 163,000 square foot development laboratory at Poughkeepsie, New York, and a 152,000 square foot development laboratory at San Jose, California. The Company started construction on a 100,000 square foot components manufacturing facility at East Fishkill, New York, and a 154,000 square foot extension to its plant at Lexington, Kentucky. Work also started on a 102,000 square foot addition to IBM's plant in Rochester, Minnesota, and an 84,000 square foot development laboratory at San Jose, California. Construction continued on the 60,000 square foot research laboratory at Ruschlikon, near Zurich, Switzerland, and on IBM's new corporate headquarters totaling 417,000 square feet at Armonk, New York.

Long-Term Indebtedness:

IBM's total amount of long-term indebtedness, all of which is held by The Prudential Insurance Company of America, did not change during 1962. It amounted to \$425 million and carried

an average interest rate of 3.57%.

After May 1, 1963, either IBM or Prudential may elect to convert the \$100 million issue of 3 $\frac{3}{4}$ % promissory notes due May 1, 2055, into new 25-year notes bearing a 3 $\frac{1}{2}$ % interest rate. If converted, the indebtedness becomes payable through a series of 20 equal annual payments beginning six years after the conversion date.

Litigation:

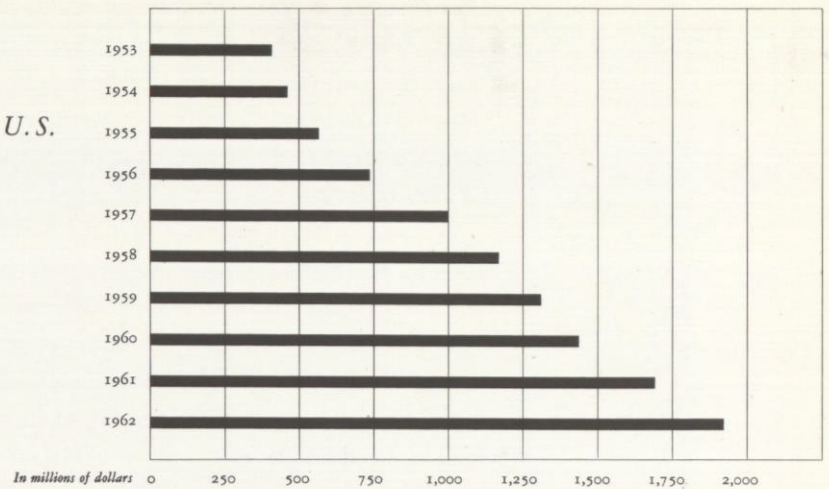
On January 14, 1963, IBM consented to the entry of an order by the United States District Court, Southern District of New York, relating to the section of its 1956 Consent Decree which deals with tabulating cards.

Under its 1956 Consent Decree, IBM was required by 1963 to divest itself of that part of its tabulating card manufacturing capacity in excess of 50% of the national manufacturing capacity, or prove to the court that substantial competitive conditions existed in the card field.

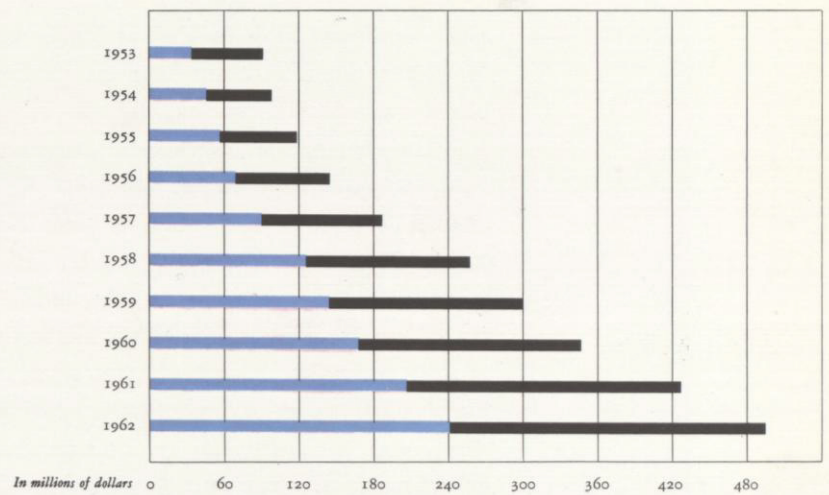
Tabulating cards are a product of IBM's Supplies Division. Since 1956, more than 35 new competitors have entered the tabulating card field. According to its best estimates, IBM's card press capacity is now within 2% of the target set by the 1956 Consent Decree, and IBM agreed, under the new court order, to divest itself of the excess card presses by September 1, 1963. The company also agreed that, by 1968, its share of the national manufacturing capacity for special feature tabulating cards shall not exceed 50%. Special feature cards include merchandise coupons, utility bills and other such special purpose card documents.

Stockholders were advised on August 20, 1962 that Business Supplies Corporation of America had instituted a lawsuit against IBM. The complaint related to alleged antitrust violations in the tabulating card business. The original complaint was later amended to include data processing sup-

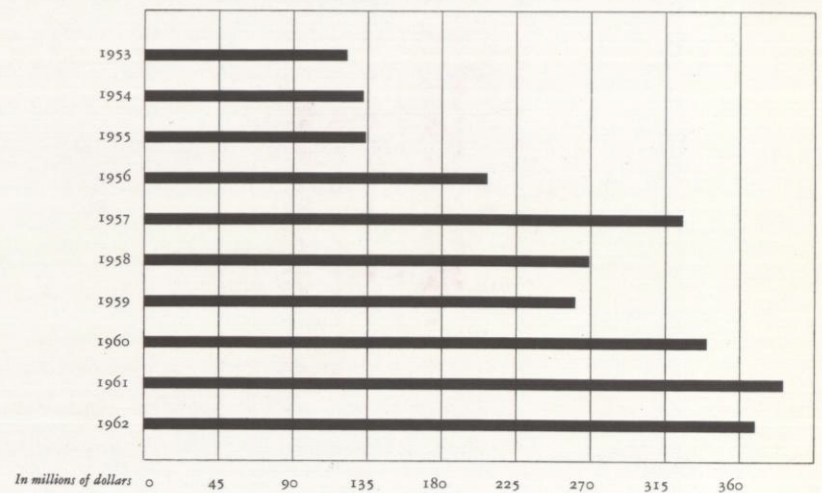
Gross Income from Sales, Service, Rentals in U. S.



Net Earnings and Income Taxes



Capital Expenditures



plies. Business Supplies Corporation claims \$180,000,000 and certain equitable relief. On October 31, 1962, J. J. Hackett and Company sued IBM claiming \$21,000,000 and certain equitable relief for alleged antitrust violations with regard to tabulating cards.

IBM and its outside counsel believe that these lawsuits are without merit. IBM's answer to the complaints asked for a dismissal of the suits and asserted counterclaims against both companies charging injury to the tabulating card industry caused by improper pricing tactics in violation of the Robinson-Patman Act.

Stock Purchase Plan for IBM Employees:

Since 1958, when stockholders first approved an Employees Stock Purchase Plan, all regular employees who have completed one year of service and who are not participants in the Stock Option Plan, have been able to purchase stock through payroll deductions not exceeding 10% of their compensation.

Under the IBM Employees 1961 Stock Purchase Plan, the price an employee pays for a share of stock is equal to 85% of the market price on the day he begins saving toward a particular share, or on the day he has accumulated enough money to buy the share—whichever price is lower.

Employees purchased 95,015 shares in 1962, for which \$32,801,535 was paid to IBM and credited to the capital stock account. At the end of the year, 275,787 shares of unissued capital stock were reserved for sale under this Plan.

Stock Option Plan:

The continuation of a Stock Option Plan for officers and other key employees of the Company was approved by stockholders in 1961.

Under the terms of the Plan, officers and other key employees may be granted options to purchase IBM stock at 100% of the market price on

the day the option is granted. Purchases under the Plan can only be made in installments extending over a period of eight years commencing two years after the date of the grant.

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

Under the 1961 Stock Option Plan, options were granted in 1962 for 4,696 shares, leaving 111,820 shares available for future option grants.

In April of 1961 the right to grant options under the 1956 Stock Option Plan expired. Of options granted under the 1956 Stock Option Plan, a total of 21,776 shares were purchased during the year for which IBM received \$2,781,260. This amount was credited to the capital stock account.

As of December 31, 1962, 200 executives held options for 166,240 shares, of which 9,144 shares had become available for purchase. Prices on options granted from 1956 to date ranged from \$91.80 to \$573.75 per share, which were 100% of the market price on the date of grant adjusted for stock dividends and splits that occurred after the dates on which the options were granted.

Board of Directors:

Dr. Emanuel R. Piore, IBM Vice President, Research and Engineering, was elected a member of the IBM Board of Directors last November. Dr. Piore joined IBM in 1956 as Director of Research. He was elected a Vice President in 1960. Dr. Piore was formerly chief scientist of the Office of Naval Research, and a member of the President's Science Advisory Committee.

Annual Meeting of Stockholders:

This year's stockholders' meeting will be held in New York's Coliseum, April 30, 1963. On or about April 1, stockholders will receive a formal notice of the meeting, proxy statement and proxy ballot.



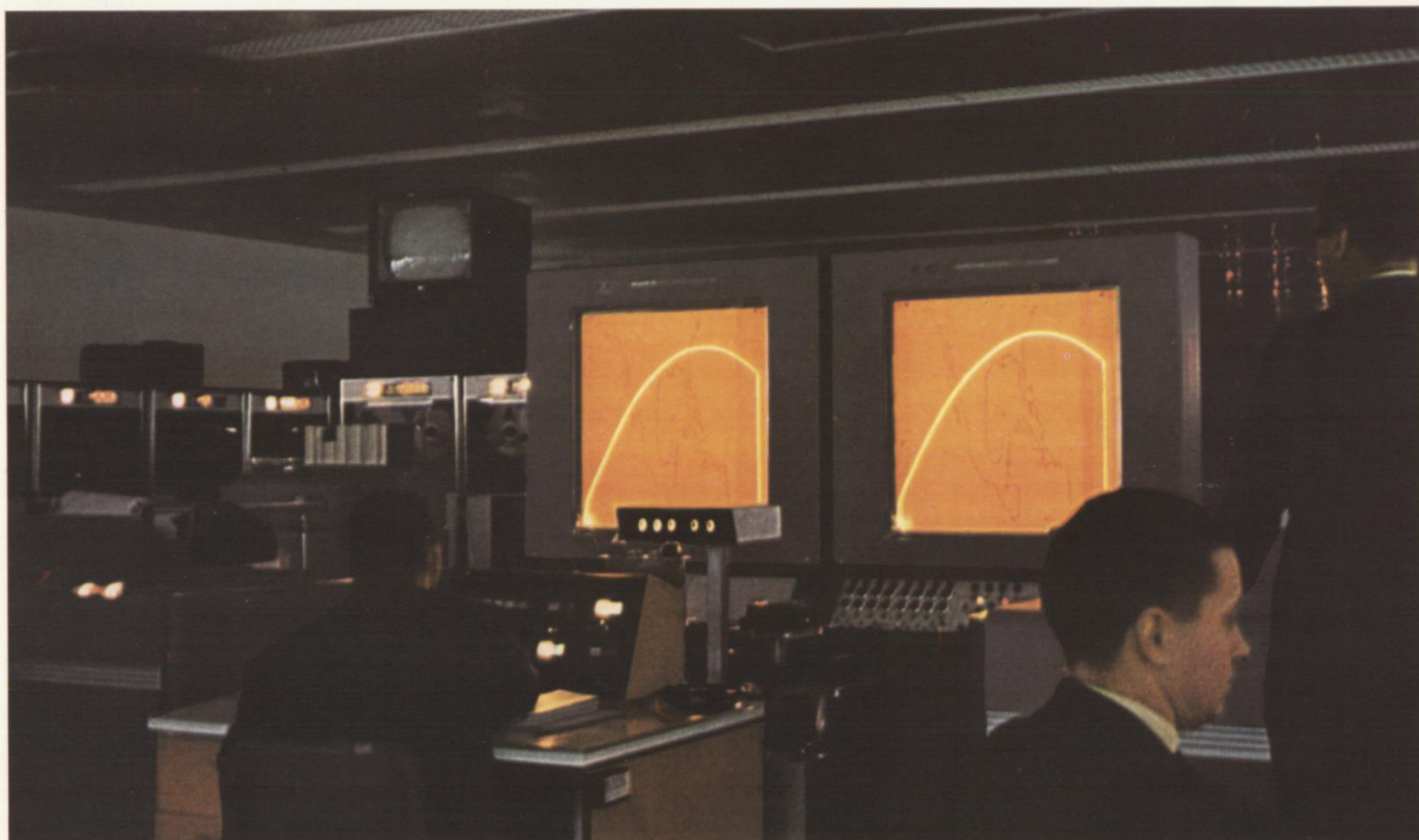
CBS News' correspondents studying IBM computer reports on voting patterns which the network used in its coverage of last November's nationwide elections.

To the Stockholders of International Business Machines Corporation:

In our opinion, the accompanying statements present fairly the consolidated financial position of International Business Machines Corporation and its domestic operating subsidiary at December 31, 1962 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year, and 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.

New York, N. Y.



Plot boards at NASA's Goddard Space Flight Center used in monitoring the Mercury astronauts' historic space flights. IBM computers helped make these journeys a success.

International Business Machines Corporation and its Domestic Operating Subsidiary
Consolidated Statement of Earnings and Retained Earnings for the year ended December 31:

	1962	1961
<i>Gross Income from Sales, Service and Rentals in U. S.</i>	\$ 1,925,221,857	\$ 1,694,295,547
Cost of sales, service and rentals, operating expenses, and development and engineering expense . . . exclusive of depreciation and amortization	\$ 1,185,217,512	\$ 1,041,462,171
Depreciation of rental machines, depreciation and amortization of plant and equipment	278,058,863	249,180,427
Interest on long-term indebtedness	15,168,750	15,168,750
	1,478,445,125	1,305,811,348
	446,776,732	388,484,199
Other income	18,779,637	16,011,110
	465,556,369	404,495,309
Net earnings of IBM World Trade Corporation	24,555,899	18,540,853
Interest received from IBM World Trade Corporation . .	4,275,000	2,691,435
	28,830,899	21,232,288
Net earnings before U. S. Federal income taxes	494,387,268	425,727,597
Provision for U. S. Federal income taxes . . . estimated . .	253,000,000	218,500,000
<i>Net Earnings for the year</i>	241,387,268	207,227,597
<i>Retained Earnings, January 1</i>	506,632,909	321,771,098
	748,020,177	528,998,695
Undistributed net earnings of IBM World Trade Corporation, January 1, 1961	—	40,899,891
Total	748,020,177	569,898,586
Cash dividends	82,813,720	63,265,677
<i>Retained Earnings, December 31</i>	\$ 665,206,457	\$ 506,632,909

Notes: The foregoing statement of earnings includes estimated provision for renegotiation of Government contracts.
The financial information on pages 14 to 24 is an integral part of this statement.

International Business Machines Corporation and its Domestic Operating Subsidiary
Consolidated Balance Sheet at December 31:

<i>Assets</i>	1962	1961
<i>Current Assets:</i>		
Cash	\$ 98,553,148	\$ 74,942,624
Marketable securities, principally U. S. Treasury, valued at lower of cost or market	365,850,232	246,741,779
Notes and accounts receivable ... less reserve: 1962, \$2,979,102; 1961, \$2,091,325	221,948,565	182,837,809
Accounts receivable (1962, \$29,710,833; 1961, \$35,637,692) and unreimbursed expenditures on military products contracts	58,701,462	75,913,477
Inventories ... valued at lower of average cost or market	44,101,020	41,841,452
Prepaid insurance, taxes, etc.	5,957,351	5,514,675
	\$ 795,111,778	\$ 627,791,816
<i>Investments and Advances:</i>		
Investment in and advances to IBM World Trade Corporation, wholly-owned subsidiary, operating in countries outside of the United States	203,678,518	179,117,052
U. S. Treasury securities, maturing in 1965 ... valued at cost plus accrued discount	23,925,969	23,421,438
Other investments	1,413,984	1,413,984
	229,018,471	203,952,474
<i>Factories, Office Buildings, Other Property in U.S....at cost:</i>		
Land	29,587,354	25,360,210
Buildings	246,195,482	220,945,011
	275,782,836	246,305,221
Less: Reserve for depreciation and amortization	96,239,471	85,251,853
	179,543,365	161,053,368
Factory and office equipment, rental machines and parts	1,855,848,396	1,748,734,157
Less: Reserve for depreciation and amortization	1,074,981,809	972,882,520
	780,866,587	775,851,637
	960,409,952	936,905,005
<i>Patents and Goodwill</i>	I	I
	<u>\$ 1,984,540,202</u>	<u>\$ 1,768,649,296</u>

Note: The financial information on pages 14 to 24 is an integral part of this statement.

Liabilities and Capital

Current Liabilities:

U. S. Federal income taxes . . . estimated
 Less: U. S. Treasury securities

 Accounts payable and accruals

	1962		1961	
	\$ 153,743,405		\$ 132,476,496	
	127,761,023		110,877,795	
	<u>25,982,382</u>		<u>21,598,701</u>	
	152,956,970	\$ 178,939,352	136,859,638	\$ 158,458,339
 <i>Long-Term Indebtedness:</i>				
2 7/8 % debentures . . . due February 1, 1965	20,000,000		20,000,000	
3 1/2 % promissory note . . . due in annual installments, January 1, 1966 to 1985	115,000,000		115,000,000	
3 % promissory note . . . due July 1, 1968	35,000,000		35,000,000	
3 1/2 % promissory notes . . . due December 1, 1971	50,000,000		50,000,000	
3 7/8 % promissory note . . . due July 1, 1974	30,000,000		30,000,000	
3 7/8 % promissory notes . . . due July 1, 1977	50,000,000		50,000,000	
3 7/8 % promissory note . . . due July 1, 1983	25,000,000		25,000,000	
3 3/4 % promissory notes . . . due May 1, 2055	<u>100,000,000</u>	425,000,000	<u>100,000,000</u>	425,000,000
 <i>Capital Stock . . . Par Value \$5.00 Per Share</i>	 715,394,393		 678,558,048	
Authorized: 29,812,500 shares				
Issued and outstanding: 27,678,322 shares at December 31, 1962; 27,561,531 shares at December 31, 1961				
 <i>Retained Earnings</i>	 <u>665,206,457</u>	 1,380,600,850	 <u>506,632,909</u>	 1,185,190,957
		 <u>\$ 1,984,540,202</u>		 <u>\$ 1,768,649,296</u>

Ten-Year Comparative Statement of Operations:

	1962	1961	1960
Gross income from sales, service and rentals in United States . . .	\$ 1,925,221,857	\$ 1,694,295,547	\$ 1,436,053,085
Net earnings before U. S. Federal income and excess profits taxes	\$ 494,387,268	\$ 425,727,597	\$ 345,880,880
U. S. Federal income and excess profits taxes	\$ 253,000,000	\$ 218,500,000	\$ 177,700,000
Net earnings for the year	\$ 241,387,268	\$ 207,227,597	\$ 168,180,880
<i>Per share . . . outstanding at end of year</i>	(\$ 8.72)	(\$ 7.52)	(\$ 9.18)
<i>Per share . . . adjusted (see note)</i>	(\$ 8.72)	(\$ 7.52)	(\$ 6.12)
Cash dividends	\$ 82,813,720	\$ 63,265,677	\$ 54,852,142
<i>Per share . . . declared in year</i>	(\$ 3.00)	(\$ 2.55)	(\$ 3.00)
<i>Per share . . . adjusted (see note)</i>	(\$ 3.00)	(\$ 2.30)	(\$ 2.00)
Stock dividends and splits*:			
<i>Per cent</i>	—	*50%	—
<i>Number of shares issued in year</i>	—	9,164,144	—
Shares sold	116,791	86,433	42,011
<i>At end of year:</i>			
Number of shares outstanding	27,678,322	27,561,531	18,310,954
Net investment in factories, offices, rental machines and parts in United States	\$ 960,409,952	\$ 936,905,005	\$ 849,690,933
Long-term indebtedness	\$ 425,000,000	\$ 425,000,000	\$ 425,000,000
Net current assets	\$ 616,172,426	\$ 469,333,477	\$ 439,751,452
Number of stockholders	228,632	195,674	127,432

Note: Adjusted for all stock dividends and splits.

1959	1958	1957	1956	1955	1954	1953
\$ 1,309,788,037	\$ 1,171,788,199	\$ 1,000,431,597	\$ 734,339,780	\$ 563,548,792	\$ 461,350,278	\$ 409,989,104
\$ 300,133,212	\$ 256,191,858	\$ 186,291,589	\$ 143,784,510	\$ 117,672,633	\$ 98,336,625	\$ 92,319,210
\$ 154,500,000	\$ 130,000,000	\$ 97,000,000	\$ 75,000,000	\$ 61,800,000	\$ 51,800,000	\$ 58,200,000
\$ 145,633,212	\$ 126,191,858	\$ 89,291,589	\$ 68,784,510	\$ 55,872,633	\$ 46,536,625	\$ 34,119,210
(\$ 7.97)	(\$ 10.65)	(\$ 7.73)	(\$ 13.10)	(\$ 13.63)	(\$ 11.35)	(\$ 10.67)
(\$ 5.31)	(\$ 4.62)	(\$ 3.27)	(\$ 2.77)	(\$ 2.25)	(\$ 1.87)	(\$ 1.37)
\$ 37,073,971	\$ 30,764,992	\$ 25,407,174	\$ 19,937,158	\$ 16,386,489	\$ 15,558,278	\$ 12,779,015
(\$ 2.25)	(\$ 2.60)	(\$ 2.80)	(\$ 4.00)	(\$ 4.00)	(\$ 4.00)	(\$ 4.00)
(\$ 1.35)	(\$ 1.13)	(\$.93)	(\$.80)	(\$.66)	(\$.63)	(\$.51)
2½% & *50%	2½%	*100%	2½% & *25%	—	2½% & *25%	5%
6,374,717	288,737	5,251,119	1,152,647	—	899,603	152,227
45,203	7,826	1,050,223	—	—	—	—
18,268,943	11,849,023	11,552,460	5,251,118	4,098,471	4,098,471	3,198,868
\$ 762,773,409	\$ 734,546,380	\$ 671,656,529	\$ 501,806,262	\$ 409,453,926	\$ 367,272,221	\$ 314,789,286
\$ 425,000,000	\$ 425,000,000	\$ 375,000,000	\$ 330,000,000	\$ 295,000,000	\$ 250,000,000	\$ 215,000,000
\$ 421,289,947	\$ 380,525,654	\$ 297,748,758	\$ 127,047,042	\$ 133,175,851	\$ 88,571,176	\$ 73,778,730
108,883	66,667	57,330	31,024	25,923	22,522	20,445

<i>Board of Directors:</i>	Bruce Bromley	Partner, Cravath, Swaine & Moore, attorneys at law.
	Walker G. Buckner	Senior Partner, Buckner & Co., investment bankers.
	Paul L. Davies	Chairman of the Board, FMC Corporation.
	Sherman M. Fairchild	Chairman of the Executive Committee, Fairchild Camera & Instrument Corporation, and Chairman of the Board, Fairchild Stratos Corporation.
	John Clifford Folger	Chairman of the Board, Folger, Nolan, Fleming & Co., Incorporated, investment bankers.
	Edward E. Ford	Retired.
	Grayson Kirk	President, Columbia University.
	Louis H. LaMotte	Chairman of the Executive and Finance Committee of IBM.
	T. Vincent Learson	Vice President and Group Executive of IBM.
	William H. Moore	Chairman of the Board, Bankers Trust Company.
	John G. Phillips	Retired.
	Emanuel R. Piore	Vice President of IBM.
	Gilbert H. Scribner	Chairman, Scribner & Co., real estate.
	Arthur K. Watson	Vice President and Group Executive of IBM. President of IBM World Trade Corporation.
	Thomas J. Watson, Jr.	Chairman of the Board of IBM.
	Albert L. Williams	President of IBM.
	Mrs. Thomas J. Watson	Honorary Director.

Executive and Finance Committee:

Louis H. LaMotte, <i>Chairman</i>	Gilbert H. Scribner
Sherman M. Fairchild	Arthur K. Watson
Edward E. Ford	Thomas J. Watson, Jr.
John G. Phillips	Albert L. Williams

Officers:

Thomas J. Watson, Jr.	Chairman of the Board
Albert L. Williams	President
T. Vincent Learson	Vice President and Group Executive
H. Wisner Miller, Jr.	Vice President and Group Executive
Orland M. Scott	Vice President and Group Executive
McLain B. Smith	Vice President and Group Executive
Arthur K. Watson	Vice President and Group Executive
James W. Birkenstock	Vice President
John J. Bricker	Vice President
John J. Kenney	Vice President
William J. Mair	Vice President
W. Wallace McDowell	Vice President
Dean R. McKay	Vice President
John C. McPherson	Vice President
Emanuel R. Piore	Vice President
Richard H. Bullen	Treasurer
Kenneth N. Davis, Jr.	Controller
Henry W. Trimble, Jr.	Secretary
Charles V. Boulton	Assistant Treasurer
Harry M. Sibley	Assistant Treasurer
Bernard F. Wiegard	Assistant Controller

Division and Subsidiary Chief Executives:

John W. Gibson	General Manager, Components Division
John W. Haanstra	President, General Products Division
Warren C. Hume	President, Data Processing Division
Herbert R. Keith	President, The Service Bureau Corporation
George F. Kennard	President, Data Systems Division
Paul W. Knaplund	General Manager, Advanced Systems Development Division
Gordon M. Moodie	President, Electric Typewriter Division
Donald T. Spaulding	President, Federal Systems Division
James E. Swaine, Jr.	General Manager, Supplies Division
Arthur K. Watson	President, IBM World Trade Corporation

