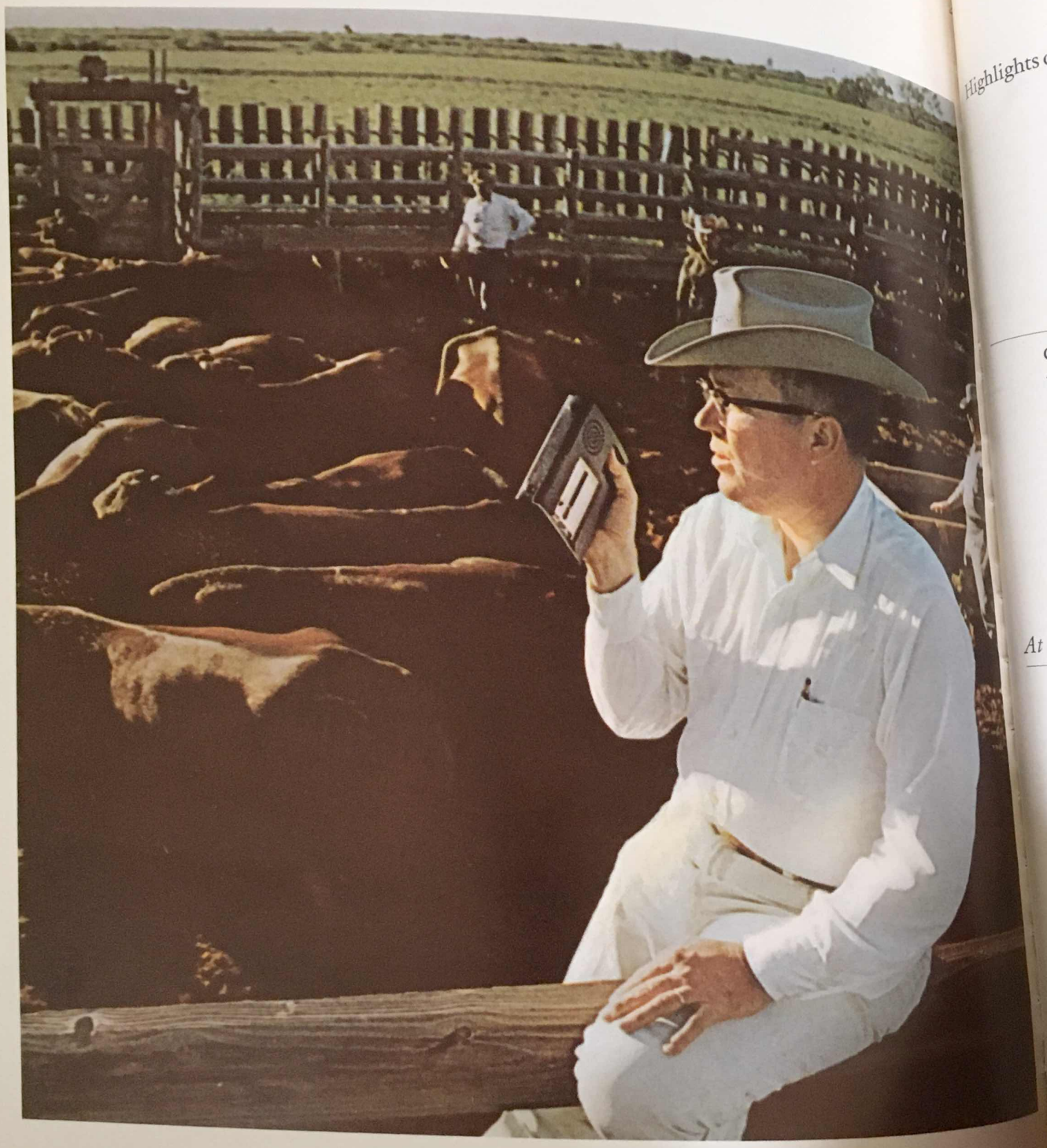
IBM

ture: A "fisheye" lens view of the new IBM programming center in Poughkeepsie, New York, the largest commercial center in the world. This facility is part of a worldwide network of IBM centers developing the step-by-step programs of instruction which enable System/360 to solve a vast range of complex problems.

Annual Report
for the year ended December 31, 1965
International Business Machines Corporation

Contents:

Texas banker uses a new 28-ounce IBM dictation unit to record inventory data on number of cattle and their condition in determining credit ratings for area ranchers.



Highlights of the year:

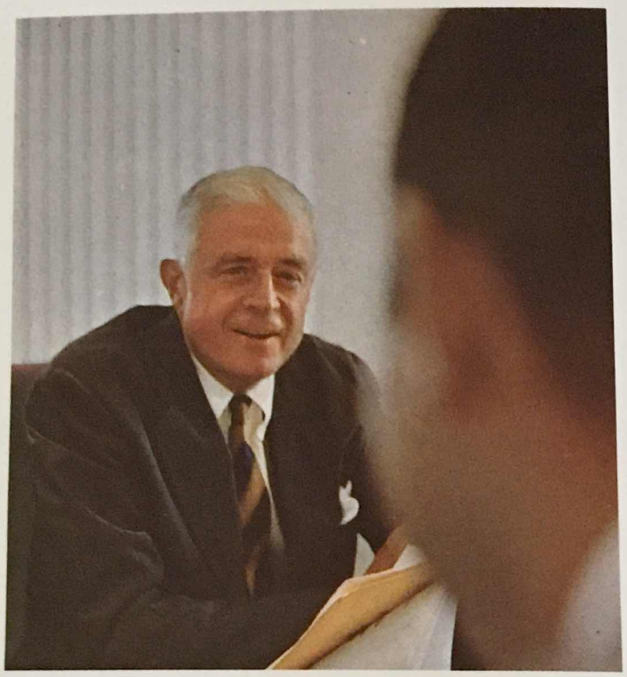
	1965	1964
Gross income from sales, service and rentals	$ 3,572,824,719	$ 3,239,359,581
Net earnings before taxes	$ 959,902,490	$ 897,159,766
U.S. Federal and foreign income taxes	$ 483,000,000	$ 466,000,000
Net earnings	$ 476,902,490	$ 431,159,766
Per share	$ 13.54	$ 12.30
Cash dividends	$ 210,767,482	$ 165,964,452
Per share	$ 6.00	$ 4.75
Stock split	—	25%
Investment in factories, offices, rental machines and parts	$ 1,165,907,756	$ 723,906,108

At end of year:

Total assets	$ 3,744,918,460	$ 3,309,152,915
Net investment in factories, offices, rental machines and parts	$ 2,303,509,000	$ 1,747,924,457
Long-term indebtedness	$ 398,849,604	$ 370,429,536
Net current assets	$ 698,652,848	$ 899,938,243
Number of employees	172,445	149,834
Number of stockholders	275,650	266,086

Stock Transfer Offices:
International Business Machines Corporation, 590 *Madison 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-Montreal, *Post Office Box 968, Place d'Armes, Montreal, 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, *38 South Dearborn Street, Chicago, Illinois* 60690
Montreal Trust Company, *777 Dorchester Boulevard West, Place Ville Marie, Montreal 2, Quebec, Canada*
Crocker-Citizens National Bank, *79 New Montgomery Street, San Francisco, California* 94120
Montreal Trust Company, *15 King Street West, Toronto 1, Ontario, Canada*



Chairman Thomas J. Watson, Jr.

President Albert L. Williams

To the Stockholders:

During 1965, the Company conducted the most intensive engineering, manufacturing, and marketing effort in its history to launch and expand the IBM System/360. This new product family, spanning the field of data processing, has met with unprecedented demand around the world.

All of IBM's divisions and subsidiaries made excellent progress and contributed significantly to making 1965 another record year. Consolidated gross income from worldwide operations amounted to $3,572,824,719, an increase of $333,465,138 over 1964.

Earnings were $476,902,490, a $45,742,724 increase over the prior year.

Earnings per share were $13.54, based on the 35,224,914 shares outstanding at the end of the year. This compares with earnings of $12.30 per share on the 35,048,259 shares outstanding December 31, 1964.

Foreign operations, which are included in consolidated results, showed gross income of $1,085,505,751, an increase of $152,105,432 over 1964. This is the first year IBM World Trade Corporation's gross income exceeded the billion dollar mark. Earnings from foreign operations were $144,026,330 in 1965, an increase of $20,027,432 over the year before.

Our industry continues to be dynamic and highly competitive. Our business is the creation of machines and methods to help find solutions to the increasingly complex problems of business, government, science, space exploration, education, medicine, and nearly every other area of human endeavor. The expansion of System/360's capabilities during 1965, together with other new products, services, and applications, greatly increases our ability to help solve customers' problems. Some of our new developments are described in this report.

Meeting the challenge of System/360 and the increased complexity of our business environment has made far-reaching demands on all areas of IBM's operations. To meet these increased requirements, more than 22,000 new employees joined the IBM organization during 1965, bringing worldwide employment to more than 172,000. To increase productive capacity, the Company undertook the construction of more than three million square feet of manufacturing space at IBM sites throughout the world. Many of these facilities are already being utilized and the rest will be ready for use this year.

The plant expansion program and System/360 produc

tion required a record worldwide investment of $1.1 billion in 1965 for rental machines and parts, factory and office equipment, and land and buildings. This capital investment lowered our cash and marketable securities position by $185 million to a balance of $665 million, including $30 million in new funds obtained by the IBM World Trade Corporation through a debenture issue in the European capital market for the further expansion of our foreign business.

Although our production of System/360 is building up rapidly and equipment shipped has been performing well, we have had problems in producing the planned quantities. As a result, we found it necessary in October to advise customers of delays from our originally planned delivery schedules. The basic building blocks in System/360 circuitry are advanced new microelectronic circuit modules requiring totally new manufacturing concepts. To date we have produced over 54 million of these precision modules. Most of them were produced in our plant at East Fishkill, New York. Late in 1965, a second IBM plant at Burlington, Vermont, began volume production, and a third IBM plant in Essonnes, France, also is contributing to our total module production. Before the end of January, we will ship our 1000th System/360. We are continuing to make every effort to increase production and improve delivery schedules.

The ultra-high-performance System/360 is the Model 90. We recently announced that six of the Model 90 series will be installed in 1967, and that production on them will be increased in 1968. Applications of the new computers will range from space exploration to subatomic physics.

The breadth and complexity of the System/360 technology, together with the new and dramatically advanced applications of our customers, is requiring the most extensive total programming systems support ever developed. Although steady and certain progress is being made, we have not accomplished all of the extremely challenging objectives in this area. Throughout 1966, we will be placing top priority on programming to bring the System/360 to its full potential in our customers' offices.

The Company's massive effort in bringing out the System/360 will continue on an accelerated basis during the year. The heavy introductory expenses referred to in last year's annual report will continue during 1966. Also, as System/360 machines are installed with rental customers, whether for new installations or the replacement of older IBM equipment, we will be experiencing the high initial depreciation expenses associated with the phasing in of a new line. The high rate of orders and installations, however, is encouraging for our long term success in the broad area in the marketplace covered by System/360.

In the past, we have pointed out to stockholders that variations in the proportion of outright sales as compared to rentals of data processing equipment can significantly affect income in any period. The proportion of outright sales in 1966, as in any future period, cannot be predicted because customers are free to make their choice of rental or purchase at any time up until the installation date, and they also can purchase installed equipment.

The demands of the past year called for an extraordinary response from employees throughout the Company as they continued to expand their skills and professional capabilities to meet the requirements of rapidly changing technologies and growth of the business. The year ahead will make further demands on the whole organization. We feel certain the Company will be equal to the challenge.

We have geared IBM's worldwide resources to the task before us and we look with confidence to the Company's further progress in 1966 and the years thereafter.

January 25, 1966, by order of the Board of Directors,

Thomas J. Watson Jr.

Chairman of the Board

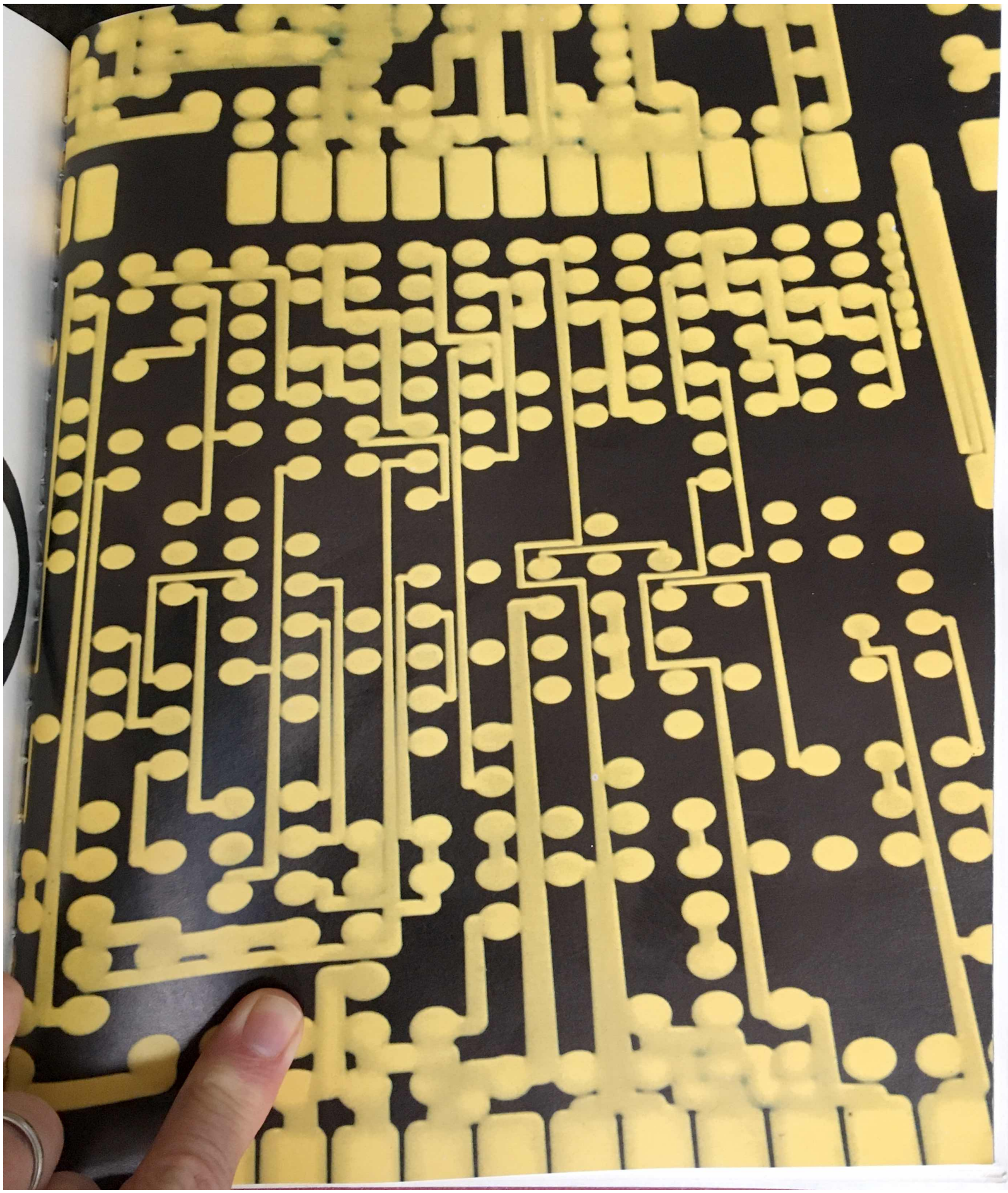
A. L. Williams

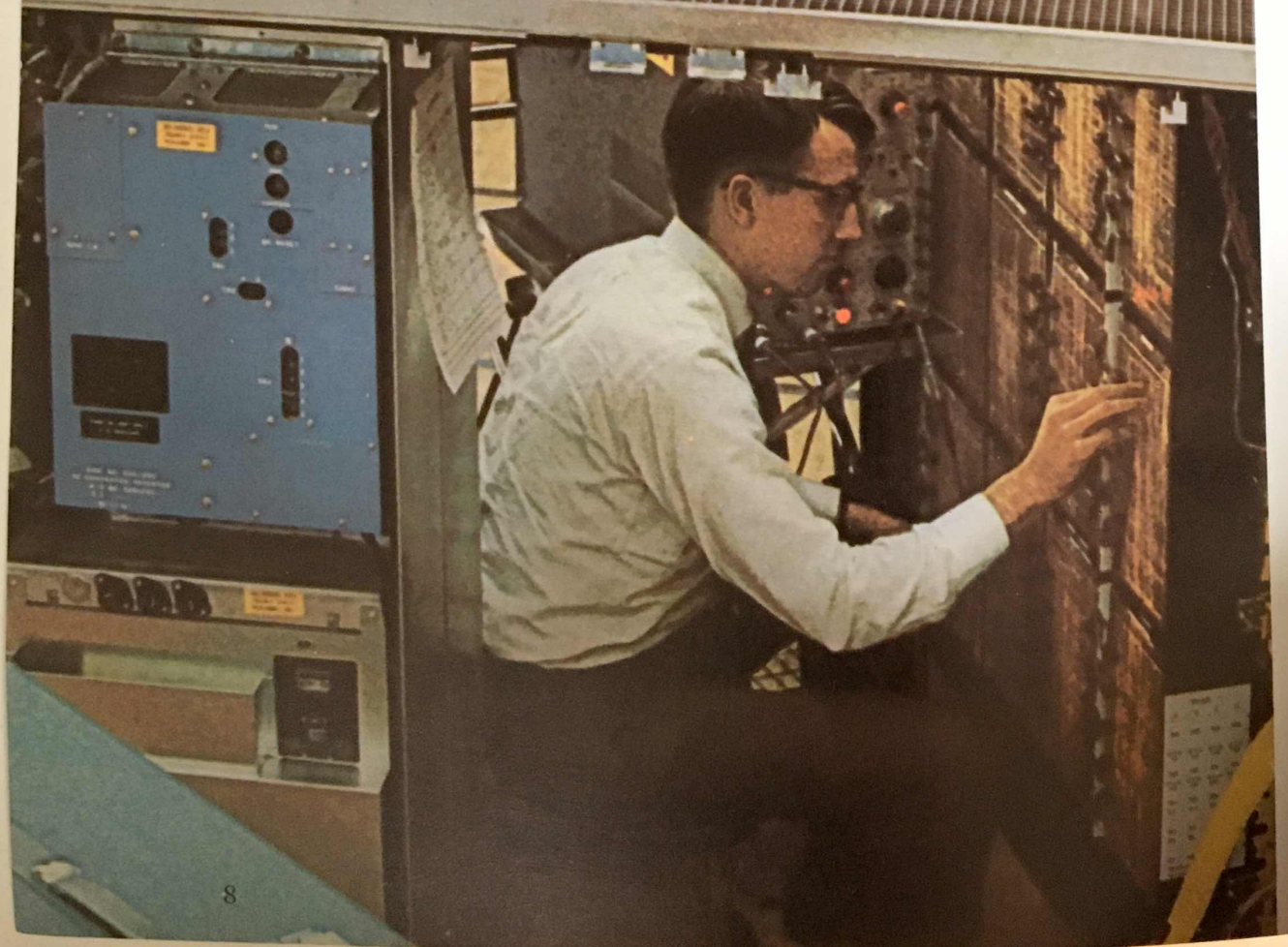
President

360

The widespread acceptance of System/360 made major demands throughout IBM *in 1965. New laboratory and plant facilities were being built, advanced concepts in production, programming, and servicing were being developed, and a worldwide education program begun. On the following pages, you will see several of the events which shaped this intensive Company-wide effort.*

Right: Intricate electronic circuit patterns, drawn with the aid of a computer, are among hundreds which make up System/360's complex circuitry. Shown here on a glass master negative, magnified approximately five times, the patterns are transferred, developed and etched onto printed circuit cards in a highly automated process.





Left: Executives of an elec
equipment manufacturing
tour production operations
plant in Endicott, New Yo
were among thousands of
last year who saw how Sys
ment was manufactured a
at IBM facilities around th

Right: An aerial view of
523,000-square-foot manu
development complex in
Colorado. Construction b
June on this new facility
a worldwide expansion p
which will add more than
million square feet of new
facturing space to suppor
production requirements
System/360.

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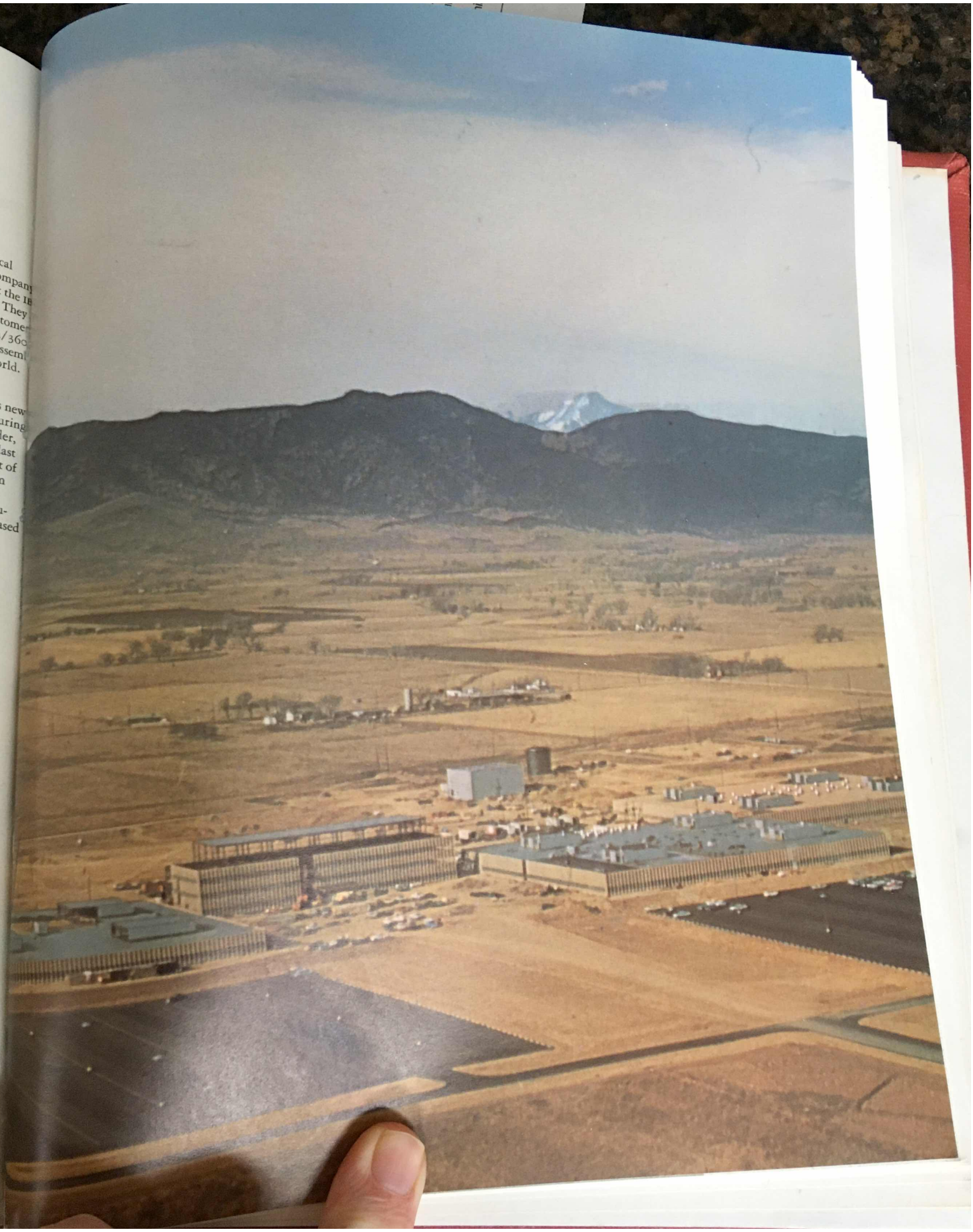

System/360 equipment being
shipped from IBM's plant in Sindel
fingen, West Germany. The plant
further increased its production ca
ity last year by adding 50,000 squa
feet in new manufacturing space.

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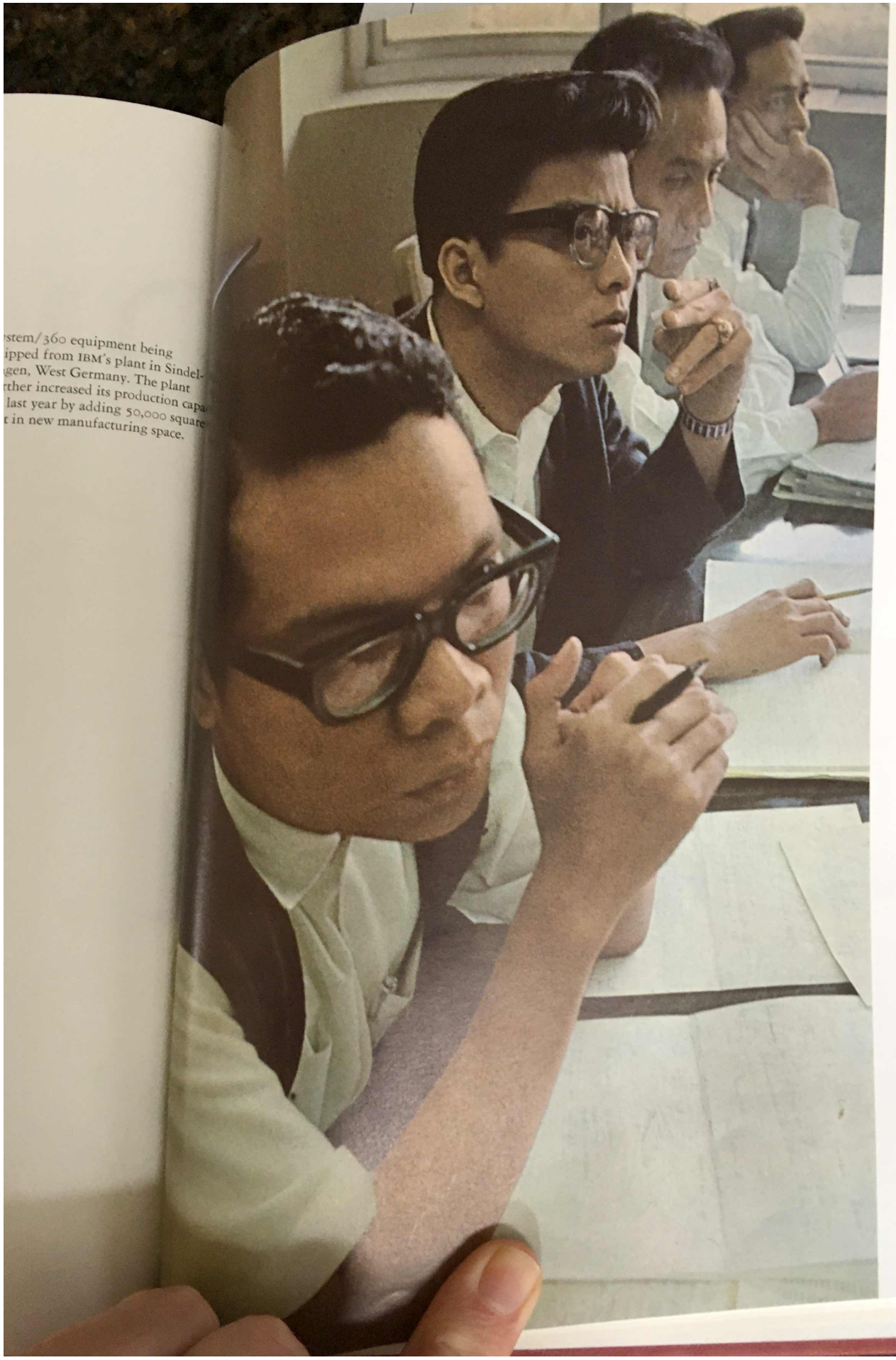


Employees of a large Philippine bank prepare for the installation of an IBM System/360 by taking extensive programming instruction at the World Trade Corporation's new Education and Data Processing Center in Manila. The center was opened last year to serve customers in the Philippines and 11 other countries in the Asia-Pacific area.

IBM sales representative Elvin Wolf reviews seismic reports prepared by a System/360 with a petroleum exploration specialist at a drilling site in West Texas. The System/360 —the first to be installed by a customer—is analyzing data which helps company scientists investigate the location of new oil fields.

Worldwide Effort Supports System/360

A petroleum exploration company in West Texas last April became the first customer to receive the IBM System/360. The Globe Exploration Company installed the computer to analyze seismic data which will help its scientists probe the earth's crust for new oil fields.

In the months that followed, IBM continued to build up production levels as more and more of these new systems began leaving plants for points across the country and around the world. By year's end, System/360's were working for customers in many different fields. They were doing such things as helping the world's largest automobile insurance firm maintain millions of policy records, an industrial products manufacturer reduce production costs, an aerospace company solve complex engineering problems, and a county government agency update thousands of local property files.

Since the introduction of System/360, IBM has conducted an intensive worldwide effort to fill the large number of orders for this system. Last year, IBM expanded its facilities and services at a record rate to provide the massive support required in engineering, manufacturing, programming, servicing, education, and other vital areas.

Work was under way, for example, on new plant-laboratory complexes in Boulder, Colorado, and Raleigh, North Carolina, as well as additions to a number of existing IBM sites in the United States. Overseas, facilities were under construction in England, France, Italy, West Germany, Sweden, Belgium, and The Netherlands. A detailed breakdown of the expansion program appears in the Capital Expenditures section of the report on page 28.

Another important part of this effort is the worldwide education program being conducted by IBM to provide sales representatives, systems engineers, programmers, customer engineers, and others with the advanced training they will need in helping customers with the planning and installation of their equipment. IBM also conducts a worldwide education program for customers' employees.

Throughout the year, the Company continued to expand System/360's capabilities further by developing still more advanced microelectronic circuits and several new models of the system. The new circuits operate in the billionths of a second range and are now being incorporated into System/360's ultra-high-performance computers. Among the new models introduced last year is a computer known as the Model 44, which provides smaller firms engaged in research with many of the capabilities of large scientific systems now in use. The new Models 65 and 75 are larger computers which offer increased computing power toward the higher end of System/360's performance range.

To provide System/360 with a still greater capacity for handling large-volume processing jobs, the Company announced a high-speed disk-pack information storage unit. This bulk storage unit can hold 207 million characters of information and can feed them into System/360's central processing unit at the rate of 312,000 characters a second. The data in this unit is stored on eight disk packs which can be easily removed and replaced with packs containing other data, thus allowing System/360 users to increase their storage capacity as much as they wish.

Several other advances also expanded System/360's capabilities during the year. A new technique was developed for packing about 60 percent more data into the IBM 2400 series tape units which make it possible to enter and retrieve information from a computer with much greater speed. At the lower end of System/360's performance range, the internal speed of the Model 30 processor was increased by 25 percent, and tape units were introduced for the system's smallest computer, the Model 20.

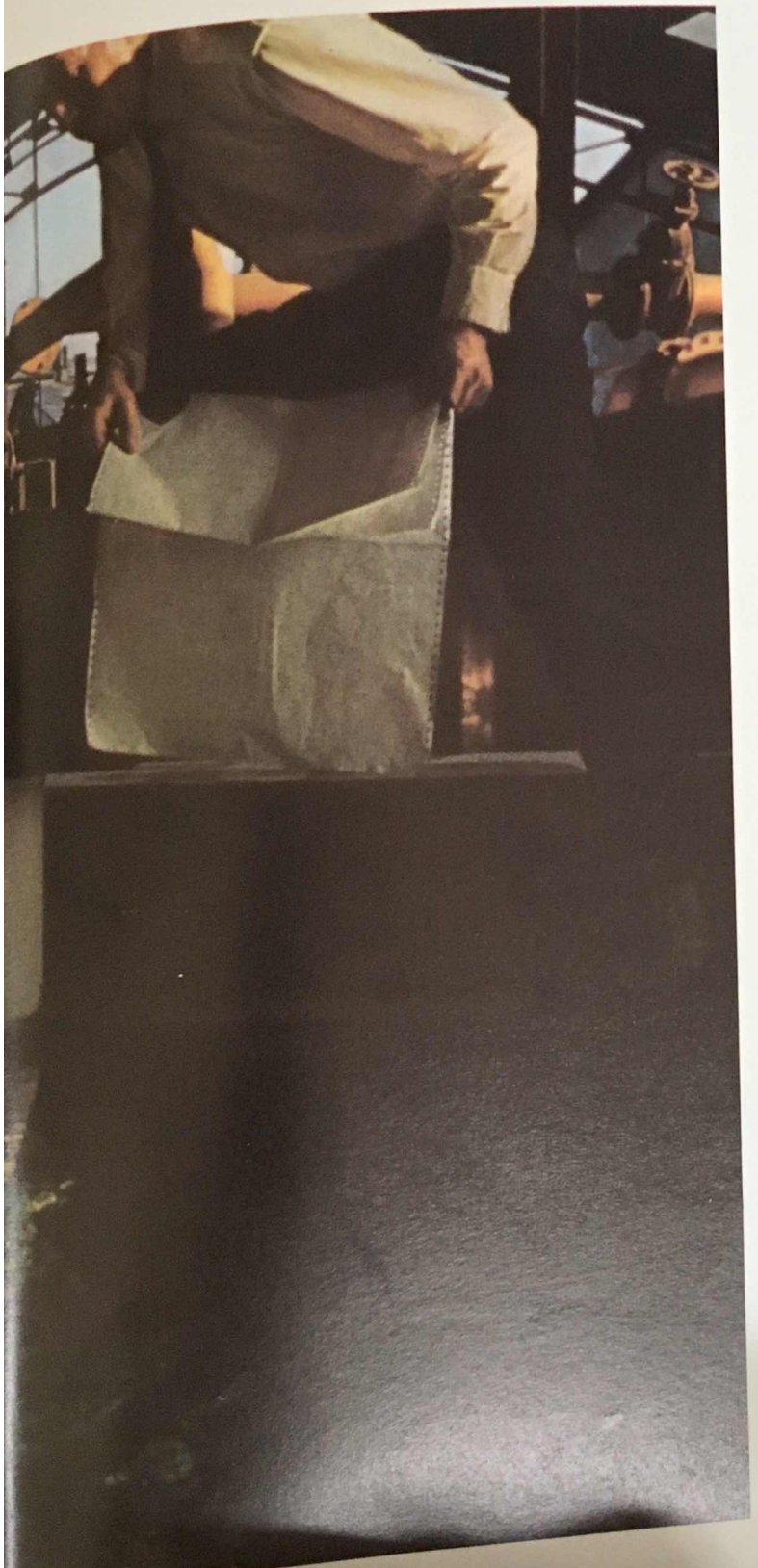
For those customers requiring a small computer below System/360, IBM announced the versatile 1130 computing system. This computer is designed for individual use by engineers and can be applied to many different kinds of problems, such as those connected with scheduling construction projects, or developing bridge and road designs.

New Time-Sharing Applications

During 1965, a growing number of customers were solving their information-handling problems through an IBM time-sharing service known as QUIKTRAN. This service enables many persons at remote locations to utilize the capability of a powerful computer, virtually simultaneously, through typewriter-like terminals in their own offices or laboratories. The computer allocates slices of time to each user on a rotating basis so rapidly that it appears to him as if he alone is using the system. Yet he is able to share the expense of using the system with other subscribers. QUIKTRAN facilities were opened at IBM Datacenters in New York City and Los Angeles, and were being used by customers in various parts of the country last year.

The Company also announced a large System/360, known as the Model 67, which is especially designed for advanced time-sharing applications. Among the orders

Engineers at a French research and consulting firm use a scale model, and an analysis prepared by an IBM System/360, to study ways of increasing the power output of large hydroelectric dams.



already received for this system is one from Bell Telephone Laboratories, Inc. Two Model 67's will be installed at the company's Indian Hill Laboratories near Naperville, Illinois, where they will be able to serve hundreds of scientists and engineers working on complex electronic development projects at virtually the same time.

Time-sharing is just one of the ways customers can use communication terminals to enter and retrieve data from computers. Another method is Tele-processing in which terminals form a communications network to exchange information with each other, or with a data processing center located nearby or a great distance away. IBM offers many different kinds of communication units so that customers can select the ones best suited to their particular needs. Last year this line of equipment was broadened still further by the introduction of three new terminals.

The new 2740 and 2741 terminals are low-cost typewriter units which enable anyone who can type to utilize the capability of System/360. The 2740 is a general-purpose inquiry station which enables a person to query a computer for business data stored inside a system and obtain an immediate response. The 2741, on the other hand, is intended primarily for scientific applications and permits persons at remote points to utilize the problem-solving capability of a computer on a time-sharing basis.

The third new terminal, the 2260 display station, enables a person to retrieve data stored inside a computer and rapidly display it on a television-like screen where he can review it. Through the unit's typewriter-like keyboard, the user also can change the data or enter new material into the system.

Customers in many different fields are using IBM communication systems to speed data between their computing centers and outlying locations. In the airlines industry, for example, Pan American World Airways and Delta Air Lines last year joined American Airlines in using IBM computer-based reservation systems to serve customers across the country and around the world. The systems automatically compile and update such data as passengers' names, telephone numbers, flight schedules, special meal requests and baggage weights. IBM also has received orders for System/360 reservation networks from Continental Airlines and Frontier Airlines.

To help customers utilize the vast amounts of printed material prepared by computers as quickly as possible, the Company announced a high-speed document processing system. This system feeds continuous roll paper forms to a computer printer and then automatically trims them to

the shape and size required for immediate distribution. It can be used to prepare a variety of forms, including insurance policies, payroll checks, stock certificates, and shipping labels. Two new types of microfilm were introduced for the IBM Micro-Processing System which permits firms to record data on microfilm, store it, and later reproduce it on small film squares mounted in punched cards.

The Company also announced a low-cost compact device called the IBM Votomatic which enables citizens to record their votes directly on punched card ballots. IBM data processing equipment then can process these cards at high speed to determine the results of the voting. The Votomatic was used last year in local elections in Santa Clara and San Joaquin Counties in California; DeKalb County in Georgia; Bloomington, Minnesota, and Midland City, Michigan. This unit is inexpensive enough so that it also can be used to acquire data in opinion polls, market surveys, and numerous other business transactions.

International Programming Effort

System/360's ability to solve a broad range of complex information-handling problems depends on packages of precise, step-by-step instructions known as programs which tell the computer exactly what to do.

Programming systems development for System/360 represents one of the Company's most comprehensive supporting efforts. The advanced programming technology of this system makes it necessary to develop entirely new concepts—each of which can be applied interchangeably to the many different configurations in System/360's wide performance range. Then the millions of computer instructions which System/360 requires to solve customers' problems must be created, tested, and prepared in finished form.

Last year, IBM programmers were busy throughout the Company developing these advanced programs of instruction. They were working at the Company's facilities in England, France, West Germany, and Sweden as well as at IBM centers in 10 cities in the United States—including a newly completed center at Poughkeepsie, New York, which is the largest commercial programming development facility in the world.

In addition to programming systems, there are a number of new application programs. Some of these are designed to handle specific jobs in specific fields, while others cover a common application which can be utilized by customers in many different fields. All these programs can be tailored to meet the individual application requirements of each customer—at a fraction of the time and cost that otherwise would have been required for their preparation.

The Company makes available to customers more than 2,500 programs for 16 different IBM computer systems through a worldwide network of program libraries. Last year, 26 IBM Datacenters and Education Centers in the United States also helped customers prepare for the installation of System/360 equipment by providing facilities to check out many of the different programs which will be used to operate the system.

Advances in Manufacturing

IBM is making extensive use of advanced computing and manufacturing methods in gearing its production operations to the high-volume demand for System/360.

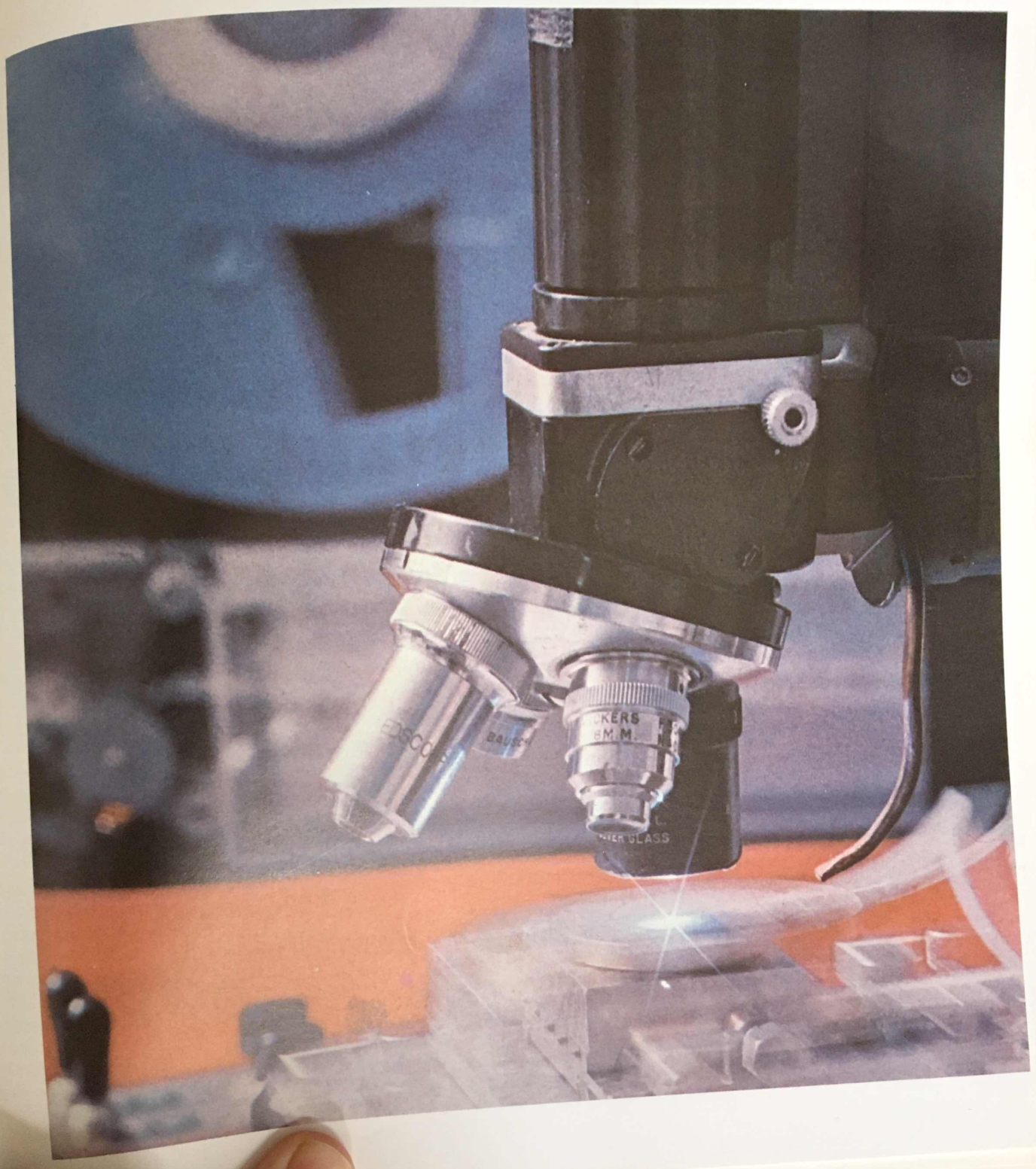
Early last year, for example, the Company began operating a large, highly automated circuit fabrication and assembly plant at Endicott, New York. Using computers, engineers at the plant translate design data from IBM laboratories into the numerical control instructions which guide chemical processes, machine tools, and test equipment used in the production of System/360 circuit panels.

In one such operation, a device utilizing computer instructions automatically selects, from hundreds of possible patterns, the correct hole positions for mounting components on circuit panels. As a panel is fed into an IBM-designed automatic drilling machine, this unit reads a special code on the panel, compares it to the previously drilled panel, and if the two are identical utilizes the same drilling instructions. If the codes differ, the device automatically provides the instructions needed to perform the new drilling operation. In testing, a similar procedure enables technicians to make 2,000 tests a second on individual circuit cards passing through numerically controlled test equipment—also specially designed by IBM.

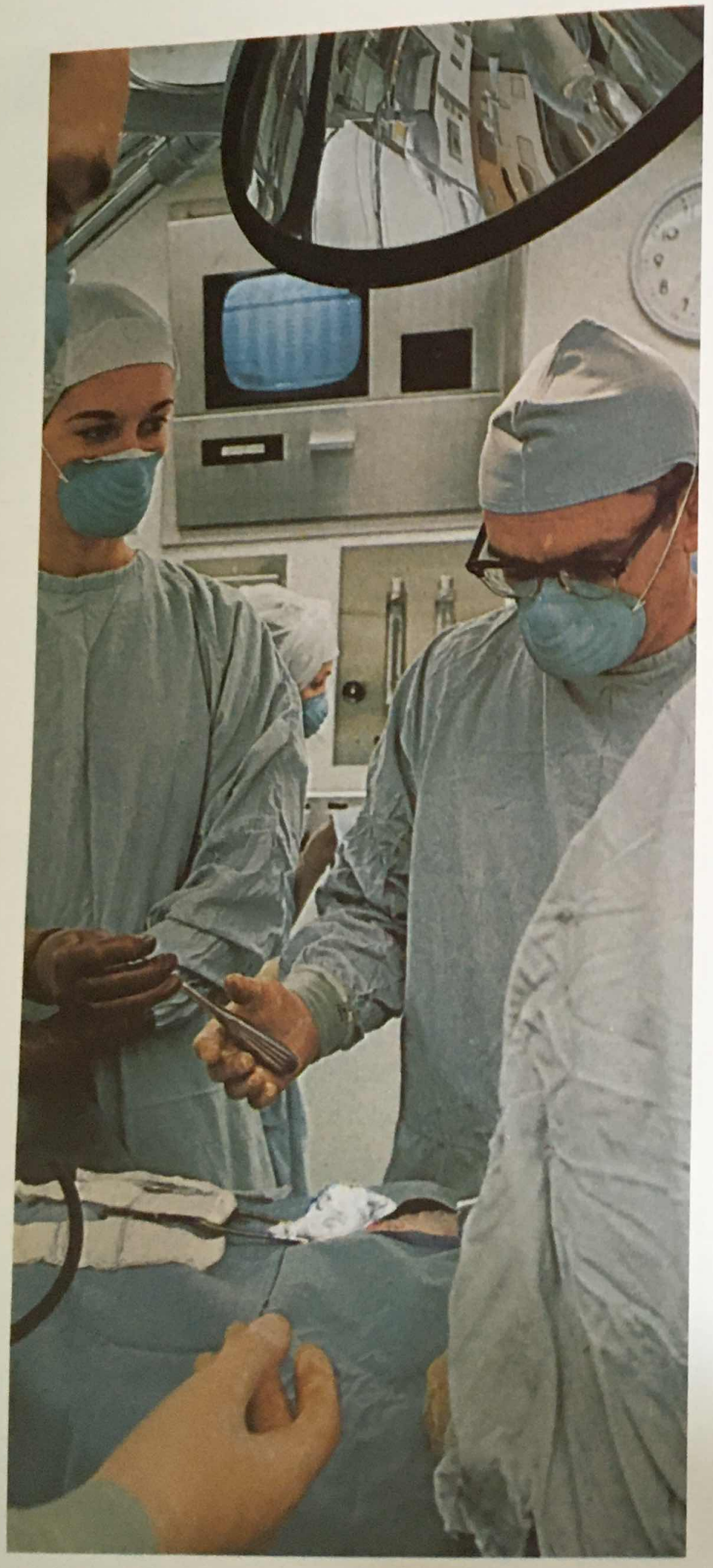
The Company also is using computers in a number of other areas in manufacturing. The systems are helping to update inventory records, route production materials, schedule machine tool maintenance, and provide status reports on production operations.

Last year, the Company initiated a computer-based communications network linking IBM's major engineering, manufacturing, and administrative facilities in the United States and Europe. This enables the Company to coordi-

A microscope light beam and movable table under computer control link tiny new circuits—bypassing imperfect ones—in a new technique devised by IBM scientists.



Mayo Clinic physicians now can detect rapid changes in temperature, blood pressure, and heartbeat through data collected and televised by an IBM monitoring system.



nate System/360's worldwide development and prod
tion operations more effectively than ever before. E
neers at Poughkeepsie, New York, for example, can tra
mit System/360 design data to the IBM plant at Essonn
France, in minutes, so that they can be rapidly incorpora
into production operations.

Advances in Research and Development

During 1965, IBM's research and development facili
continued to create advanced information-handling te
niques of value to customers in many different fields,
well as investigate new technologies which may be i
portant in the creation of future products and services.

In the field of medicine, for example, a number of in
tutions are implementing new methods in medical
search and hospital patient care through the use of
vanced data processing techniques. Mayo Clinic physici
used a specially designed IBM monitoring system to det
swift and subtle physiological changes in the condition
more than 250 patients who underwent neurosurgery d
ing the year. Using data collected from sensing devi
attached to the patient, the system displays on a televisi
screen in the operating room changes in such things
blood pressure, heartbeat and breathing rates, and bo
temperature. IBM is working with several other leadi
medical institutions on the development of comput
based patient monitoring systems.

Last year, the National Cancer Institute and IBM a
nounced the development of an experimental blood c
separator for use in leukemia research. This device acce
blood from a donor, breaks it down into its major comp
nents, collects the white cells, and returns the plasma a
red cells to the donor. In another project, the Compu
and Columbia University researchers created an advan
mathematical model which enables a computer to sim
late the performance of a human lung. This model w
enable doctors to simulate how patients being treated
pulmonary diseases would react to various concentrati
of oxygen and other gases.

In the field of education, IBM began an experimen
program utilizing computer-assisted instruction metho
to train the customer engineers who service the Compan
data processing equipment. An IBM system at Poughkee
sie, New York, provided instruction to customer engine
through remote terminals located at selected branch offi
across the country. This experimental program is the fi

Millions of television viewers participated in the "National Citizenship Test," one of 15 public-service programs the Company is sponsoring during the 1965-66 season.

of its kind in the field of industrial training, and will help the Company develop computer-assisted instruction techniques which other firms will be able to incorporate into their own training programs.

In the transportation field, IBM is working on the development of advanced management information techniques, including a complex mathematical model which will enable a computer to simulate a steamship line's far-flung shipping operations. The model will cover such things as the most efficient routes between ports, optimum cargo loads, and the effects of seasonal weather changes on cargoes and traveling time.

In the field of criminology, IBM engineers are exploring ways in which computers can recognize fingerprints, analyze them and then provide the data for appropriate law enforcement agencies. And in the field of astronomy, IBM scientists completed one of the most precise calculations ever made of the moon's orbit. Astronomers now will be able to compute to within a few feet the moon's position at any time for several centuries.

Other technological developments included new microminiature circuits which may lead to major advances in the design, packaging and operating speed of future computer memories. New computer memories using these circuits will be able to release information 10 times faster than the average memory in use today. IBM scientists have devised a fabrication technique for forming hundreds of unconnected circuits on a silicon wafer the size of a quarter. After the circuits have been tested, the computer determines how they should be interconnected so that the entire array can perform its intended function—bypassing any imperfect circuits in the group. The computer then controls the device which produces the thousands of interconnections required to link the circuits.

In other projects, engineers are investigating an advanced technology which can produce in a few simple operations patterns containing hundreds of tiny switches used to relay signals between electronic circuits. These

switches are being tested and evaluated for possible use in typewriter-like keyboards, card readers, and numerical recognition devices. A new operating method also was devised which enables a maser device to produce two different signals at the same time. Masers are being experimented with for use in a variety of communication applications. And, IBM metallurgists created thin film alloys from previously non-mixable metals. This advance will make it possible to study new alloy combinations which may be significant to the development of future computer memory devices.

Space and Defense

IBM people and advanced information systems continued to play an active role in our country's space and defense programs during 1965.

The Company completed the installation of a powerful array of IBM systems at the National Aeronautics and Space Administration's Manned Spacecraft Center in Houston, Texas. Last June, NASA scientists used these systems for the first time to direct the famous "walk-in-space" flight of astronauts McDivitt and White. The systems used a specially developed programming system containing more than 400,000 computer instructions to process a continuous flow of data from tracking and control stations around the world and from the Gemini craft itself — providing NASA controllers with the up-to-the-second facts they needed to control the flight.

NASA also used the systems to plan and control subsequent Gemini flights, including the historic rendezvous mission last December in which two spacecraft orbited the earth in formation at more than 17,500 miles an hour. Gemini astronauts also used a 59-pound IBM computer on board their spacecraft to achieve precise control of their maneuvers in orbit, and to perfect the flight techniques which will make it possible to guide future spacecraft to and from the moon.

Last fall, NASA announced that it would negotiate with IBM a contract of more than $80 million to continue systems management of the Real Time Computer Complex at the Manned Spacecraft Center through 1969. Early in 1966, NASA will begin installing at the center five powerful System/360 computers to provide still greater computing capability for the scientists engaged in the manned space flight program.

While Project Gemini moved ahead, the Company continued testing and assembling the instrument rings, [illegible] feet in circumference, for the powerful Saturn IB and Saturn V moon rockets. These units contain nearly [illegible] different operating systems, including an IBM guidance computer to control the Saturn in flight. In October, the first of these giant rings was shipped from IBM's Huntsville, Alabama, facility to Cape Kennedy where it was lifted and bolted into position near the top of a huge Saturn IB which is scheduled for firing early this year. Under a NASA contract IBM also began to study the possibility of using high-energy light beams produced by lasers to replace the thousands of wires that now carry information in space vehicles during the countdown before launch.

Both NASA and the Air Force used IBM computers mounted in the Saturn I rocket and the TITAN III launch vehicle to provide on-board guidance during test flights last year. IBM computers also are part of the guidance system in the Air Force's TITAN II missile which became operational in 1965.

The Company is developing small, rugged aerospace computers specifically designed for space, defense, and other government applications. These machines will range in size from computers small enough to ride in advanced aircraft to the more powerful systems required for orbiting space stations. The computers utilize an architecture compatible with System/360, so that users can prepare specialized programs and train their personnel in advance on their standard System/360 installations.

A powerful special information-handling system based on System/360 was delivered in 1965 to the Federal Aviation Agency's experimental center in Atlantic City, New Jersey. It will be used to develop advanced techniques to assist FAA controllers in their handling of air traffic control. A second system will be delivered this year to the Air Route Traffic Control Center near Jacksonville, Florida. IBM has been awarded a contract by the FAA to provide extensive programming support for both systems.

Typewriter, Dictation Unit Sales Grow

The Company's electric typewriters and its line of IBM EXECUTARY dictation equipment continued to enjoy another year of record sales during 1965.

IBM further broadened its family of dictation machines last year by introducing the Model 224, a 28-ounce, battery-powered unit which can be used in or out of the office with equal facility. The unit uses a built-in microphone

Two Gemini spacecraft achieve an historic rendezvous in space using vital maneuvering data supplied by IBM *computers on board the spacecraft and on the ground.*

to record information on a reusable magnetic belt which can hold about 1,000 words of dictation. This unit can be extremely useful to the busy executive at his desk, at conferences, on trips, or anywhere he does his thinking.

During the year, the Company continued to introduce time-saving features for its line of electric typewriters. One new feature allows a typist to change carbon or film ribbons without ever touching the new ribbon.

IBM also expanded the versatility of its SELECTRIC typewriters by introducing a new keyboard and four typing elements especially suited to the preparation of legal documents. The new keyboard and two of the new elements contain specialized legal symbols used by court reporters and are designed to speed the transcription of court records. The other two elements feature type styles widely used in a variety of legal documents, including briefs, wills, and contracts.

A growing number of customers last year were using the Magnetic Tape SELECTRIC Typewriter to prepare automatically such high-volume typing jobs as technical documents, medical reports, and repetitive business forms. This unit is particularly helpful in the preparation of lengthy reports which are continually being revised. It stores the original text on a spool of magnetic tape and when new material is entered it automatically respaces and repositions the new words and sentences, determines new line endings and then types out the document in its completed form.

IBM Serves Growing Market Abroad

The IBM World Trade Corporation, which conducts the Company's business abroad, last year broke through the one-billion-dollar mark in gross income for the first time. By year's end, World Trade had more than 60,000 employees manning 321 sales offices, 218 Service Bureaus and Datacenters, 15 manufacturing plants, six development engineering laboratories and other facilities in 102 countries around the world.

World Trade has booked many System/360 orders from customers, and last year it began delivering these computers to companies in a number of different countries.

The London Life Insurance Company of Canada, for example, became the first insurance company in the world to install a System/360. The system will be used in billing premiums, updating records, and preparing group health insurance claims for more than one and one-half million policyholders throughout Canada. One of the first of the new System/360's manufactured in France was delivered to an international research center and consulting firm there, where it is being used to help design port facilities, irrigation systems and hydroelectric structures. At the Tokai Bank of Nagoya in Japan, a System/360 went to work handling the general accounting for the thousands of banking transactions that occur each day.

Orders also have come from customers in many other fields: a bank in England, a mail-order house in West Germany, an insurance company in France, a stock exchange in South Africa, and an association of ship owners and brokers in Norway. Several foreign airlines also will use this powerful computing system. Scandinavian Airlines System (SAS) has already begun operating an IBM 1410 computer complex which is one of the largest data processing centers in northern Europe.

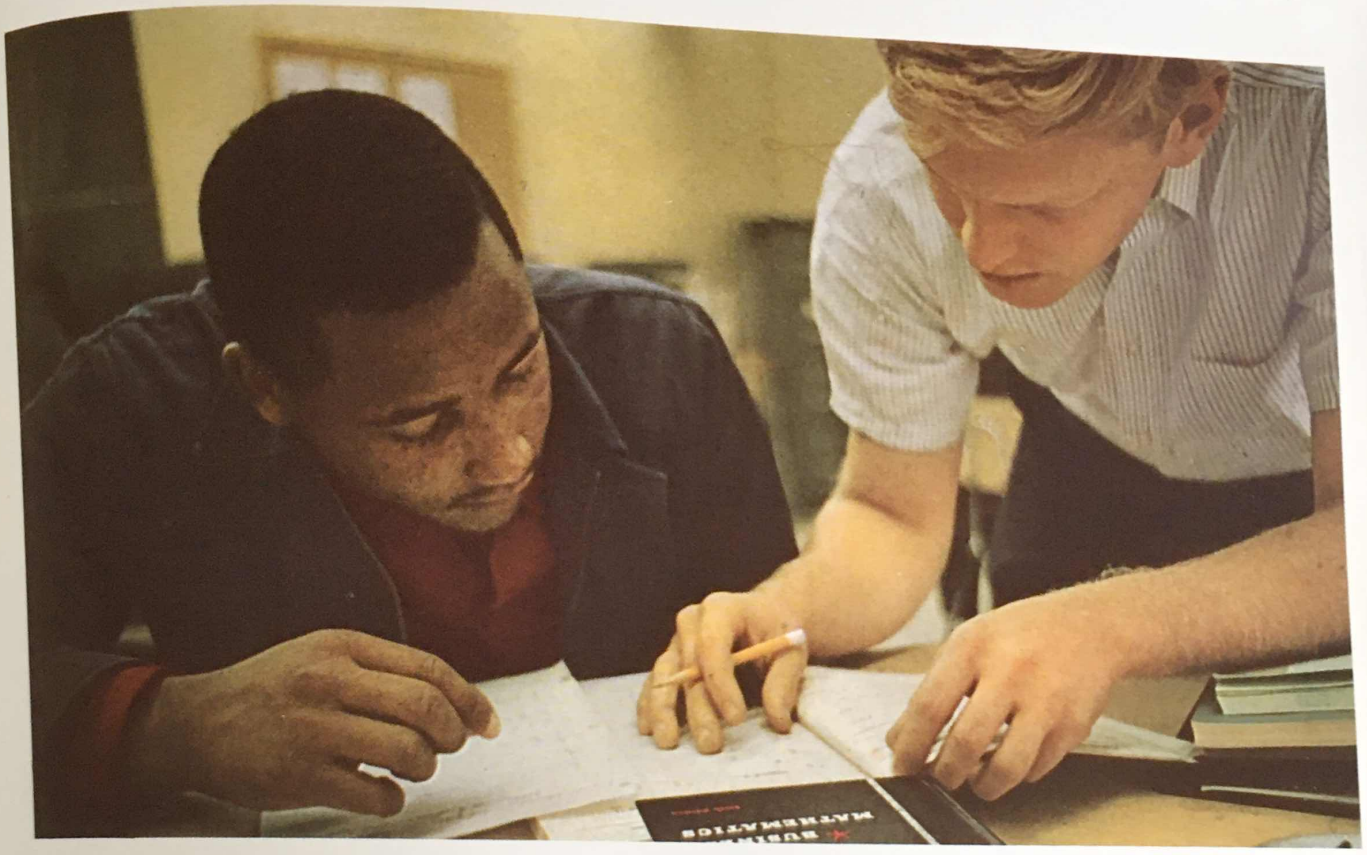
Last year, World Trade used a unique airborne exhibit called IBM Computour to demonstrate the advanced capabilities of System/360 and other IBM equipment to more than 12,000 executives in Europe and the Middle East. The two-month tour covered 28 cities in 17 countries.

World Trade also established highly specialized industry centers to help customers utilize the most advanced problem-solving techniques in their operations. A center for the steel industry began operating in West Germany, one for the petroleum industry in The Netherlands, and another for the airline industry in England. This new marketing technique already has resulted in a number of important orders for IBM equipment from customers in these industries. Planned for 1966 are a scientific center which will offer time-sharing services and five industrial centers for customers in retail, medicine, education, law enforcement, and printing and publishing.

Continuing education has long been a cornerstone of IBM's service to customers around the world. Last year, World Trade continued to expand its education programs so that these customers could utilize their IBM systems as effectively as possible. In Manila, for example, a new Education and Data Processing Center began serving customers in the Philippines and 11 other countries of the Asia-Pacific area.

The Imperial College of Science and Technology in London last year began using IBM equipment to operate a powerful computing center that was the first of its kind in Europe. Hundreds of educators, scientists and students now are using the center to solve a broad range of scientific, engineering and industrial problems. Similar centers

Rodman Job Corps student studies basic educational and vocational subjects at center run by Science Research Associates, Inc., as part of the government's war-on-poverty program.



were opened during the year at the University of Pisa in Italy, and at the Technical University of Denmark, which will also serve universities and academic institutions in Finland, Holland, Iceland, Norway and Sweden.

Demand Grows for SBC Services

More firms than ever before were solving business and scientific problems last year through The Service Bureau Corporation, a wholly owned, independently operated subsidiary of IBM, which offers its problem-solving services on a weekly, monthly, or job contract basis.

SBC provides these customers with a broad range of advanced data processing techniques through offices in more than 70 cities across the country. Last year, it continued to expand the capabilities of these facilities still further by installing System/360 computers, and by introducing several new computer programs.

One new program, known as Vehicle Scheduling, enables companies using fleets of delivery trucks to determine such information as the best routes, optimum truck loads, and the time needed for delivery—considering such things as loading and unloading time as well as delays that might result from parking restrictions.

A newly expanded program for automobile dealers handles their accounting operations and provides a series of timely business reports. With this program, dealers can obtain a current profit analysis on sales and service, including a breakdown of such things as the value of new and used car inventories, the gross profit per sale, outstanding accounts, and customer statements ready for mailing.

Another improved program helps school administrators reduce the time-consuming clerical duties involved in assigning students to classes and reporting their grades. It provides a current record on available classroom seats during each period, teachers needed and for what departments, course conflicts, and lunch period schedules. SBC

also announced a more comprehensive method for analyzing statistical data quickly and economically.

Record Year for SRA

Science Research Associates, Inc., a Chicago-based producer of educational systems and materials and a subsidiary of IBM, reported record sales again during 1965.

SRA provides a complete line of modern instructional and guidance materials for schools and industry, and is the largest commercial test publisher in the United States. Last year, the company established its first foreign subsidiary, Science Research Associates (Canada) Limited, to develop and market educational materials for Canadian schools, as well as serve as headquarters for SRA's international operations.

During the year, SRA continued to develop a steadily growing number of diversified programs in the educational field. SRA, for example, began operating the Rodman Job Corps Center in New Bedford, Massachusetts, under a contract awarded by the United States Office of Economic Opportunity as part of the government's war on poverty. SRA is developing new course material for use at the center in teaching basic educational subjects and vocational skills to unemployed youths 16 to 21 years old to help them qualify for clerical jobs in data processing and other office-related occupations.

The subsidiary also introduced a number of new products, including the "SRA Basic Reading Series" for first and second grade pupils. This program will enable beginning readers to learn and understand as many as 5,000 words in the first nine to 14 months of study—compared to the 200 to 350 words generally contained in programs of this type. The Reading Laboratory® Series, another SRA reading program, was used by more than seven million elementary and secondary school students last year.

Other new products included the "Computational Skills Development Kit" of basic arithmetic exercises for junior high school students, and "Reading in High Gear" for young people who lack basic reading skills.

IBM Grows through Its People

No factors are more important to IBM's future than the quality of its people and the environment provided for their continued growth at all levels of the business. IBM continued to emphasize this tradition of individual growth both in the classroom and on the job as employees expanded their skills and professional capacities to meet the rapidly changing demands of new technologies.

A manufacturing technician, for example, who joined the Company as a stock clerk, is now teaching other technicians how to operate the advanced equipment used in testing System/360's microelectronic circuitry.

A manager in customer engineering education who began his career by servicing punched card equipment has helped develop System/360 simulators which now are being used to train customer engineers in the latest maintenance techniques.

And an account manager heading a team which included the first woman in IBM to attain the position of senior systems engineer last year completed a series of studies that resulted in a significant order for System/360 equipment from a major bank. The order focused on a new approach they developed for consolidating customer records so that the bank could process its expanding volume of checks faster and more efficiently.

The responsibility for serving the needs of the worldwide marketplace is shared by the Company's 10 divisions and three wholly owned subsidiaries—each charged with providing advanced products and services within its respective area of operation.

Divisions:

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

Data Processing: markets IBM's full line of information-handling systems and equipment through offices across the United States.

Federal Systems: concentrates on advanced technology and special 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 information-handling systems and equipment.

Office Products: develops, produces, and markets electric typewriters, dictation equipment, and related supplies.

Real Estate and Construction: arranges for the construction, purchasing, or leasing of new Company facilities, including the planning and location of sites.

Research: develops the advanced technologies and com-

IBM and World Trade Corp. directors visiting IBM's plant in Tokyo, Japan, include (left to right) WTC director C. K. Campbell and IBM directors Paul L. Davies, Albert L. Williams, and Grayson Kirk.

puter applications which will provide new and better solutions to customers' information-handling requirements in the future.

Supplies: develops, manufactures and markets data processing cards, magnetic tape, paper forms and forms-handling equipment, ribbons and other products and accessories used with data processing equipment; microprocessing systems, and the IBM Votomatic.

Systems Development: develops, through a worldwide effort, IBM's regular product line of information-handling systems and equipment and provides programming support; develops the electronic components and circuits utilized in IBM products.

Systems Manufacturing: manufactures components, equipment, and systems developed by the Systems Development Division.

Other divisions have absorbed the responsibilities of the former Industrial Products Division for marketing components, parts and standard IBM products to other manufacturers, and production systems to industry generally.

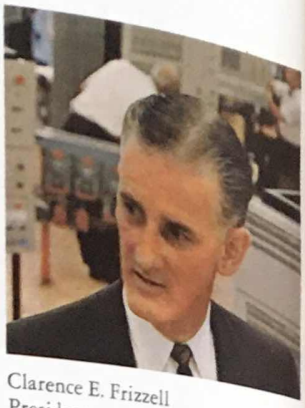
Subsidiaries:

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

Science Research Associates, Inc.: develops and publishes modern learning and guidance materials for use in elementary and secondary schools, colleges and universities; publishes a wide variety of intelligence, aptitude and achievement tests used in schools and industry.

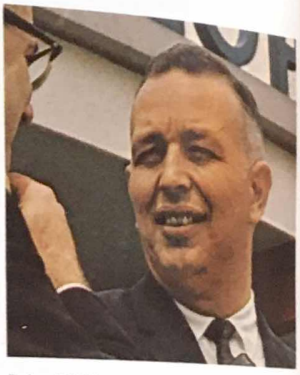
The Service Bureau Corporation: provides data processing services and computer programming on a contract basis to both large and small businesses.

Division and Subsidiary Chief Executives



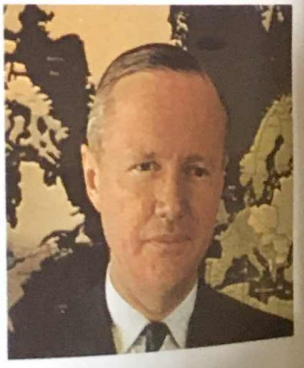
Clarence E. Frizzell
President,
Systems Manufacturing Division

Frank T. Cary
President,
Data Processing Division



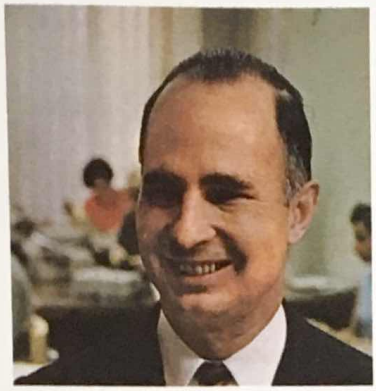
John W. Haanstra
President,
Systems Development Division

Bob O. Evans
President,
Federal Systems Division



Gilbert E. Jones
President,
IBM World Trade Corporation

Herbert R. Keith
President,
The Service Bureau Corporation

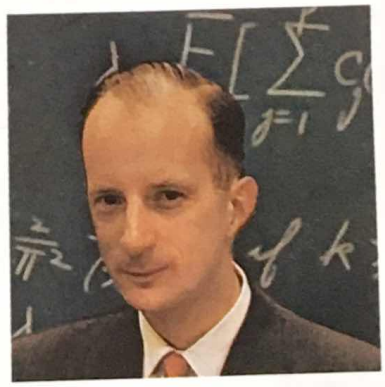


Gordon M. Moodie
President,
Office Products Division

Lyle M. Spencer
President,
Science Research Associates, Inc.

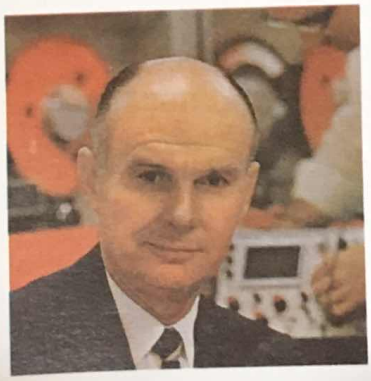
Frank H. McCracken
General Manager,
Supplies Division

John M. Norton
General Manager,
Advanced Systems Development
Division



Gardiner L. Tucker
Director of Research

H. Wisner Miller, Jr.
President,
Real Estate and Construction Division



Orland M. Scott
President,
Field Engineering Division

s Income and Net Earnings:

Gross income from worldwide IBM operations amounted to $3,572,824,719 last year, an increase of $333,465,138 over the $3,239,359,581 total for 1964.

The Company's earnings before taxes totaled $959,902,490, which was $62,742,724 more than the $897,159,766 earned in 1964.

U.S. Federal and foreign income taxes were $483,000,000 in 1965, an increase of $17,000,000 over the $466,000,000 in 1964.

IBM's earnings after taxes were $476,902,490, or $45,742,724 more than the $431,159,766 earned in 1964.

IBM's earnings in 1965 equaled $13.54 a share on the 35,224,914 shares of capital stock outstanding on December 31, 1965. This compares with $12.30 a share earned on the 35,048,259 shares outstanding at the end of 1964.

ds:

ash dividends totaling $210,767,482 were paid to stockolders in 1965 compared with $165,964,452 in the previs year.

The regular quarterly cash dividend payable March 10, 66, at the rate of $1.50 per share, will be IBM's two ndred and fourth consecutive quarterly cash dividend.

penditures:

ing 1965, IBM's growing business, together with its to replace obsolete equipment, required a worldinvestment of $1,165,907,756 in rental machines and , factory and office equipment, land and buildings. tirements amounted to $330,688,073, covering ob- and dismantled equipment, as well as rental ma- s sold which previously were under lease to customers. write-offs were charged against reserves provided prior and current years' earnings, or to cost of sales. Company continued a major expansion of its mar- , manufacturing, and development facilities around rld to serve the growing customer demand for Sys- 0 and other IBM products. The Company's con- n program included the facilities listed in the next . In addition, a number of newly leased and purfacilities were occupied.

	Purpose	*Square Feet*
United States		
Raleigh, North Carolina	Manufacturing and Development	605,000
*†East Fishkill, New York	Manufacturing and Development	559,000
Boulder, Colorado	Manufacturing and Development	523,000
†Rochester, Minnesota	Manufacturing and Development	325,000
*†Burlington, Vermont	Manufacturing	300,000
*Philadelphia, Pennsylvania	Marketing	283,000
*†Owego, New York	Manufacturing	250,000
Gaithersburg, Maryland	Development and Administration	245,000
*†San Jose, California	Manufacturing	204,000
†Lexington, Kentucky	Manufacturing	196,000
*†Poughkeepsie, New York	Development	150,000
Albany, New York	Marketing	106,000
*†Kingston, New York	Manufacturing	100,000
*†Huntsville, Alabama	Development	85,000
*†Yorktown Heights, New York	Development	51,000
*Endicott, New York	Marketing	22,000
Foreign		
Vimercate, Italy	Manufacturing	325,000
†Amsterdam, The Netherlands	Manufacturing	304,000
Mainz, West Germany	Manufacturing and Development	241,000
Montpellier, France	Manufacturing	230,000
†Toronto, Canada	Administration	206,000
Orleans, France	Administration	136,000
Diegem, Belgium	Development	91,000
†Hursley, England	Development	91,000
*Lidingo, Sweden	Development	75,000
*Boigny, France	Manufacturing	69,000
*†Sindelfingen, West Germany	Manufacturing	50,000
†Uithoorn, The Netherlands	Development	45,000

**Completed in 1965 †Expansion of existing facility*

Annual Meeting of Stockholders:

This year's stockholders' meeting will be held at the Shamrock Hilton Hotel in Houston, Texas, on Monday, April 25, 1966. On or about March 15, stockholders will be mailed a notice of the meeting, proxy statement, and proxy ballot.

Square Feet

605,000
559,000
523,000
325,000
300,000
283,000
250,000
245,000
204,000
196,000
150,000
106,000
100,000
85,000
51,000
22,000

325,000
304,000
241,000
230,000
206,000
136,000
91,000
91,000
75,000
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5,000

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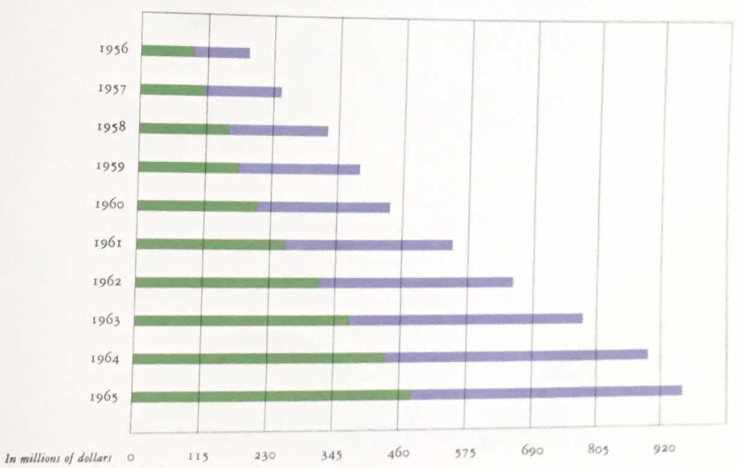
966.

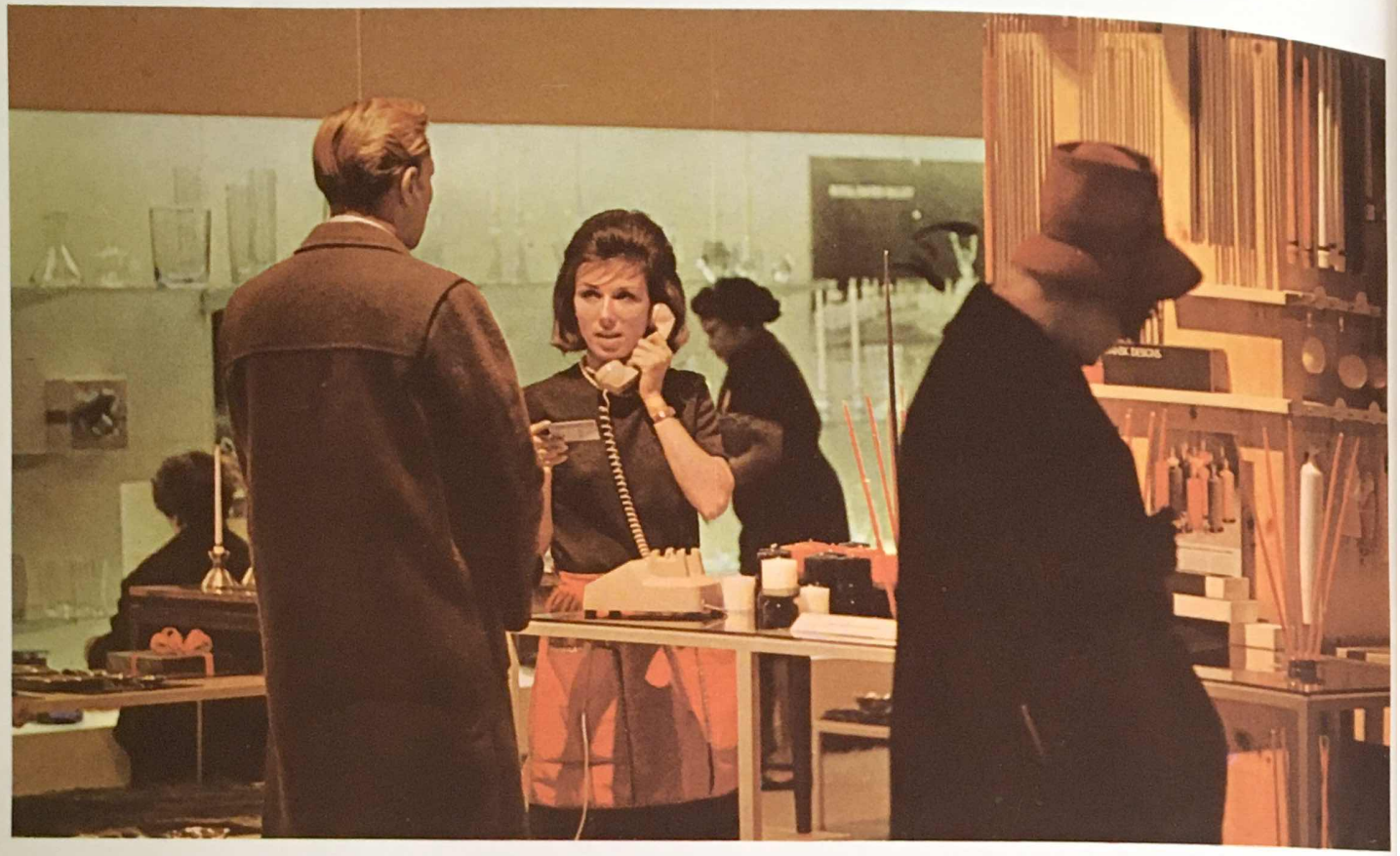
Gross Income from Sales, Service and Rentals

Net Earnings and Income Taxes



Capital Expenditures

Sales clerk in a large Chicago department store checks a credit purchase by dialing an IBM computer-based audio response unit which uses a pre-recorded voice to furnish data in seconds.



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, 1965, 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.

January 25, 1966
New York, New York

Price Waterhouse & Co.

International Business Machines Corporation and Subsidiary Companies

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

	1965		1964	
Gross Income from Sales, Service and Rentals		$ 3,572,824,719		$ 3,239,359,581
Cost of sales, service and rentals, operating expenses, and development and engineering expense, exclusive of depreciation and amortization	$ 2,104,072,904		$ 1,880,022,533	
Depreciation of rental machines, depreciation and amortization of plant and equipment	523,318,662		475,312,632	
Amortization of goodwill	3,000,000		3,000,000	
Interest on indebtedness	18,140,970		23,073,183	
		2,648,532,536		2,381,408,348
		924,292,183		857,951,233
Other income, principally interest		35,610,307		39,208,533
Net earnings before income taxes		959,902,490		897,159,766
Provision for U.S. Federal and foreign income taxes, estimated		483,000,000		466,000,000
Net Earnings for the year		476,902,490		431,159,766
Retained Earnings, January 1		1,449,786,023		1,184,590,709
Total		1,926,688,513		1,615,750,475
Cash dividends		210,767,482		165,964,452
Retained Earnings, December 31		$ 1,715,921,031		$ 1,449,786,023

The notes on pages 34 to 36 are an integral part of this statement.

International Business Machines Corporation
and Subsidiary Companies

Consolidated Balance Sheet at December 31:

Assets	1965		1964	
Current Assets:				
Cash	$ 195,612,788		$ 127,155,038	
Marketable securities, valued at lower of cost or market	470,134,453		724,033,665	
Notes and accounts receivable ... less reserve:				
1965, $10,247,869; 1964, $7,722,804	573,681,473		546,137,272	
Inventories, valued at lower of average cost or market	146,674,350		118,424,330	
Prepaid insurance, taxes, etc.	28,619,446		21,881,992	
		$ 1,414,722,510		$ 1,537,632,297
Other Investments and Sundry Assets		15,668,294		9,577,505
Factories, Office Buildings, Other Property ... at cost:				
Land	57,035,983		44,568,744	
Buildings	446,926,652		387,954,201	
	503,962,635		432,522,945	
Less: Reserve for depreciation and amortization	156,055,003		135,327,496	
	347,907,632		297,195,449	
Factory and office equipment, rental machines and parts	4,047,998,304		3,284,218,311	
Less: Reserve for depreciation and amortization	2,092,396,936		1,833,489,303	
	1,955,601,368		1,450,729,008	
		2,303,509,000		1,747,924,457
Patents and Goodwill ... less amortization		11,018,656		14,018,656
		$ 3,744,918,460		$ 3,309,152,915

The notes on pages 34 to 36 are an integral part of this statement.

Liabilities and Capital	1965		1964	
Current Liabilities:				
U. S. Federal and foreign income taxes ... estimated	$ 296,094,920		$ 330,609,431	
Accounts payable and accruals	398,024,428		286,483,303	
Loans payable	21,950,314		20,601,320	
		$ 716,069,662		$ 637,694,054
Deferred Income Taxes		28,431,841		28,359,790
Reserves for Employees' Indemnities and Retirement Plans		23,419,775		18,588,412
Long-Term Indebtedness		398,849,604		370,429,536
Capital Stock ... Par Value $5.00 Per Share	862,226,547		804,295,100	
Authorized: 37,265,625 shares				
Issued and outstanding: 35,224,914 shares at December 31, 1965; 35,048,259 shares at December 31, 1964				
Retained Earnings	1,715,921,031		1,449,786,023	
		2,578,147,578		2,254,081,123
		$ 3,744,918,460		$ 3,309,152,915

International Business Machines Corporation
and Subsidiary Companies

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

	1965	1964
Net current assets at beginning of year	$ 899,938,243	$ 885,435,06
Funds provided during year:		
Net earnings	476,902,490	431,159,76
Depreciation, amortization and other charges against net earnings which did not require the current outlay of funds	574,047,144	549,256,14
Total from operations	1,050,949,634	980,415,91
Sale of capital stock	55,829,098	46,826,04
Increase in long-term indebtedness	28,420,068	—
Miscellaneous	(3,988,440)	27,158,26
Total funds provided during year	1,131,210,360	1,054,400,22
Total funds	2,031,148,603	1,939,835,28
Funds applied during year:		
Investment in factories, offices, rental machines and parts	1,165,907,756	723,906,10
Less: Depreciation of manufacturing facilities capitalized in rental machines	44,179,483	29,134,37
	1,121,728,273	694,771,72
Reduction of long-term indebtedness	—	179,160,85
Cash dividends	210,767,482	165,964,45
Total funds applied during year	1,332,495,755	1,039,897,03
Net current assets at end of year	$ 698,652,848	$ 899,938,24

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.

ign Operations:

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

	December 31, 1965	*December 31, 1964*
Current assets	$ 525,131,947	$ 434,932,866
Current liabilities	287,268,181	238,089,543
Net current assets	237,863,766	196,843,323
Other investments and sundry assets	12,011,204	8,590,711
Factories, offices, rental machines and parts, net	757,181,225	632,766,475
Goodwill, less amortization	11,018,655	14,018,655
	1,018,074,850	852,219,164
Deferred income taxes	13,595,803	18,512,137
Reserves for employees' indemnities and retirement plans in certain countries	23,419,775	18,588,412
Long-term indebtedness	139,599,604	105,429,536
	176,615,182	142,530,085
Net assets employed in foreign operations	$ 841,459,668	$ 709,689,079
	Year 1965	Year 1964
Gross income from sales, service and rentals in foreign countries	$ 1,085,505,751	$ 933,400,319
Net earnings from foreign operations	$ 144,026,330	$ 123,998,898

Foreign assets and liabilities have been converted to U.S. dollars at year-end exchange rates, except that factories, offices, rental machines and parts and long-term indebtedness have been converted at approximate rates prevailing when acquired or incurred. Income and expense items have been converted at average rates of exchange prevailing during the year, except depreciation and amortization which have been calculated at the approximate rates prevailing when the properties were acquired.

ng-Term Indebtedness:

	December 31, 1965	*December 31, 1964*
International Business Machines Corporation...		
payable to The Prudential Insurance Company of America:		
3½% promissory note, due in annual installments, January 1, 1967 to 1985	$ 109,250,000	$ 115,000,000
3½% promissory note, due in annual installments, May 1, 1969 to 1988	100,000,000	100,000,000
3½% promissory notes, due December 1, 1971	50,000,000	50,000,000
	259,250,000	265,000,000
Subsidiaries operating in foreign countries... average interest rate—5.7%	139,599,604	105,429,536
Consolidated long-term indebtedness	$ 398,849,604	$ 370,429,536

Consolidated long-term indebtedness at December 31, 1965 was payable:

1967	$ 13,182,209
1968	21,379,623
1969	19,891,525
1970	18,858,829
1971	64,606,115
1972-1976	117,564,099
1977-1988	143,367,204
	$ 398,849,604

Renegotiation:

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

Significant Litigation:

As reported previously, Business Supplies Corporation of America on August 16, 1962, instituted a lawsuit against IBM alleging anti-trust violations in the tabulating card business. The original complaint was later amended to include other data processing supplies and claimed $180,000,000 damages. IBM, in turn, filed a counterclaim against the plaintiff. On December 20, 1965, it was announced that this claim and IBM's counterclaim had been settled by a mutual withdrawal of claims, provision for cross-licensing under certain patents relating to the record media field and reimbursement by IBM of a portion of the counsel fees incurred by Business Supplies Corporation.

On October 31, 1962, J. J. Hackett and Company sued IBM, alleging anti-trust violations in the tabulating card business and claiming $21,000,000 damages. On October 22, 1965, a Federal Court jury decided in IBM's favor on all issues and the case has been dismissed.

Stock Purchase Plan for IBM Employees:

Under the Employees Stock Purchase Plan approved by stockholders in 1961, all regular employees who have completed one year of service and who are not participants in the Stock Option Plans are able to purchase IBM's unissued capital stock 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 day he begins saving toward a share, or on the day he has accumulated enough money to buy the share—whichever price is lower.

Employees purchased 134,792 shares in 1965, for which $5,144,745 was paid to IBM and credited to the capital stock account. At December 31, 1965, 79,983 shares were reserved for sale under this Plan.

Stock Option Plans:

Under the Stock Option Plans approved by stockholders in 1956 and 1961, officers and other key employees may be granted options to purchase IBM's unissued capital stock at 100% of the market price on the day the option is granted. Purchases under options granted prior to January 1, 1964 can only be made in installments commencing two years after the date of grant and extending over a period of the next eight years. Purchases under options granted after January 1, 1964 can only be made in installments commencing one year after the date of grant and extending over a period of the next four years.

In accordance with the Plans, 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.

The following summary, adjusted for stock dividends and splits, reflects the transactions for the Plans during 1965:

	Number of Shares	
	Under Option	Available for Option
Balance, January 1, 1965	177,388	131,62
Options granted	16,480	(16,48
Options terminated	(2,494)	71
Options exercised	(41,863)	-
Balance, December 31, 1965	149,511	115,85
Exercisable at December 31, 1965	52,850	

IBM received $4,684,353 for the 41,863 shares purchased during 1965, which amount was credited to the capital stock account. The 149,511 shares under option at December 31, 1965 were held by 275 executives at option prices ranging from $73.44 to $526.00 per share. These prices represent 100% of the market price on the date of each grant from 1956 to date, adjusted for stock dividends and splits that occurred after the dates on which the options were granted. The 115,855 shares available for future option grants were all under the 1961 Stock Option Plan.

IBM engineer explores ways for recognizing fingerprints with a computer which then could analyze them and provide data for appropriate law enforcement agencies.

Ten-Year Comparative Consolidated Statement of Operations:

	1965	1964	1963
Gross income from sales, service and rentals	$ 3,572,824,719	$ 3,239,359,581	$ 2,862,732,72
Net earnings before income taxes	$ 959,902,490	$ 897,159,766	$ 777,828,4
U.S. Federal and foreign income taxes	$ 483,000,000	$ 466,000,000	$ 413,573,4
Net earnings for the year	$ 476,902,490	$ 431,159,766	$ 364,254,9
Per share (see note)	($ 13.54)	($ 12.30)	($ 10.4
Cash dividends	$ 210,767,482	$ 165,964,452	$ 118,039,9
Per share (see note)	($ 6.00)	($ 4.75)	($ 3.4
Stock dividends and splits*:			
Per cent	—	*25%	
Shares issued	—	6,990,140	
Shares sold	176,655	136,297	114,2
At end of year:			
Number of shares outstanding	35,224,914	35,048,259	27,921,8
Net investment in factories, offices, rental machines and parts	$ 2,303,509,000	$ 1,747,924,457	$ 1,585,581,3
Long-term indebtedness	$ 398,849,604	$ 370,429,536	$ 549,590,3
Net current assets	$ 698,652,848	$ 899,938,243	$ 885,435,0
Number of stockholders	275,650	266,086	233,7

Note: *Adjusted for all stock dividends and splits.*

1962	1961	1960	1959	1958	1957	1956
$2,591,268,572	$ 2,202,465,009	$ 1,816,882,259	$ 1,613,190,005	$ 1,417,509,220	$ 1,202,593,650	$ 892,010,623
$ 652,437,641	$ 546,494,784	$ 438,394,058	$ 380,274,438	$ 323,773,735	$ 238,761,528	$ 182,829,252
$ 347,711,296	$ 292,375,666	$ 233,478,553	$ 204,213,043	$ 171,567,138	$ 128,264,084	$ 95,584,841
$ 304,726,345	$ 254,119,118	$ 204,915,505	$ 176,061,395	$ 152,206,597	$ 110,497,444	$ 87,244,411
($ 8.77)	($ 7.34)	($ 5.94)	($ 5.12)	($ 4.46)	($ 3.24)	($ 2.81)
$ 82,956,805	$ 63,299,895	$ 54,898,842	$ 37,096,865	$ 30,764,992	$ 25,407,174	$ 19,937,158
($ 2.40)	($ 1.84)	($ 1.60)	($ 1.08)	($ .90)	($ .74)	($ .64)
—	*50%	—	2½% & *50%	2½%	*100%	2½% & *25%
—	9,204,515	—	6,402,610	288,737	5,251,119	1,152,647
116,604	94,794	43,401	44,769	7,826	1,050,223	—
27,807,610	27,691,006	18,391,697	18,348,296	11,849,023	11,552,460	5,251,118
$ 1,533,966,694	$ 1,418,588,690	$ 1,203,566,459	$ 1,038,771,643	$ 961,768,177	$ 865,209,865	$ 657,203,125
$ 590,666,327	$ 585,129,747	$ 537,661,364	$ 520,034,035	$ 503,938,781	$ 432,094,153	$ 374,412,273
$ 681,217,864	$ 519,474,419	$ 468,751,477	$ 447,276,137	$ 406,773,064	$ 308,173,380	$ 139,894,946
230,235	197,509	127,478	108,915	66,667	57,330	31,024

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