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Management Discussion

International Business Machines Corporation and Subsidiary Companies

GAAP Reconciliation

The tables below provide a reconciliation of our income statement results as reported under GAAP to our operating earnings presentation which is a non-GAAP measure. Management's calculation of operating (non-GAAP) earnings, as presented, may differ from similarly titled measures reported by other companies. Refer to the "Operating (non-GAAP) Earnings" section for management's rationale for presenting operating earnings information.

(\$ in millions except per share amounts)

	GAAP	Acquisition-Related Adjustments	Retirement-Related Adjustments	U.S. Tax Reform Impacts	Spin-off-Related Charges	Operating (non-GAAP)
For the fourth quarter 2020:						
Gross profit	\$10,523	\$ 177	\$ —	\$ —	\$ 1	\$10,700
Gross profit margin	51.7 %	0.9 pts.	— pts.	— pts.	0.0 pts.	52.5 %
SG&A	\$ 7,232 *	\$(287)	\$ —	\$ —	\$(28)	\$ 6,917 *
RD&E	1,611	—	—	—	—	1,611
Other (income) and expense	247	(1)	(295)	—	—	(48)
Interest expense	317	—	—	—	—	317
Total expense and other (income)	9,234 *	(288)	(295)	—	(28)	8,623 *
Pre-tax income from continuing operations	1,289 *	465	295	—	28	2,077 *
Pre-tax margin from continuing operations	6.3 %	2.3 pts.	1.4 pts.	— pts.	0.1 pts.	10.2 %
Provision for income taxes**	\$ 25	\$ 105	\$ 96	\$(18)	\$ 7	\$ 216
Effective tax rate	1.9 %	4.6 pts.	4.4 pts.	(0.9)pts.	0.3 pts.	10.4 %
Income from continuing operations	\$ 1,264 *	\$ 359	\$ 198	\$ 18	\$ 21	\$ 1,861 *
Income margin from continuing operations	6.2 %	1.8 pts.	1.0 pts.	0.1 pts.	0.1 pts.	9.1 %
Diluted earnings per share from continuing operations	\$ 1.41 *	\$ 0.40	\$ 0.22	\$ 0.02	\$ 0.02	\$ 2.07 *

* Includes a \$2.0 billion pre-tax charge for structural actions resulting in an impact of \$(1.84) to diluted earnings per share from continuing operations and diluted operating (non-GAAP) earnings per share.

** The tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

(\$ in millions except per share amounts)

	GAAP	Acquisition-Related Adjustments	Retirement-Related Adjustments	U.S. Tax Reform Impacts	Spin-off-Related Charges	Operating (non-GAAP)
For the fourth quarter 2019:						
Gross profit	\$11,100	\$ 189	\$ —	\$ —	\$ —	\$11,289
Gross profit margin	51.0 %	0.9 pts.	— pts.	— pts.	— pts.	51.8 %
SG&A	\$ 5,433	\$(320)	\$ —	\$ —	\$ —	\$ 5,113
RD&E	1,596	0	—	—	—	1,596
Other (income) and expense	(117)	(1)	(196)	—	—	(314)
Interest expense	354	—	—	—	—	354
Total expense and other (income)	7,107	(320)	(196)	—	—	6,591
Pre-tax income from continuing operations	3,993	509	196	—	—	4,698
Pre-tax margin from continuing operations	18.3 %	2.3 pts.	0.9 pts.	— pts.	— pts.	21.6 %
Provision for income taxes*	\$ 324	\$ 133	\$ 21	\$ 14	\$ —	\$ 492
Effective tax rate	8.1 %	2.0 pts.	0.1 pts.	0.3 pts.	— pts.	10.5 %
Income from continuing operations	\$ 3,669	\$ 376	\$ 175	\$(14)	\$ —	\$ 4,206
Income margin from continuing operations	16.8 %	1.7 pts.	0.8 pts.	(0.1) pts.	— pts.	19.3 %
Diluted earnings per share from continuing operations	\$ 4.11	\$ 0.42	\$ 0.20	\$(0.02)	\$ —	\$ 4.71