

[Table of Contents](#)**Management Discussion**

45

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. Please refer to the "Operating (non-GAAP) Earnings" section for management's rationale for presenting operating earnings information.

(\$ in millions except per share amounts)

For the year ended December 31, 2020:	GAAP	Acquisition- Related Adjustments	Retirement- Related Adjustments	U.S. Tax Reform Impacts	Spin-off- Related Charges	Operating (non-GAAP)
Gross profit	\$35,575	\$ 732	\$ —	\$ —	\$ 1	\$36,308
Gross profit margin	48.3 %	1.0 pts.	— pts.	— pts.	0.0 pts.	49.3 %
SG&A	\$23,082 *	\$(1,137)	\$ —	\$ —	\$(28)	\$21,917 *
RD&E	6,333	—	—	—	—	6,333
Other (income) and expense	861	(2)	(1,123)	—	—	(265)
Interest expense	1,288	—	—	—	—	1,288
Total expense and other (income)	30,937 *	(1,139)	(1,123)	—	(28)	28,648 *
Pre-tax income from continuing operations	4,637 *	1,871	1,123	—	28	7,660 *
Pre-tax margin from continuing operations	6.3 %	2.5 pts.	1.5 pts.	— pts.	0.0 pts.	10.4 %
Provision for/(benefit from) income taxes**	\$ (864)	\$ 418	\$ 215	\$ 110	\$ 7	\$ (114)
Effective tax rate	(18.6)%	10.0 pts.	5.5 pts.	1.4 pts.	0.2 pts.	(1.5)%
Income from continuing operations	\$ 5,501 *	\$ 1,454	\$ 908	\$(110)	\$ 21	\$ 7,774 *
Income margin from continuing operations	7.5 %	2.0 pts.	1.2 pts.	(0.1)pts.	0.0 pts.	10.6 %
Diluted earnings per share from continuing operations	\$ 6.13 *	\$ 1.63	\$ 1.01	\$(0.12)	\$0.02	\$ 8.67 *

* Includes a \$2.0 billion pre-tax charge for structural actions in the fourth quarter 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 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)

For the year ended December 31, 2019:	GAAP	Acquisition- Related Adjustments	Retirement- Related Adjustments	U.S. Tax Reform Impacts	Spin-off- Related Charges	Operating (non-GAAP)
Gross profit	\$36,488	\$ 547	\$ —	\$ —	\$ —	\$37,035
Gross profit margin	47.3 %	0.7 pts.	— pts.	— pts.	— pts.	48.0 %
SG&A	\$20,604	\$(1,044)	\$ —	\$ —	\$ —	\$19,560
RD&E	5,989	(53)	—	—	—	5,936
Other (income) and expense	(968)	152	(615)	—	—	(1,431)
Interest expense	1,344	(228)	—	—	—	1,116
Total expense and other (income)	26,322	(1,173)	(615)	—	—	24,533
Pre-tax income from continuing operations	10,166	1,721	615	—	—	12,503
Pre-tax margin from continuing operations	13.2 %	2.2 pts.	0.8 pts.	— pts.	— pts.	16.2 %
Provision for income taxes*	\$ 731	\$ 378	\$ 103	\$(146)	\$ —	\$ 1,067
Effective tax rate	7.2 %	2.0 pts.	0.5 pts.	(1.2)pts.	— pts.	8.5 %
Income from continuing operations	\$ 9,435	\$ 1,343	\$ 512	\$ 146	\$ —	\$11,436
Income margin from continuing operations	12.2 %	1.7 pts.	0.7 pts.	0.2 pts.	— pts.	14.8 %