APPLE INC
Form 10-Q
April 24, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 30, 2013

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.

Commission file number: 000-10030

APPLE INC.

(Exact name of Registrant as specified in its charter)

California	**94-2404110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1 Infinite Loop	
Cupertino, California	**95014**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (408) 996-1010

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

938,649,000 shares of common stock issued and outstanding as of April 12, 2013

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net sales	$ 43,603	$ 39,186	$ 98,115	$ 85,519
Cost of sales	27,254	20,622	60,706	46,252
Gross margin	16,349	18,564	37,409	39,267
Operating expenses:				
Research and development	1,119	841	2,129	1,599
Selling, general and administrative	2,672	2,339	5,512	4,944
Total operating expenses	3,791	3,180	7,641	6,543
Operating income	12,558	15,384	29,768	32,724
Other income/(expense), net	347	148	809	285
Income before provision for income taxes	12,905	15,532	30,577	33,009
Provision for income taxes	3,358	3,910	7,952	8,323
Net income	$ 9,547	$ 11,622	$ 22,625	$ 24,686
Earnings per share:				
Basic	$ 10.16	$ 12.45	$ 24.09	$ 26.48
Diluted	$ 10.09	$ 12.30	$ 23.90	$ 26.17
Shares used in computing earnings per share:				
Basic	939,629	933,582	939,273	932,265
Diluted	946,035	944,893	946,626	943,185
Cash dividends declared per common share	$ 2.65	$ 0	$ 5.30	$ 0

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In millions)

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net income	$ 9,547	$ 11,622	$ 22,625	$ 24,686
Other comprehensive income/(loss):				
Change in foreign currency translation, net of tax	(51)	9	(77)	3
Change in unrecognized gains/losses on derivative instruments:				
Change in fair value of derivatives, net of tax	457	(21)	603	66
Adjustment for net (gains)/losses realized and included in net income, net of tax	42	(97)	154	(251)
Total change in unrecognized gains/losses on derivative instruments, net of tax	499	(118)	757	(185)
Change in unrealized gains/losses on marketable securities:				
Change in fair value of marketable securities, net of tax	(52)	276	(118)	303
Adjustment for net (gains)/losses realized and included in net income, net of tax	(44)	(27)	(97)	(40)
Total change in unrealized gains/losses on marketable securities, net of tax	(96)	249	(215)	263
Total other comprehensive income/(loss)	352	140	465	81
Total comprehensive income	$ 9,899	$ 11,762	$ 23,090	$ 24,767

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions, except number of shares which are reflected in thousands)

	March 30, 2013	September 29, 2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 12,053	$ 10,746
Short-term marketable securities	27,084	18,383
Accounts receivable, less allowances of $99 and $98, respectively	7,084	10,930
Inventories	1,245	791
Deferred tax assets	3,242	2,583
Vendor non-trade receivables	6,252	7,762
Other current assets	6,377	6,458
Total current assets	63,337	57,653
Long-term marketable securities	105,550	92,122
Property, plant and equipment, net	15,026	15,452
Goodwill	1,400	1,135
Acquired intangible assets, net	4,136	4,224
Other assets	5,294	5,478
Total assets	$ 194,743	$ 176,064
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current liabilities:		
Accounts payable	$ 14,912	$ 21,175
Accrued expenses	13,331	11,414
Deferred revenue	7,265	5,953
Total current liabilities	35,508	38,542
Deferred revenue non-current	2,877	2,648
Other non-current liabilities	20,868	16,664
Total liabilities	59,253	57,854
Commitments and contingencies		
Shareholders equity:		
Common stock, no par value; 1,800,000 shares authorized; 940,094 and 939,208 shares issued and outstanding, respectively	17,954	16,422
Retained earnings	116,572	101,289
Accumulated other comprehensive income	964	499
Total shareholders equity	135,490	118,210
Total liabilities and shareholders equity	$ 194,743	$ 176,064

See accompanying Notes to Condensed Consolidated Financial Statements.

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APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Six Months Ended	
	March 30, 2013	March 31, 2012
Cash and cash equivalents, beginning of the period	$ 10,746	$ 9,815
Operating activities:		
Net income	22,625	24,686
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	3,280	1,461
Share-based compensation expense	1,120	844
Deferred income tax expense	1,957	2,915
Changes in operating assets and liabilities:		
Accounts receivable, net	3,846	(1,663)
Inventories	(454)	(326)
Vendor non-trade receivables	1,510	(379)
Other current and non-current assets	1,269	(1,510)
Accounts payable	(4,422)	2,809
Deferred revenue	1,541	1,916
Other current and non-current liabilities	3,658	778
Cash generated by operating activities	35,930	31,531
Investing activities:		
Purchases of marketable securities	(81,163)	(85,022)
Proceeds from maturities of marketable securities	9,243	7,702
Proceeds from sales of marketable securities	49,188	49,052
Payments made in connection with business acquisitions, net	(299)	(350)
Payments for acquisition of property, plant and equipment	(4,325)	(2,778)
Payments for acquisition of intangible assets	(429)	(160)
Other	(93)	(48)
Cash used in investing activities	(27,878)	(31,604)
Financing activities:		
Proceeds from issuance of common stock	275	377
Excess tax benefits from equity awards	502	636
Dividends and dividend equivalent rights paid	(4,984)	0
Repurchase of common stock	(1,950)	0
Taxes paid related to net share settlement of equity awards	(588)	(634)
Cash (used in)/generated by financing activities	(6,745)	379
Increase in cash and cash equivalents	1,307	306
Cash and cash equivalents, end of the period	$ 12,053	$ 10,121
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	$ 4,258	$ 4,835

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively Apple or the Company) designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Mac, and iPod compatible products, including application software, and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses, and education, enterprise and government customers.

Basis of Presentation and Preparation

The accompanying condensed consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current period s presentation.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company s annual consolidated financial statements and the notes thereto for the fiscal year ended September 29, 2012, included in its Annual Report on Form 10-K (the 2012 Form 10-K). The Company s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company s fiscal year 2013 will include 52 weeks, whereas fiscal year 2012 included 53 weeks. An additional week was included in the first quarter of 2012 to realign the Company s fiscal quarters more closely to calendar quarters. Unless otherwise stated, references to particular years, quarters or months refer to the Company s fiscal years ended in September and the associated quarters or months of those fiscal years.

During the first quarter of 2013, the Company adopted amended accounting standards that changed the presentation of comprehensive income. These standards increased the prominence of other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in shareholders equity and required the components of OCI to be presented either in a single continuous statement of comprehensive income or in two consecutive statements. The amended accounting standards only impacted the financial statement presentation of OCI and did not change the components that are recognized in net income or OCI; accordingly, the adoption had no impact on the Company s financial position or results of operations.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company s employee stock purchase plan and unvested restricted stock units (RSUs). The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company s common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the computation of basic and diluted earnings per share for the three- and six-month periods ended March 30, 2013 and March 31, 2012 (in thousands, except net income in millions and per share amounts):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Numerator:				
Net income	$ 9,547	$ 11,622	$ 22,625	$ 24,686
Denominator:				
Weighted-average shares outstanding	939,629	933,582	939,273	932,265
Effect of dilutive securities	6,406	11,311	7,353	10,920
Weighted-average diluted shares	946,035	944,893	946,626	943,185
Basic earnings per share	$ 10.16	$ 12.45	$ 24.09	$ 26.48
Diluted earnings per share	$ 10.09	$ 12.30	$ 23.90	$ 26.17

Potentially dilutive securities representing 4.3 million and 4.0 million shares of common stock for the three- and six-month periods ended March 30, 2013, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The number of potentially dilutive securities excluded from the computation of diluted earnings per share because their effect would have been antidilutive was not significant for the three- and six-month periods ended March 31, 2012.

Note 2 Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company s cash and available-for-sale securities adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short- or long-term marketable securities as of March 30, 2013 and September 29, 2012 (in millions):

	March 30, 2013						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 5,865	$ 0	$ 0	$ 5,865	$ 5,865	$ 0	$ 0
Level 1 (a):							
Money market funds	2,027	0	0	2,027	2,027	0	0
Mutual funds	3,943	27	(45)	3,925	0	3,925	0
Subtotal	5,970	27	(45)	5,952	2,027	3,925	0
Level 2 (b):							
U.S. Treasury securities	25,612	28	0	25,640	1,369	6,718	17,553
U.S. agency securities	21,174	34	(7)	21,201	576	3,803	16,822
Non-U.S. government securities	5,036	115	(25)	5,126	0	615	4,511
Certificates of deposit and time deposits	2,562	0	0	2,562	1,456	435	671

Commercial paper	2,108	0	0	2,108	739	1,369	0
Corporate securities	54,654	499	(39)	55,114	21	9,403	45,690
Municipal securities	6,341	67	(3)	6,405	0	816	5,589
Mortgage- and asset-backed securities	14,681	53	(20)	14,714	0	0	14,714
Subtotal	132,168	796	(94)	132,870	4,161	23,159	105,550
Total	$ 144,003	$ 823	$ (139)	$ 144,687	$ 12,053	$ 27,084	$ 105,550

	September 29, 2012						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 3,109	$ 0	$ 0	$ 3,109	$ 3,109	$ 0	$ 0
Level 1 (a):							
Money market funds	1,460	0	0	1,460	1,460	0	0
Mutual funds	2,385	79	(2)	2,462	0	2,462	0
Subtotal	3,845	79	(2)	3,922	1,460	2,462	0
Level 2 (b):							
U.S. Treasury securities	20,088	21	(1)	20,108	2,608	3,525	13,975
U.S. agency securities	19,540	58	(1)	19,597	1,460	1,884	16,253
Non-U.S. government securities	5,483	183	(2)	5,664	84	1,034	4,546
Certificates of deposit and time deposits	2,189	2	0	2,191	1,106	202	883
Commercial paper	2,112	0	0	2,112	909	1,203	0
Corporate securities	46,261	568	(8)	46,821	10	7,455	39,356
Municipal securities	5,645	74	0	5,719	0	618	5,101
Mortgage- and asset-backed securities	11,948	66	(6)	12,008	0	0	12,008
Subtotal	113,266	972	(18)	114,220	6,177	15,921	92,122
Total	$ 120,220	$ 1,051	$ (20)	$ 121,251	$ 10,746	$ 18,383	$ 92,122

(a) The fair value of Level 1 securities is estimated based on quoted prices in active markets for identical assets or liabilities.

(b) The fair value of Level 2 securities is estimated based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The net unrealized gains as of March 30, 2013 and September 29, 2012 are related primarily to long-term marketable securities. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The net realized gains or losses recognized by the Company related to such sales were not significant during the three- and six-month periods ended March 30, 2013 and March 31, 2012. The maturities of the Company s long-term marketable securities generally range from one to five years.

As of March 30, 2013 and September 29, 2012, gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer were not significant.

As of March 30, 2013, the Company considered the declines in market value of its marketable securities investment portfolio to be temporary in nature and did not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and

the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s cost basis. During the three- and six-month periods ended March 30, 2013 and March 31, 2012, the Company did not recognize any significant impairment charges.

Derivative Financial Instruments

The Company uses derivatives to partially offset its business exposure to foreign currency exchange risk. The Company may enter into foreign currency forward and option contracts to offset some of the foreign exchange risk on expected future cash flows on certain forecasted revenue and cost of sales, on net investments in certain foreign subsidiaries, and on certain existing assets and liabilities.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company s subsidiaries whose functional currency is the U.S. dollar hedge a portion of forecasted foreign currency revenue. The Company s subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries functional currencies. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases generally up to six months.

To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates.

The Company may also enter into foreign currency forward and option contracts to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company s accounting treatment of these instruments is based on whether the instruments are designated as hedge or non-hedge instruments. The effective portions of cash flow hedges are recorded in accumulated other comprehensive income (AOCI) until the hedged item is recognized in earnings. The effective portions of net investment hedges are recorded in OCI as a part of the cumulative translation adjustment. The ineffective portions of cash flow hedges and net investment hedges are recorded in other income and expense. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates.

The Company had a net deferred gain of $517 million and a net deferred loss of $240 million associated with cash flow hedges, net of taxes, recorded in AOCI as of March 30, 2013 and September 29, 2012, respectively. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. The majority of the Company s hedged transactions as of March 30, 2013 are expected to occur within six months.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income and expense. Any subsequent changes in fair value of such derivative instruments are reflected in other income and expense unless they are re-designated as hedges of other transactions. The Company did not recognize any significant net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three- and six-month periods ended March 30, 2013 and March 31, 2012.

The Company s unrealized net gains and losses on net investment hedges, included in the cumulative translation adjustment account of AOCI, were not significant as of March 30, 2013 and September 29, 2012. The ineffective portions of and amounts excluded from the effectiveness test of net investment hedges are recorded in other income and expense.

The gain/loss recognized in other income and expense for foreign currency forward and option contracts not designated as hedging instruments was not significant during the three- and six-month periods ended March 30, 2013 and March 31, 2012, respectively. These amounts represent the net gain or loss on the derivative contracts and do not include changes in the related exposures, which generally offset a portion of the gain or loss on the derivative contracts.

The following table shows the notional principal amounts of the Company s outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of March 30, 2013 and September 29, 2012 (in millions):

	March 30, 2013		September 29, 2012	
	Notional Principal	Credit Risk Amounts	Notional Principal	Credit Risk Amounts
Instruments designated as accounting hedges:				
Foreign exchange contracts	$ 30,925	$ 1,026	$ 41,970	$ 140
Instruments not designated as accounting hedges:				
Foreign exchange contracts	$ 17,001	$ 134	$ 13,403	$ 12

The notional principal amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Company s exposure to credit or market loss. The credit risk amounts represent the Company s gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency exchange rates at each respective date. The Company s gross exposure on these transactions may be further mitigated by collateral received from certain counterparties. The Company s exposure to credit loss and market risk will vary over time as a function of currency exchange rates. Although the table above reflects the notional principal and credit risk amounts of the Company s foreign exchange instruments, it does not reflect the gains or losses associated with the exposures and transactions that the foreign exchange instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values. As of March 30, 2013, the Company received $940 million of cash collateral related to the derivative instruments under its collateral security arrangements, which were recorded as accrued expenses in the Condensed Consolidated Balance Sheet. As of September 29, 2012, the Company posted cash collateral related to the derivative instruments under its collateral security arrangements of $278 million, which it recorded as other current assets in the Condensed Consolidated Balance Sheet. The Company did not have any derivative instruments with credit-risk related contingent features that would require it to post additional collateral as of March 30, 2013 or September 29, 2012.

The following tables show the Company s derivative instruments at gross fair value as reflected in the Condensed Consolidated Balance Sheets as of March 30, 2013 and September 29, 2012 (in millions):

	March 30, 2013		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	$ 968	$ 134	$ 1,102
Derivative liabilities (b):			
Foreign exchange contracts	$ 189	$ 144	$ 333

	September 29, 2012		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	$ 138	$ 12	$ 150
Derivative liabilities (b):			
Foreign exchange contracts	$ 516	$ 41	$ 557

(a) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets in the Condensed Consolidated Balance Sheets.

(b) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses in the Condensed Consolidated Balance Sheets.

The following table shows the pre-tax effect of the Company s derivative instruments designated as cash flow and net investment hedges in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 30, 2013 and March 31, 2012 (in millions):

	Three Months Ended						
	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Gains/(Losses) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing		
	March 30, 2013	March 31, 2012	March 30, 2013 (a)	March 31, 2012 (b)	Location	March 30, 2013	March 31, 2012
Cash flow hedges:							
Foreign exchange contracts	$ 741	$ (32)	$ (29)	$ 146	Other income and expense	$ (61)	$ (140)
Net investment hedges:							
Foreign exchange contracts	70	0	0	0	Other income and expense	1	0
Total	$ 811	$ (32)	$ (29)	$ 146		$ (60)	$ (140)

	Six Months Ended						
	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Gains/(Losses) Recognized Ineffective Portion and Amount Excluded from Effectiveness Testing		
	March 30, 2013	March 31, 2012	March 30, 2013 (c)	March 31, 2012 (d)	Location	March 30, 2013	March 31, 2012
Cash flow hedges:							
Foreign exchange contracts	$ 946	$ 103	$ (188)	$ 384	Other income and expense	$ (52)	$ (209)
Net investment hedges:							
Foreign exchange contracts	106	7	0	0	Other income and expense	1	1
Total	$ 1,052	$ 110	$ (188)	$ 384		$ (51)	$ (208)

(a) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $(155) million and $126 million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the three months ended March 30, 2013.

(b) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $154 million and $(8) million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the three months ended March 31, 2012.

(c) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $(164) million and $(24) million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations

for the six months ended March 30, 2013.

(d) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $341 million and $43 million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the six months ended March 31, 2012.

Accounts Receivable

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, value-added resellers, small and mid-sized businesses, and education, enterprise and government customers that are not covered by collateral, third-party financing arrangements or credit insurance. There was one customer that accounted for 11% of the Company s trade receivables as of March 30, 2013. As of September 29, 2012, the Company had two customers that represented 10% or more of total trade receivables, one of which accounted for 14% and the other 10%. The Company s cellular network carriers accounted for 53% and 66% of trade receivables as of March 30, 2013 and September 29, 2012, respectively.

Additionally, the Company has non-trade receivables from certain of its manufacturing vendors. Vendor non-trade receivables from three of the Company s vendors accounted for 52%, 20% and 14% of total non-trade receivables as of March 30, 2013 and three of the Company s vendors accounted for 45%, 21% and 12% of total non-trade receivables as of September 29, 2012.

Note 3 Condensed Consolidated Financial Statement Details

The following tables show the Company s condensed consolidated financial statement details as of March 30, 2013 and September 29, 2012 (in millions):

Property, Plant and Equipment

	March 30, 2013	September 29, 2012
Land and buildings	$ 2,818	$ 2,439
Machinery, equipment and internal-use software	17,737	15,984
Leasehold improvements	3,639	3,464
Gross property, plant and equipment	24,194	21,887
Accumulated depreciation and amortization	(9,168)	(6,435)
Net property, plant and equipment	$ 15,026	$ 15,452

Accrued Expenses

	March 30, 2013	September 29, 2012
Accrued warranty and related costs	$ 3,014	$ 1,638
Accrued taxes	1,610	1,535
Deferred margin on component sales	1,444	1,492
Accrued compensation and employee benefits	792	735
Accrued marketing and selling expenses	769	910
Other current liabilities	5,702	5,104
Total accrued expenses	$ 13,331	$ 11,414

Non-Current Liabilities

	March 30, 2013	September 29, 2012
Deferred tax liabilities	$ 16,481	$ 13,847
Other non-current liabilities	4,387	2,817

Total other non-current liabilities	$ 20,868	$ 16,664

Note 4 Income Taxes

As of March 30, 2013, the Company recorded gross unrecognized tax benefits of $3.2 billion, of which $1.1 billion, if recognized, would affect the Company s effective tax rate. As of September 29, 2012, the total amount of gross unrecognized tax benefits was $2.1 billion, of which $889 million, if recognized, would affect the Company s effective tax rate. The Company s total gross unrecognized tax benefits are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. The Company had $539 million and $401 million of gross interest and penalties accrued as of March 30, 2013 and September 29, 2012, respectively, which are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that tax audit resolutions could reduce its unrecognized tax benefits by between $800 million and $850 million in the next 12 months, of which up to $50 million, when resolved, would affect the Company s effective tax rate.

Note 5 Shareholders Equity and Share-based Compensation

Preferred Stock

The Company has five million shares of authorized preferred stock, none of which is issued or outstanding. Under the terms of the Company s Restated Articles of Incorporation, the Board of Directors is authorized to determine or alter the rights, preferences, privileges and restrictions of the Company s authorized but unissued shares of preferred stock.

Dividend and Share Repurchase Program

During the six months ended March 30, 2013, the Company paid cash dividends per common share of $5.30 for a total of $5.0 billion. No dividends were paid during the six months ended March 31, 2012. On April 23, 2013, the Company announced it was raising its third quarter 2013 cash dividend by 15% to $3.05 per common share. Future dividends are subject to declaration by the Board of Directors.

In 2012, the Company s Board of Directors authorized a program to repurchase up to $10 billion of the Company s common stock beginning in 2013. In April 2013, the Company s Board of Directors increased the share repurchase program authorization from $10 billion to $60 billion. The Company s share repurchase program does not obligate it to acquire any specific number of shares.

In August 2012, the Company entered into an accelerated share repurchase program (ASR) with a financial institution to purchase up to $1.95 billion of the Company s common stock in 2013. In exchange for an up-front payment of $1.95 billion, the financial institution committed to deliver a number of shares during the ASR s purchase period, which ended on April 1, 2013. The total number of shares delivered, and therefore the average price paid per share, were determined at the end of the purchase period based on the volume weighted average price of the Company s stock during that period. In the first quarter of 2013, 2,582,782 shares were initially delivered to the Company. These shares were retired and accounted for as a reduction to shareholders equity in the Company s Condensed Consolidated Balance Sheet. The Company accounted for the ASR as a repurchase of common stock for purposes of calculating earnings per share and as a forward contract indexed to its own common stock which met all of the applicable criteria for equity classification, and, therefore, was not accounted for as a derivative instrument.

In the second quarter of 2013, no shares were delivered to the Company under the ASR. On April 1, 2013, the purchase period for the ASR ended and an additional 1,494,992 shares were delivered, retired and accounted for during the third quarter of 2013. In total, 4,077,774 shares were delivered under the ASR at a repurchase price of $478.20 per share.

Accumulated Other Comprehensive Income

The following table shows the components of AOCI, net of taxes, as of March 30, 2013 and September 29, 2012 (in millions):

	March 30, 2013	September 29, 2012
Net unrealized gains/losses on marketable securities	$ 516	$ 731
Net unrecognized gains/losses on derivative instruments	517	(240)
Cumulative foreign currency translation	(69)	8
Accumulated other comprehensive income	$ 964	$ 499

Equity Awards

A summary of the Company s RSU activity and related information for the six months ended March 30, 2013, is as follows:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Balance at September 29, 2012	15,005	$ 344.87	
RSUs granted	4,059	$ 587.83	
RSUs vested	(2,790)	$ 261.17	
RSUs cancelled	(509)	$ 420.69	
Balance at March 30, 2013	15,765	$ 419.79	$ 6,979

RSUs that vested during the three- and six-month periods ended March 30, 2013 had fair values of $151 million and $1.7 billion, respectively, as of the vesting date. RSUs that vested during the three- and six-month periods ended March 31, 2012 had fair values of $625 million and $1.6 billion, respectively, as of the vesting date.

A summary of the Company s stock option activity and related information for the six months ended March 30, 2013, is as follows:

	Outstanding Options			
	Number of Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Balance at September 29, 2012	6,545	$ 127.56		
Options assumed	29	$ 210.08		
Options cancelled	(6)	$ 113.45		
Options exercised	(1,328)	$ 106.02		
Balance at March 30, 2013	5,240	$ 133.50	1.5	$ 1,620
Exercisable at March 30, 2013	5,215	$ 133.78	1.5	$ 1,611

Expected to vest after March 30, 2013	25	$ 73.52	7.7	$ 9

Aggregate intrinsic value represents the value of the Company s closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options at the time of exercise was $211 million and $558 million for the three- and six-month periods ended March 30, 2013, respectively, and $719 million and $1.2 billion for the three- and six-month periods ended March 31, 2012, respectively.

The Company had approximately 30.2 million shares reserved for future issuance under the Company s stock plans as of March 30, 2013. RSUs granted are deducted from the shares available for grant under the Company s stock plans utilizing a factor of two times the number of RSUs granted. Similarly, RSUs cancelled are added back to the shares available for grant under the Company s stock plans utilizing a factor of two times the number of RSUs cancelled.

Share-based Compensation

Share-based compensation cost for RSUs is measured based on the closing fair market value of the Company s common stock on the date of grant. Share-based compensation cost for stock options and employee stock purchase plan rights (stock purchase rights) is estimated at the grant date and offering date, respectively, based on the fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The BSM option-pricing model incorporates various assumptions including expected volatility, estimated expected life and interest rates. The Company recognizes share-based compensation cost as expense on a straight-line basis over the requisite service period.

The Company did not grant any stock options during the three- and six-month periods ended March 30, 2013 and March 31, 2012. The weighted-average fair value of stock purchase rights per share was $115.99 and $125.46 during the three- and six-month periods ended March 30, 2013, respectively, and was $105.25 and $96.83 during the three- and six-months ended March 31, 2012, respectively.

In conjunction with certain business combinations, the Company assumed 29,000 stock options with a weighted-average fair value per share of $407.80 during the six-month period ended March 30, 2013 and 41,000 stock options with a weighted-average fair value per share of $400.79 during the three- and six-month periods ended March 31, 2012.

The following table shows a summary of the share-based compensation expense included in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 30, 2013 and March 31, 2012 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Cost of sales	$ 87	$ 63	$ 172	$ 126
Research and development	239	168	463	328
Selling, general and administrative	249	193	485	390
Total share-based compensation expense	$ 575	$ 424	$ 1,120	$ 844

The income tax benefit related to share-based compensation expense was $195 million and $409 million for the three- and six-month periods ended March 30, 2013, respectively, and $156 million and $301 million for the three- and six-month periods ended March 31, 2012, respectively. As of March 30, 2013, the total unrecognized compensation cost related to outstanding stock options and RSUs expected to vest was $5.3 billion, which the Company expects to recognize over a weighted-average period of 3.2 years.

Employee Benefit Plans

Rule 10b5-1 Trading Plans

During the three-month period ended March 30, 2013, executive officers Timothy D. Cook, Peter Oppenheimer, D. Bruce Sewell, Philip W. Schiller, and Jeffrey E. Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under the Securities Exchange Act of 1934, as amended (the Exchange Act). An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company s stock, including shares acquired pursuant to the Company s employee and director equity plans.

Note 6 Commitments and Contingencies

Accrued Warranty and Indemnification

The following table shows changes in the Company s accrued warranties and related costs for the three- and six-month periods ended March 30, 2013 and March 31, 2012 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Beginning accrued warranty and related costs	$ 2,310	$ 1,676	$ 1,638	$ 1,240
Cost of warranty claims	(847)	(464)	(1,533)	(865)
Accruals for product warranty	1,551	466	2,909	1,303
Ending accrued warranty and related costs	$ 3,014	$ 1,678	$ 3,014	$ 1,678

Accruals for product warranty for the three months ended March 30, 2013 include $414 million associated with product sales in prior fiscal periods reflecting the impact of changes to certain of the Company s service policies and other estimated warranty costs. Of this amount, $224 million is associated with product sales in the first quarter of 2013, and the remainder is associated with product sales in 2012.

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a potential liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs related to indemnification as of either March 30, 2013 or September 29, 2012.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations, and payments made under these agreements historically have not been material.

Concentrations in the Available Sources of Supply of Materials and Product

Although most components essential to the Company s business are generally available from multiple sources, a number of components are currently obtained from single or limited sources, which subjects the Company to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. In addition, the Company has entered into various agreements for the supply of components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that can materially adversely affect its financial condition and operating results.

The Company and other participants in the markets for mobile communication and media devices and personal computers also compete for various components with other industries that have experienced increased demand for their products. The Company also uses some custom components that are not common to the rest of these industries, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers yields have matured or manufacturing capacity has increased. If the Company s supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company s financial condition and operating results could be materially adversely affected. The Company s business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers concentrated on the production of common components instead of components customized to meet the Company s requirements.

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Substantially all of the Company s hardware products are manufactured by outsourcing partners that are located primarily in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are the sole-sourced suppliers of components and manufacturers for many of the Company s products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company s operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company s purchase commitments typically cover its requirements for periods up to 150 days.

Long-Term Supply Agreements

The Company has entered into long-term agreements to secure the supply of certain inventory components. Under certain of these agreements, which expire between 2013 and 2022, the Company has made prepayments for the future purchase of inventory components and has acquired capital equipment to use in the manufacturing of such components.

As of March 30, 2013, the Company had a total of $3.6 billion of inventory component prepayments outstanding, of which $1.0 billion are classified as other current assets and $2.6 billion are classified as other assets in the Condensed Consolidated Balance Sheets. The Company had a total of $4.2 billion of inventory component prepayments outstanding as of September 29, 2012. The Company s outstanding prepayments will be applied to certain inventory component purchases made during the term of each respective agreement. During the three- and six-month periods ended March 30, 2013, the Company utilized $354 million and $677 million of inventory component prepayments, respectively.

Other Off-Balance Sheet Commitments

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of March 30, 2013, the Company s total future minimum lease payments under noncancelable operating leases were $4.5 billion, of which $3.2 billion related to leases for retail space.

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company s products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of March 30, 2013, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of $13.8 billion.

In addition to the commitments mentioned above, the Company had additional off-balance sheet obligations of $1.4 billion as of March 30, 2013, which were comprised mainly of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to advertising, research and development, Internet and telecommunications services and other obligations.

Contingencies

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and that have not been fully adjudicated, certain of which are discussed in Part II, Item 1 of this Form 10-Q under the heading Legal Proceedings and in Part II, Item 1A of this Form 10-Q under the heading Risk Factors. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management s expectations, the Company s consolidated financial statements for that reporting period could be materially adversely affected.

Apple Inc. v. Samsung Electronics Co., Ltd, et al.

On August 24, 2012, a jury returned a verdict awarding the Company $1.05 billion in its lawsuit against Samsung Electronics Co., Ltd and affiliated parties in the United States District Court, Northern District of California, San Jose Division. On March 1, 2013, the District Court upheld $599 million of the jury s award and ordered a new trial as to the remainder. Because the award is subject to entry of final judgment, partial re-trial and appeal, the Company has not recognized the award in its results of operations.

VirnetX, Inc. v. Apple Inc. et al.

On August 11, 2010, VirnetX, Inc. filed an action against the Company alleging that certain of its products infringed on four patents relating to network communications technology. On November 6, 2012, a jury returned a verdict against the Company, and awarded damages of $368 million. The Company is challenging the verdict, believes it has valid defenses and has not recorded a loss accrual at this time.

Note 7 Segment Information and Geographic Data

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company s reportable segments.

The Company manages its business primarily on a geographic basis. Prior to 2013, the Company s reportable operating segments consisted of the Americas, Europe, Japan, Asia-Pacific and Retail. In 2013, the Company established a new reportable operating segment, Greater China, which was previously included in the Asia-Pacific segment. Segment data for prior periods has been reclassified to reflect establishment of the Greater China segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and Asian countries, other than Japan and those countries included in the Greater China segment. The Retail segment operates Apple retail stores in 13 countries, including the U.S. The results of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific segments do not include results of the Retail segment. Each operating segment provides similar hardware and software products and similar services. The accounting policies of the various segments are the same as those described in Note 1, Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company s 2012 Form 10-K.

The Company evaluates the performance of its operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers, while Retail segment net sales are based on sales from the Company s retail stores. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the operating segments. Costs excluded from segment operating income include various corporate expenses such as research and development, corporate marketing expenses, share-based compensation expense, income taxes, various nonrecurring charges, and other separately managed general and administrative costs and certain manufacturing period expenses. Prior to 2013, the Company did not allocate certain manufacturing costs and variances, including costs related to product tooling and manufacturing process equipment, to its operating segments and instead included these costs and variances in other corporate expenses. In 2013, the Company began allocating these costs and variances to its operating segments and as a result reclassified a net credit of $243 million and $194 million from corporate expenses to its operating segments for the three- and six-month periods ended March 31, 2012, respectively. The Company does not include intercompany transfers between segments for management reporting purposes.

The following table shows information by operating segment for the three- and six-month periods ended March 30, 2013 and March 31, 2012 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Americas:				
Net sales	$ 14,052	$ 13,182	$ 34,393	$ 30,896
Operating income	$ 5,148	$ 5,688	$ 12,497	$ 12,921
Europe:				
Net sales	$ 9,800	$ 8,807	$ 22,264	$ 20,063
Operating income	$ 3,449	$ 3,942	$ 7,858	$ 8,605
Greater China:				
Net sales	$ 8,213	$ 7,637	$ 15,043	$ 11,717
Operating income	$ 2,787	$ 3,781	$ 5,331	$ 5,487
Japan:				
Net sales	$ 3,135	$ 2,645	$ 7,578	$ 6,195
Operating income	$ 1,555	$ 1,543	$ 3,815	$ 3,532
Rest of Asia Pacific:				
Net sales	$ 3,162	$ 2,516	$ 7,155	$ 6,133
Operating income	$ 1,034	$ 1,078	$ 2,369	$ 2,671
Retail:				
Net sales	$ 5,241	$ 4,399	$ 11,682	$ 10,515
Operating income	$ 1,092	$ 1,154	$ 2,649	$ 3,005

A reconciliation of the Company s segment operating income to the condensed consolidated financial statements for the three- and six-month periods ended March 30, 2013 and March 31, 2012 is as follows (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Segment operating income	$ 15,065	$ 17,186	$ 34,519	$ 36,221
Share-based compensation expense	(575)	(424)	(1,120)	(844)
Other corporate expenses, net	(1,932)	(1,378)	(3,631)	(2,653)
Total operating income	$ 12,558	$ 15,384	$ 29,768	$ 32,724

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements also can be identified by words such as anticipates, expects, believes, plans, will, would, could, future, and similar terms. Forward-looking statements are not guarantees of future performance and the Company s actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading Risk Factors, which are incorporated herein by reference. The following discussion should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended September 29, 2012 (the 2012 Form 10-K) filed with the U.S. Securities and Exchange Commission (the SEC) and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. All information presented herein is based on the Company s fiscal calendar. Unless otherwise stated, references in this report to particular years, quarters or months refer to the Company s fiscal years ended in September and the associated quarters or months of those fiscal years. Each of the terms the Company and Apple as used herein refers collectively to Apple Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Available Information

The Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are filed with the SEC. The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements, and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on the Company s website at www.apple.com/investor when such reports are available on the SEC s website. The public may read and copy any materials filed by the Company with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company s references to the URLs for these websites are intended to be inactive textual references only.

Executive Overview

The Company designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company s products and services include iPhone®, iPad®, Mac®, iPod®, Apple TV®, a portfolio of consumer and professional software applications, the iOS and OS X® operating systems, iCloud®, and a variety of accessory, service and support offerings. The Company also sells and delivers digital content and applications through the iTunes Store®, App Store , iBookstore , and Mac App Store. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Mac and iPod compatible products, including application software, and various accessories through its online and retail stores. The Company sells to consumers; small and mid-sized businesses; and education, enterprise and government customers.

The Company is committed to bringing the best user experience to its customers through its innovative hardware, software, peripherals, and services. The Company s business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative design. As part of its strategy, the Company continues to expand its platform for the discovery and delivery of third-party digital content and applications through the iTunes Store. As part of the iTunes Store, the Company s App Store and iBookstore allow customers to discover and download applications and books through either a Mac or Windows-based computer or through iOS devices, namely iPhone, iPad and iPod touch. The Company s Mac App Store allows customers to easily discover, download and install Mac applications. The Company also supports a community for the development of third-party software and hardware products and digital content that complement the Company s offerings. The Company s strategy also includes expanding its distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience.

The Company participates in several highly competitive markets, including the market for mobile communications and media devices with its iOS devices; personal computers with its Mac computers; portable digital players with iPod; and distribution of third-party digital content and applications with the iTunes Store, App Store, iBookstore, and Mac App Store. While the Company is widely recognized as a leading innovator in the markets where it competes, these markets are highly competitive and subject to aggressive pricing. To remain competitive, the Company believes that continual investment in research and development and marketing and advertising is critical to the development and sale of innovative products and technologies. The Company s research and development spending is focused on investing in new hardware and software products, and in further developing its existing products, including iPhone, iPad, Mac, and iPod hardware; iOS and OS X operating systems; and a variety of application software and online services.

The Company uses a variety of direct and indirect distribution channels, such as its retail stores, online stores, and direct sales force, and third-party cellular network carriers, wholesalers, retailers, and value-added resellers. The Company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware and software integration, and demonstrate the unique solutions that are available on its products. The Company further believes providing direct contact with its targeted customers is an effective way to demonstrate the advantages of its products over those of its competitors and providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers. To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to expand and improve its distribution capabilities by expanding the number of its own retail stores worldwide. Additionally, the Company has invested in programs to enhance reseller sales by placing high quality Apple fixtures, merchandising materials and other resources within selected third-party reseller locations. Through the Apple Premium Reseller Program, certain third-party resellers focus on the Apple platform by providing a high level of integration and support services, and product expertise.

Products

A detailed discussion of the Company s products may be found in Part I, Item 1, Business, of the Company s 2012 Form 10-K.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles (GAAP) and the Company s discussion and analysis of its financial condition and operating results require the Company s management to make judgments, assumptions, and estimates that affect the amounts reported in its condensed consolidated financial statements and accompanying notes. Note 1, Summary of Significant Accounting Policies of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company s 2012 Form 10-K describes the significant accounting policies and methods used in the preparation of the Company s condensed consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

Management believes the Company s critical accounting policies and estimates are those related to revenue recognition, valuation and impairment of marketable securities, inventory valuation and valuation of manufacturing-related assets and estimated purchase commitment cancellation fees, warranty costs, income taxes, and legal and other contingencies. Management considers these policies critical because they are both important to the portrayal of the Company s financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company s senior management has reviewed these critical accounting policies and related disclosures with the Audit and Finance Committee of the Company s Board of Directors.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, peripherals, and service and support contracts. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. The Company recognizes revenue from the sale of hardware products, software bundled with hardware that is essential to the functionality of the hardware, and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

For multi-element arrangements that include hardware products containing software essential to the hardware product s functionality, undelivered software elements that relate to the hardware product s essential software, and/or undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) and (iii) best estimate of selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company s best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

For sales of qualifying versions of iOS devices, Mac and Apple TV, the Company has indicated it may from time to time provide future unspecified software upgrades and features free of charge to customers. The Company also provides various non-software services to owners of qualifying versions of iOS devices and Mac. Because the Company has neither VSOE nor TPE for the unspecified software upgrade rights or the non-software services, revenue is allocated to these rights and services based on the Company s ESPs. Revenue allocated to the unspecified software upgrade rights and non-software services based on the Company s ESPs is deferred and recognized on a straight-line basis over the estimated period the software upgrades and non-software services are expected to be provided for each of these devices, which ranges from two to four years.

The Company s process for determining ESPs involves management s judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable. If the facts and circumstances underlying the factors considered change, including the estimated or actual costs incurred to provide non-software services or the estimated period the software upgrades and non-software services are expected to be provided, or should future facts and circumstances lead the Company to consider additional factors, the Company s ESPs and the future rate of related amortization for software upgrades and non-software services related to future sales of these devices could change.

The Company records reductions to revenue for estimated commitments related to price protection and other customer incentive programs. For transactions involving price protection, the Company recognizes revenue net of the estimated amount to be refunded, provided the refund amount can be reasonably and reliably estimated and the other conditions for revenue recognition have been met. The Company s policy requires that, if refunds cannot be reliably estimated, revenue is not recognized until reliable estimates can be made or the price protection lapses. For the Company s other customer incentive programs, the estimated cost is recognized at the later of the date at which the Company has sold the product or the date at which the program is offered. The Company also records reductions to revenue for expected future product returns based on the Company s historical experience. Future market conditions and product transitions may require the Company to increase customer incentive programs that could result in reductions to future revenue. Additionally, certain customer incentive programs require management to estimate the number of customers who will actually redeem the incentive. Management s estimates are based on historical experience and the specific terms and conditions of particular incentive programs. If a greater than estimated proportion of customers redeems such incentives, the Company would be required to record additional reductions to revenue, which would have an adverse impact on the Company s results of operations.

Valuation and Impairment of Marketable Securities

The Company s investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of securities are recognized in accumulated other comprehensive income, net of tax, in the Company s Condensed Consolidated Balance Sheets. Changes in the fair value of available-for-sale securities impact the Company s net income only when such securities are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security s cost basis. The Company regularly reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and the Company s intent to sell, or whether it will more likely than not be required to sell, the security before recovery of the its amortized cost basis. The Company s assessment on whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security.

Inventory Valuation and Valuation of Manufacturing-Related Assets and Estimated Purchase Commitment Cancellation Fees

The Company must order components for its products and build inventory in advance of product shipments and has invested in manufacturing process equipment, including capital assets held at its suppliers facilities. In addition, the Company has made prepayments to certain of its suppliers associated with long-term supply agreements to secure supply of inventory components. The Company records a write-down for inventories of components and products, including third-party products held for resale, which have become obsolete or are in excess of anticipated demand or net realizable value. The Company performs a detailed review of inventory each fiscal quarter that considers multiple factors including demand forecasts, product life cycle status, product development plans, current sales levels, and component cost trends. The Company also reviews its manufacturing-related capital assets and inventory prepayments for impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. If the Company determines that an asset is not recoverable, it records an impairment loss equal to the amount by which the carrying value of such an asset exceeds its fair value.

The industries in which the Company competes are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. In certain circumstances the Company may be required to record additional write-downs of inventory, inventory prepayments and/or manufacturing-related capital assets. These circumstances include future demand or market conditions for the Company s products being less favorable than forecasted, unforeseen technological changes or changes to the Company s product development plans that negatively impact the utility of any of these assets, or significant deterioration in the financial condition of one or more of the Company s suppliers that hold any of the Company s manufacturing process equipment or to whom the Company has made an inventory prepayment. Such write-downs would adversely affect the Company s results of operations in the period when the write-downs were recorded.

The Company records accruals for estimated cancellation fees related to component orders that have been cancelled or are expected to be cancelled. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. These commitments typically cover the Company s requirements for periods up to 150 days. If there is an abrupt and substantial decline in demand for one or more of the Company s products, if the Company s product development plans change, or if there is an unanticipated change in technological requirements for any of the Company s products, then the Company may be required to record additional accruals for cancellation fees that would adversely affect its results of operations in the period when the cancellation fees are identified and recorded.

Warranty Costs

The Company provides for the estimated cost of warranties at the time the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company s typical experience. Each quarter, the Company reevaluates its estimates to assess the adequacy of its recorded warranty liabilities considering the size of the installed base of products subject to warranty protection and adjusts the amounts as necessary. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect the Company s results of operations.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management s expectations could have a material impact on the Company s financial condition and operating results.

Legal and Other Contingencies

As discussed in Part II, Item 1 of this Form 10-Q under the heading Legal Proceedings and in Note 6, Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for legal and other contingencies. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management s expectations, the Company s consolidated financial statements for that reporting period could be materially adversely affected.

Net Sales

The following table shows net sales by operating segment and net sales and unit sales by product during the three- and six- month periods ended March 30, 2013 and March 31, 2012 (in millions, except unit sales in thousands):

	Three Months Ended			Six Months Ended		
	March 30, 2013	March 31, 2012	Change	March 30, 2013	March 31, 2012	Change
Net Sales by Operating Segment:						
Americas	$ 14,052	$ 13,182	7%	$ 34,393	$ 30,896	11%
Europe	9,800	8,807	11%	22,264	20,063	11%
Greater China (a)	8,213	7,637	8%	15,043	11,717	28%
Japan	3,135	2,645	19%	7,578	6,195	22%
Rest of Asia Pacific	3,162	2,516	26%	7,155	6,133	17%
Retail	5,241	4,399	19%	11,682	10,515	11%
Total net sales	$ 43,603	$ 39,186	11%	$ 98,115	$ 85,519	15%
Net Sales by Product:						
iPhone (b)	$ 22,955	$ 22,276	3%	$ 53,615	$ 46,226	16%
iPad (b)	8,746	6,264	40%	19,420	15,033	29%
Mac (b)	5,447	5,073	7%	10,966	11,671	(6)%
iPod (b)	962	1,207	(20)%	3,105	3,735	(17)%
iTunes, Software and Services (c)	4,114	3,171	30%	7,801	6,191	26%
Accessories (d)	1,379	1,195	15%	3,208	2,663	20%
Total net sales	$ 43,603	$ 39,186	11%	$ 98,115	$ 85,519	15%
Unit Sales by Product:						
iPhone	37,430	35,064	7%	85,219	72,108	18%
iPad	19,477	11,798	65%	42,337	27,232	55%
Mac	3,952	4,017	(2)%	8,013	9,215	(13)%
iPod	5,633	7,673	(27)%	18,312	23,070	(21)%

(a) Greater China includes China, Hong Kong and Taiwan.

(b) Includes deferrals and amortization of related non-software services and software upgrade rights.

(c) Includes revenue from sales on the iTunes Store, the App Store, the Mac App Store, and the iBookstore, and revenue from sales of AppleCare, licensing and other services.

(d) Includes sales of hardware peripherals and Apple-branded and third-party accessories for iPhone, iPad, Mac and iPod.

The Company s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. An extra week is added to the Company s first quarter approximately every six years to realign the Company s fiscal quarters more closely to calendar quarters. A 14th week was added to the first quarter of 2012, while the first quarter of 2013 spanned only 13 weeks. Inclusion of the 14th week increased the Company s overall net sales and operating expenses for the first six months of 2012 compared to 2013.

Product Performance

iPhone

Net sales of iPhone were $23.0 billion and $53.6 billion in the second quarter and first six months of 2013, respectively, representing an increase of $679 million or 3% and $7.4 billion or 16% compared to the same periods in 2012. iPhone unit sales totaled 37.4 million and 85.2 million in the second quarter and first six months of 2013, respectively, which represents an increase of 7% and 18% compared to the same periods in 2012. For the first six months of 2013, iPhone year-over-year growth resulted from strong demand for iPhone in all of the Company s operating segments primarily due to the launch of iPhone 5 beginning in September 2012 and strong ongoing demand for iPhone 4 and 4S. The year-over-year impact of higher iPhone unit sales on net sales was partially offset during the second quarter and first six months of 2013 by a reduction in iPhone average selling prices as a result of a shift in product mix towards lower-priced iPhone models, particularly the iPhone 4. Net sales of iPhone accounted for 53% and 57% of the Company s total net sales for the second quarters of 2013 and 2012, respectively, and were 55% and 54% of the Company s total net sales during the first six months of 2013 and 2012, respectively.

iPad

Net sales of iPad were $8.7 billion and $19.4 billion in the second quarter and first six months of 2013, respectively, representing an increase of $2.5 billion or 40% and $4.4 billion or 29% compared to the same periods in 2012. Unit sales of iPad were 19.5 million and 42.3 million during the second quarter and first six months of 2013, respectively, an increase of 65% and 55% compared to the same periods in 2012. The year-over-year increase in net sales and unit sales was driven by strong demand for iPad in all of the Company s operating segments as a result of the launch of iPad mini and the fourth generation iPad beginning in the first quarter of 2013. The year-over-year growth rate of iPad unit sales was higher than the growth rate of iPad net sales during the second quarter and first six months of 2013 due to a reduction in average selling prices primarily as a result of the introduction of iPad mini. Net sales of iPad accounted for 20% and 16% of the Company s total net sales for the second quarters of 2013 and 2012, respectively, and were 20% and 18% of the Company s total net sales during the first six months of 2013 and 2012, respectively.

Mac

Net sales of Mac were $5.4 billion and $11.0 billion in the second quarter and first six months of 2013, respectively. While Mac net sales during the second quarter of 2013 increased $374 million or 7% compared to the second quarter of 2012, Mac net sales decreased by $705 million or 6% during the first six months of 2013 compared to the same period in 2012. Mac unit sales decreased by 65 thousand or 2% and 1.2 million or 13% in the second quarter and first six months of 2013 compared to the same periods in 2012. Declines in Mac net sales and Mac unit sales for the first six months of 2013 were experienced to some extent in the Americas, Europe, Greater China and Rest of Asia Pacific segments and were only partially offset by increases in the Japan and the Retail segments. These declines reflect lower unit sales of both Mac desktop and Mac portable systems. Mac net sales and unit sales were negatively impacted during the first quarter of 2013 by a number of factors including supply constraints through the end of the quarter on the Company s new iMac models that were announced in October 2012 but did not ship until the final month of that quarter; one less week in the first quarter of 2013 compared to the first quarter of 2012; and the overall weakness in the market for personal computers. The year-over-year increase of 7% in Mac net sales during the second quarter of 2013 compared to the same period in 2012 was a result of strong demand for and improved supply of the Company s new iMac models, partially offset by a decline in sales of Mac portable systems. Net sales of Mac accounted for 12% and 13% of the Company s total net sales in the second quarters of 2013 and 2012, respectively, and were 11% and 14% of the Company s total net sales during the first six months of 2013 and 2012, respectively.

iTunes, Software and Services

Net sales of iTunes, software and services were $4.1 billion and $7.8 billion in the second quarter and first six months of 2013, respectively, representing an increase of $943 million or 30% and $1.6 billion or 26% compared to the same periods in 2012. This increase was due primarily to growth of iTunes which generated total net sales of $2.4 billion and $4.5 billion for the second quarter and first six months of 2013 compared to net sales of $1.9 billion and $3.6 billion during the same periods in 2012. iTunes growth reflects continued growth in the installed base of iOS devices and expanded iTunes digital content and applications offerings around the world, resulting in higher net sales on the App Store and higher net sales of digital content. Net sales of iTunes, software and services accounted for 9% and 8% of the Company s total net sales for the second quarters of 2013 and 2012, respectively, and were 8% and 7% of the Company s total net sales during the first six months of 2013 and 2012, respectively.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. Prior to 2013, the Company s reportable operating segments consisted of the Americas, Europe, Japan, Asia-Pacific and Retail. In 2013, the Company established a new reportable operating segment, Greater China, which was previously included in the Asia-Pacific segment. Segment data for prior periods has been reclassified to reflect establishment of the Greater China segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and Asian countries, other than Japan and those countries included in the Greater China segment. The Retail segment operates Apple retail stores in 13 countries, including the U.S. The results of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific segments do not include results of the Retail segment. Each operating segment provides similar hardware and software products and similar services. Further information regarding the Company s operating segments may be found in Note 7, Segment Information and Geographic Data in Notes to Condensed Consolidated Financial Statements of this Form 10-Q.

Americas

Net sales in the Americas segment increased $870 million or 7% during the second quarter of 2013 compared to the second quarter of 2012, and increased $3.5 billion or 11% during the first six months of 2013 compared to the same period in 2012. The growth in net sales during the second quarter and first six months of 2013 was primarily driven by increased demand for iPad following the launch of iPad mini and the fourth generation iPad, continuing demand for iPhone, particularly iPhone 5 and iPhone 4, and higher sales from iTunes. The growth in net sales during the second quarter of 2013 also benefited from an increase in Mac net sales as supply constraints on the new iMac eased during the quarter. These increases were partially offset by a decrease in net sales of iPod. The Americas segment represented 32% and 34% of the Company s total net sales in the second quarter of 2013 and 2012, respectively, and 35% and 36% of total net sales for the first six months of 2013 and 2012, respectively.

Europe

Net sales in the Europe segment increased $993 million or 11% during the second quarter of 2013 compared to the second quarter of 2012, and increased $2.2 billion or 11% during the first six months of 2013 compared to the same period in 2012. The growth in net sales during the second quarter of 2013 was primarily driven by increased demand for iPad following the launch of iPad mini and the fourth generation iPad, higher sales from iTunes, increased net sales of the new iMac, and continuing demand for iPhone. These increases were partially offset by a decrease in net sales of iPod. The growth in net sales during the first six months of 2013 was primarily driven by increased demand for iPad and iPhone, and higher sales from iTunes. These increases were partially offset by decreases in net sales of Mac and iPod. Net sales in the Europe segment continue to be negatively impacted by the region s uncertain economic conditions. The Europe segment represented 23% and 22% of the Company s total net sales in the second quarter of 2013 and 2012, and 23% of total net sales for both the first six months of 2013 and 2012.

Greater China

Net sales in the Greater China segment increased $576 million or 8% during the second quarter of 2013 compared to the second quarter of 2012, and increased $3.3 billion or 28% during the first six months of 2013 compared to the same period in 2012. The growth in net sales during the second quarter of 2013 was primarily driven by a significant increase in net sales of iPad resulting from the January 2013 launch in China of both the fourth generation iPad and iPad mini. The growth of net sales in the Greater China segment during the first six months of 2013 was primarily driven by increased demand for iPhone following the launch of iPhone 5 during the first quarter of 2013 and by the impact of launching the fourth generation iPad and iPad mini during the second quarter 2013. The Greater China segment represented 19% and 20% of the Company s total net sales for the second quarter of 2013 and 2012, and 15% and 14% of total net sales for the first six months of 2013 and 2012, respectively.

Japan

Net sales in the Japan segment increased $490 million or 19% during the second quarter of 2013 compared to the second quarter of 2012, and increased $1.4 billion or 22% during the first six months of 2013 compared to the same period in 2012. The growth in net sales resulted from increased demand for iPhone, iPad and Mac, and higher sales from iTunes partially offset by the strength of the U.S. dollar relative to the Japanese Yen on net sales. The Japan segment represented 7% of the Company s total net sales for both the second quarter of 2013 and 2012, and 8% and 7% of total net sales for the first six months of 2013 and 2012, respectively.

Rest of Asia Pacific

Net sales in the Rest of Asia Pacific segment increased $646 million or 26% during the second quarter of 2013 compared to the second quarter of 2012, and increased $1.0 billion or 17% during the first six months of 2013 compared to the same period in 2012. The growth in net sales during the second quarter and first six months of 2013 was primarily driven by increased demand for iPhone following the launch of iPhone 5, strong demand for iPad, and higher sales from iTunes, partially offset by a decrease in net sales of Mac. The Rest of Asia Pacific segment represented 7% and 6% of the Company s total net sales for the second quarter of 2013 and 2012, respectively, and 7% and 8% of total net sales for the first six months of 2013 and 2012.

Retail

Net sales in the Retail segment increased $842 million or 19% during the second quarter of 2013 compared to the second quarter of 2012, and increased $1.2 billion or 11% during the first six months of 2013 compared to the same period in 2012. The growth in net sales during the second quarter of 2013 was primarily driven by increased demand for iPhone and iPad and increased Mac net sales following the launch of the new iMac. The Company opened one new retail store during the second quarter of 2013, which was outside the United States, ending the quarter with 402 stores compared to 363 stores at the end of the second quarter of 2012. With an average of 401 and 361 open stores during the second quarter of 2013 and 2012, respectively, average revenue per store increased to $13.1 million in the second quarter of 2013, compared to $12.2 million in the second quarter of 2012. Given the 14th week added to the first quarter of 2012, revenue per store on a per week basis increased 4% during the first six months of 2013 compared to the first six months of 2012. The Retail segment represented 12% and 11% of the Company s total net sales in the second quarter of 2013 and 2012, respectively, and 12% of total net sales for both the first six months of 2013 and 2012.

The Retail segment reported operating income of $1.1 billion during the second quarter of 2013 as compared to $1.2 billion during the second quarter of 2012, and reported operating income of $2.6 billion during the first six months of 2013 compared to $3.0 billion during the first six months of 2012. The year-over-year decrease in Retail operating income during the second quarter and first six months of 2013 was primarily attributable to an overall decline in the segment s gross margin percentage similar to that experienced by the Company overall, partially offset by the increase in the Retail segment s net sales. As of March 30, 2013, the Retail segment had approximately 42,600 full-time equivalent employees.

Gross Margin

Gross margin for the three- and six- month periods ended March 30, 2013 and March 31, 2012 was as follows (in millions, except gross margin percentages):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net sales	$ 43,603	$ 39,186	$ 98,115	$ 85,519
Cost of sales	27,254	20,622	60,706	46,252
Gross margin	$ 16,349	$ 18,564	$ 37,409	$ 39,267
Gross margin percentage	37.5%	47.4%	38.1%	45.9%

The gross margin percentage in the second quarter of 2013 was 37.5% compared to 47.4% in the second quarter of 2012, and the gross margin percentage for the first six months of 2013 was 38.1% compared to 45.9% in the first six months of 2012. The year-over-year decrease in gross margin during the second quarter and first six months of 2013 was driven by multiple factors including introduction of new versions of existing products with higher cost structures and flat or reduced pricing, introduction of iPad mini with gross margin significantly below the Company s average product margins, higher expenses associated with changes to certain of the Company s service policies and other warranty costs, price reductions on certain products, and the transition costs associated with the significant number of product introductions during the first quarter of 2013.

The Company expects its gross margin percentage to be lower in 2013 than experienced in 2012, and the Company anticipates gross margin to be between 36% and 37% during the third quarter of 2013. The lower gross margin expected in 2013 is largely due to anticipation of a higher mix of new and innovative products with flat or reduced pricing that have higher cost structures and deliver greater value to customers and anticipated component cost and other cost increases. Future strengthening of the U.S. dollar could further negatively impact gross margin.

The foregoing statements regarding the Company s expected gross margin percentage in 2013 and the third quarter of 2013 are forward-looking and could differ from actual results because of several factors including, but not limited to, those discussed below in Part II, Item 1A, Risk Factors of this Form 10-Q and those described in this paragraph. In general, gross margins and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company s sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company s ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company s significant international operations, financial results can be significantly affected in the short-term by fluctuations in exchange rates.

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Operating Expenses

Operating expenses for the three- and six- month periods ended March 30, 2013 and March 31, 2012, were as follows (in millions, except for percentages):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Research and development expense	$ 1,119	$ 841	$ 2,129	$ 1,599
Percentage of net sales	3%	2%	2%	2%
Selling, general and administrative expense	$ 2,672	$ 2,339	$ 5,512	$ 4,944
Percentage of net sales	6%	6%	6%	6%
Total operating expenses	$ 3,791	$ 3,180	$ 7,641	$ 6,543
Percentage of net sales	9%	8%	8%	8%

Research and Development (R&D) Expense

R&D expense increased $278 million or 33% during the second quarter of 2013 compared to the second quarter of 2012 and increased $530 million or 33% during the first six months of 2013 compared to the same period in 2012. These increases were primarily due to an increase in headcount and related expenses to support expanded R&D activities.

The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company s core business strategy. As such, the Company expects to make further investments in R&D to remain competitive.

Selling, General and Administrative (SG&A) Expense

SG&A expense increased $333 million or 14% during the second quarter of 2013 compared to the second quarter of 2012, and increased $568 million or 11% during the first six months of 2013 compared to the same period in 2012. These increases were primarily due to the Company s continued expansion of its Retail segment, increased headcount and related expenses, and higher spending on marketing and professional services.

Other Income and Expense

Other income and expense for the three- and six-month periods ended March 30, 2013 and March 31, 2012, was as follows (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Interest and dividend income	$ 420	$ 254	$ 841	$ 482
Other income/(expense), net	(73)	(106)	(32)	(197)
Total other income/(expense), net	$ 347	$ 148	$ 809	$ 285

Total other income and expense increased by $199 million during the second quarter of 2013 compared to the second quarter of 2012, and increased by $524 million during the first six months of 2013 compared to the same period in 2012. The overall increase in other income and expense during the second quarter of 2013 and first six months of 2013 compared to the same period in 2012 was due primarily to higher interest and dividend income on the Company s higher cash, cash equivalents and marketable securities balances and lower premium expenses on foreign exchange contracts. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.05% and 1.01% in the second quarters of 2013 and 2012, respectively, and 1.06% and 1.01% in the first six months of both 2013 and 2012, respectively.

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Provision for Income Taxes

The Company s effective tax rates for the three- and six-month periods ended March 30, 2013 were 26.0% for both periods, compared to 25.2% for both the three- and six-month periods ended March 31, 2012. The Company s effective rate for both periods differs from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S. taxes are provided because such earnings are intended to be indefinitely reinvested outside the U.S. The higher effective tax rate during the second quarter and first six months of 2013 as compared to the same periods of 2012 is due primarily to a lower proportion of foreign earnings in the current year.

The Internal Revenue Service (the IRS) has completed its field audit of the Company s federal income tax returns for the years 2004 through 2006 and proposed certain adjustments. The Company has contested certain of these adjustments through the IRS Appeals Office. The IRS is currently examining the years 2007 through 2009. All IRS audit issues for years prior to 2004 have been resolved. In addition, the Company is subject to audits by state, local, and foreign tax authorities. Management believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

Liquidity and Capital Resources

The following table presents selected financial information and statistics as of March 30, 2013 and September 29, 2012 (in millions):

	March 30, 2013	September 29, 2012
Cash, cash equivalents and marketable securities	$ 144,687	$ 121,251
Accounts receivable, net	$ 7,084	$ 10,930
Inventories	$ 1,245	$ 791
Working capital	$ 27,829	$ 19,111

As of March 30, 2013, the Company had $144.7 billion in cash, cash equivalents and marketable securities, an increase of $23.4 billion from September 29, 2012. The principal component of this net increase was the cash generated by operating activities of $35.9 billion, which was partially offset by payments made for acquisition of property, plant and equipment and intangible assets of $4.8 billion, cash used to pay dividends and dividend equivalent rights of $5.0 billion and cash paid under the Company s accelerated share repurchase program of $1.95 billion.

The Company s marketable securities investment portfolio is invested primarily in highly-rated securities and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade with the objective of minimizing the potential risk of principal loss. As of March 30, 2013 and September 29, 2012, $102.3 billion and $82.6 billion, respectively, of the Company s cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The Company believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments, and other liquidity requirements associated with its existing operations over the next 12 months. The Company anticipates the cash used for future dividends and the share repurchase program will come primarily from its current domestic cash, cash generated from on-going U.S. operating activities and from borrowings.

Capital Assets

The Company s capital expenditures were $2.4 billion during the first six months of 2013 consisting of $177 million for retail store facilities and $2.2 billion for other capital expenditures, including product tooling and manufacturing process equipment, and other corporate facilities and infrastructure. The Company s actual cash payments for capital expenditures during the first six months of 2013 were $4.3 billion.

The Company anticipates utilizing approximately $10 billion for capital expenditures during 2013, including approximately $850 million for retail store facilities and approximately $9.15 billion for other capital expenditures, including for product tooling and manufacturing process equipment, and corporate facilities and infrastructure, including information systems hardware, software and enhancements.

During 2013, the Company expects to open approximately 30 new retail stores, with more than three-quarters located outside of the U.S.

Dividend and Share Repurchase Program

On April 23, 2013, the Company announced it was raising its third quarter 2013 cash dividend by 15% to $3.05 per common share. The Company expects to pay quarterly dividends of $3.05 per common share for a total of approximately $2.9 billion each quarter, subject to declaration by the Board of Directors.

In 2012, the Company s Board of Directors authorized a program to repurchase up to $10 billion of the Company s common stock. In April 2013, the Company s Board of Directors increased the share repurchase program authorization from $10 billion to $60 billion, of which $1.95 billion had been utilized as of March 30, 2013. The share repurchase program is expected to be completed by December 2015. The Company s share repurchase program does not obligate it to acquire any specific number of shares.

Beginning in August 2012 through December 2015, the Company anticipates it will utilize approximately $100 billion to pay dividends, repurchase shares, and to remit withheld taxes related to net share settlement of restricted stock units, of which $10 billion had been utilized through March 30, 2013.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the Company.

Lease Commitments

The Company s major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of March 30, 2013, the Company s total future minimum lease payments under noncancelable operating leases were $4.5 billion, of which $3.2 billion related to leases for retail space.

Purchase Commitments with Outsourcing Partners and Component Suppliers

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company s products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of March 30, 2013, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of $13.8 billion.

Other Obligations

In addition to the commitments mentioned above, the Company had additional off-balance sheet obligations of $1.4 billion as of March 30, 2013, that were comprised mainly of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to advertising, research and development, Internet and telecommunications services and other obligations.

The Company s other non-current liabilities in the Condensed Consolidated Balance Sheets consist primarily of deferred tax liabilities, gross unrecognized tax benefits and the related gross interest and penalties. As of March 30, 2013, the Company had non-current deferred tax liabilities of $16.5 billion. Additionally, as of March 30, 2013, the Company had gross unrecognized tax benefits of $3.2 billion and an additional $539 million for gross interest and penalties classified as non-current liabilities. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments due to uncertainties in the timing of tax audit outcomes.

Indemnification

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to indemnification of end-users of its operating system or application software for infringement of third-party intellectual property rights. The Company did not record a liability for infringement costs related to indemnification as of March 30, 2013 or September 29, 2012.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations, and payments made under these agreements historically have not been material.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s market risk disclosures set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk of its 2012 Form 10-K have not changed materially for the six months ended March 30, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company s management, the Company s principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of March 30, 2013 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the second quarter of 2013, which were identified in connection with management s evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to the various legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management s expectations, the Company s consolidated financial statements for that reporting period could be materially adversely affected. See the risk factors *The Company is frequently involved in intellectual property litigation, and could be found to have infringed on intellectual property rights* and *The Company could be impacted by unfavorable results of legal proceedings* in Part II, Item 1A of this Form 10-Q under the heading Risk Factors. The Company settled certain matters during the second quarter of 2013 that did not individually or in the aggregate have a material impact on the Company s financial condition and results of operations.

The Apple iPod iTunes Antitrust Litigation (formerly Charoensak v. Apple Computer, Inc. and Tucker v. Apple Computer, Inc.); Somers v. Apple Inc.

These related cases were filed on January 3, 2005, July 21, 2006 and December 31, 2007 in the United States District Court for the Northern District of California on behalf of a purported class of direct and indirect purchasers of iPods and iTunes Store content, alleging various claims including alleged unlawful tying of music and video purchased on the iTunes Store with the purchase of iPods and unlawful acquisition or maintenance of monopoly market power under §§1 and 2 of the Sherman Act, the Cartwright Act, California Business & Professions Code §17200 (unfair competition), the California Consumer Legal Remedies Act and California monopolization law. Plaintiffs are seeking unspecified compensatory and punitive damages for the class, treble damages, injunctive relief, disgorgement of revenues and/or profits and attorneys fees. Plaintiffs are also seeking digital rights management free versions of any songs downloaded from iTunes or an order requiring the Company to license its digital rights management to all competing music players. The cases are currently pending.

Apple eBooks Antitrust Litigation (United States of America v. Apple Inc., et al.)

On April 11, 2012, the U.S. Department of Justice (the DOJ) filed a civil antitrust action against the Company and five major book publishers in the U.S. District Court for the Southern District of New York, alleging an unreasonable restraint of interstate trade and commerce in violation of §1 of the Sherman Act and seeking, among other things, injunctive relief, the District Court s declaration that the Company s agency agreements with the publishers are null and void and/or the District Court s reformation of such agreements. The DOJ s complaint asserts, among other things, that the decision by the five publishers to shift to an agency model to sell eBooks and their agreements with the Company were an attempt to raise, fix and stabilize retail e-book prices, to end price competition among e-book retailers, and to limit retail price competition. The Company filed a response to the DOJ complaint in late May 2012, denying the DOJ s allegations, and it intends to vigorously contest the lawsuit. The lawsuit is now in discovery, with an initial trial date set for June 2013. All five publishers have reached a settlement with the DOJ, which required the publishers to terminate their agreements with the Company and renegotiate new agreements pursuant to the terms of their settlement with the DOJ. Three of the settlements have been approved by the District Court and the remaining settlements are pending approval.

Item 1A. Risk Factors

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company s business previously disclosed in Part I, Item 1A of the Company s 2012 Form 10-K and in Part II, Item 1A of the Form 10-Q for the quarter ended December 29, 2012, in each case under the heading Risk Factors. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company s actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect the Company s business, financial condition, results of operations and common stock price.

Because of the following factors, as well as other factors affecting the Company s financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Global economic conditions could materially adversely affect the Company.

The Company s operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions poses a risk as consumers and businesses postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values. For example, the continuing sovereign debt crisis, financial market volatility, and other factors in Europe have resulted in reduced consumer and business confidence and spending in many countries. These worldwide and regional economic conditions could have a material adverse effect on demand for the Company s products and services. Demand also could differ materially from the Company s expectations because the Company generally raises prices on goods and services sold outside the U.S. to correspond with the effect of a strengthening of the U.S. dollar. Other factors that could influence demand include increases in fuel and other energy costs, conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could materially adversely affect demand for the Company s products and services.

In the event of further financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed income, credit, currency, and equity markets. This could have a number of effects on the Company s business, including the insolvency or financial instability of outsourcing partners or suppliers or their inability to obtain credit to finance development and/or manufacture products resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of the Company s products; and failure of derivative counterparties and other financial institutions. Other income and expense also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; volatility in foreign exchange rates; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realized in the future on the Company s financial instruments differing significantly from the fair values currently assigned to them.

Global markets for the Company s products and services are highly competitive and subject to rapid technological change, and the Company may be unable to compete effectively in these markets.

The Company s products and services compete in highly competitive global markets characterized by aggressive price cutting and resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors, and price sensitivity on the part of consumers.

The Company s ability to compete successfully depends heavily on its ability to ensure a continuing and timely introduction of innovative new products and technologies to the marketplace. The Company believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications, and related services. As a result, the Company must make significant investments in research and development. The Company currently holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. In contrast, many of the Company s competitors seek to compete primarily through aggressive pricing and very low cost structures, and emulating the Company s products and infringing its intellectual property. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Company s intellectual property, the Company s ability to maintain a competitive advantage could be adversely affected.

The Company markets certain mobile communication and media devices based on the iOS mobile operating system and also markets related third-party digital content and applications. The Company faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships. Additionally, the Company faces significant price competition as competitors reduce their selling prices and attempt to imitate the Company s product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. The Company also competes with illegitimate ways to obtain third-party digital content and applications. The Company has entered the mobile communications and media device markets, and some of its competitors in these markets have greater experience, product breadth and distribution channels than the Company. Because some current and potential competitors have substantial resources and/or experience and a lower cost structure, they may be able to provide products and services at little or no profit or even at a loss. The Company also expects competition to intensify as competitors attempt to imitate the Company s approach to providing components seamlessly within their individual offerings or work collaboratively to offer integrated solutions. The Company s financial condition and operating results depend substantially on the Company s ability to continually improve iOS and iOS devices in order to maintain their functional and design advantages.

The Company is the only authorized maker of hardware using OS X, which has a minority market share in the personal computer market. This market is dominated by computer makers using competing operating systems, most notably Windows. In the market for personal computers and peripherals, the Company faces a significant number of competitors, many of which have broader product lines, lower priced products, and a larger installed customer base. Historically, consolidation in this market has resulted in larger competitors. Price competition has been particularly intense as competitors selling Windows-based personal computers have aggressively cut prices and lowered product margins. An increasing number of Internet-enabled devices that include software applications and are smaller and simpler than traditional personal computers compete for market share with the Company s existing products. The Company s financial condition and operating results depend substantially on its ability to continually improve the Mac platform to maintain its functional and design advantages.

There can be no assurance the Company will be able to continue to provide products and services that compete effectively.

To remain competitive and stimulate customer demand, the Company must successfully manage frequent product introductions and transitions.

Due to the highly volatile and competitive nature of the industries in which the Company competes, the Company must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, the Company s ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction. Accordingly, the Company cannot determine in advance the ultimate effect of new product introductions and transitions.

The Company faces substantial inventory and other asset risk in addition to purchase commitment cancellation risk.

The Company records a write-down for product and component inventories that have become obsolete or exceed anticipated demand or net realizable value and accrues necessary cancellation fee reserves for orders of excess products and components. The Company also reviews its long-lived assets, including capital assets held at its suppliers facilities and inventory prepayments, for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the Company determines that impairment has occurred, it records a write-down equal to the amount by which the carrying value of the assets exceeds its fair market value. Although the Company believes its provisions related to inventory, capital assets, inventory prepayments and other assets and purchase commitments are currently adequate, no assurance can be given that the Company will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Company competes.

The Company must order components for its products and build inventory in advance of product announcements and shipments. Consistent with industry practice, components are normally acquired through a combination of purchase orders, supplier contracts, open orders and, where appropriate, inventory component prepayments, in each case based on projected demand. Such purchase commitments typically cover forecasted component and manufacturing requirements for periods up to 150 days. Because the Company s markets are volatile, competitive and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments.

Future operating results depend upon the Company s ability to obtain components in sufficient quantities.

Because the Company currently obtains components from single or limited sources, the Company is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While the Company has entered into various agreements for the supply of components, there can be no assurance that the Company will be able to extend or renew these agreements on similar terms, or at all. The follow-on effects from global economic conditions on the Company s suppliers, described in *Global economic conditions could materially adversely affect the Company* above, also could affect the Company s ability to obtain components. Therefore, the Company remains subject to significant risks of supply shortages and price increases. The Company expects its gross margin percentage to be lower in 2013 than experienced in 2012. The lower gross margin expected in 2013 is largely due to anticipation of a higher mix of new and innovative products with flat or reduced pricing that have higher cost structures and deliver greater value to customers and anticipated component cost and other cost increases. Future strengthening of the U.S. dollar could further negatively impact gross margin.

The Company and other participants in the markets for mobile communication and media devices and personal computers also compete for various components with other industries that have experienced increased demand for their products. The Company uses some custom components that are not common to the rest of these industries. The Company s new products often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet the Company s requirements. The supply of components for a new or existing product could be delayed or constrained, or a key manufacturing vendor could delay shipments of completed products to the Company.

The Company depends on component and product manufacturing and logistical services provided by outsourcing partners, many of whom are located outside of the U.S.

Substantially all of the Company s manufacturing is performed in whole or in part by a few outsourcing partners located primarily in Asia. The Company has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Company s direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of products or services, or the Company s flexibility to respond to changing conditions. Although arrangements with these partners may contain provisions for warranty expense reimbursement, the Company may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. While the Company relies on its partners to adhere to its supplier code of conduct, material violations of the supplier code of conduct could occur.

The supply and manufacture of many critical components is performed by sole-sourced outsourcing partners in the U.S., Asia and Europe. Outsourcing partners in Asia perform final assembly of substantially all of the Company s hardware products. Manufacturing or logistics in these locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, or political issues.

The Company has invested in manufacturing process equipment, much of which is held at certain of its outsourcing partners, and has made prepayments to certain of its suppliers associated with long-term supply agreements. While these arrangements help ensure the supply of components and finished goods, if these outsourcing partners or suppliers experience severe financial problems or other disruptions in their business, the net realizable value of these assets could be negatively impacted.

The Company relies on third-party intellectual property and digital content, which may not be available to the Company on commercially reasonable terms or at all.

Many of the Company s products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, the Company believes such licenses generally can be obtained on reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms or at all.

The Company also contracts with third parties to offer their digital content through the iTunes Store. The licensing arrangements with these third parties are short-term and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers and distributors currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Company to license their content in the future. Other content owners, providers or distributors may seek to limit the Company s access to, or increase the cost of, such content. The Company may be unable to continue to offer a wide variety of content at reasonable prices with acceptable usage rules, or continue to expand its geographic reach.

Many third-party content providers require the Company to provide digital rights management and other security solutions. If requirements change, the Company may have to develop or license new technology to provide these solutions. There is no assurance the Company will be able to develop or license such solutions at a reasonable cost and in a timely manner. In addition, certain countries have passed or may propose and adopt legislation that would force the Company to license its digital rights management, which could lessen the protection of content and subject it to piracy and also could negatively affect arrangements with the Company s content providers.

The Company is frequently involved in intellectual property litigation, and could be found to have infringed on intellectual property rights.

Technology companies, including many of the Company s competitors, frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As the Company has grown, the intellectual property rights claims against it have increased and may continue to increase. In particular, the Company s cellular enabled products compete with mobile communication and media device companies that hold significant patent portfolios, and the number of patent claims against the Company has significantly increased. The Company is vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in Europe and Asia. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to the Company s operations, and distracting to management. If the Company is found to infringe one or more patents or other intellectual property rights, regardless of whether it can develop non-infringing technology, it may be required to pay substantial damages or royalties to a third-party, or it may be subject to a temporary or permanent injunction prohibiting the Company from marketing or selling certain products.

In certain cases, the Company may consider the desirability of entering into licensing agreements, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company s operating expenses.

In management s opinion, there is not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies, including matters related to infringement of intellectual property rights. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management s expectations, the Company s consolidated financial statements for that reporting period could be materially adversely affected.

The Company s future performance depends in part on support from third-party software developers.

The Company believes decisions by customers to purchase its hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for the Company s products. If third-party software applications and services cease to be developed and maintained for the Company s products, customers may choose not to buy the Company s products.

With respect to its Mac products, the Company believes the availability of third-party software applications and services depends in part on the developers perception and analysis of the relative benefits of developing, maintaining, and upgrading such software for the Company s products compared to Windows-based products. This analysis may be based on factors such as the market position of the Company and its products, the anticipated revenue that may be generated, continued growth of Mac sales, and the costs of developing such applications and services. If the Company s minority share of the global personal computer market causes developers to question the Company s prospects, developers could be less inclined to develop or upgrade software for the Company s products and more inclined to devote their resources to developing and upgrading software for the larger Windows market.

With respect to iOS devices, the Company relies on the continued availability and development of compelling and innovative software applications, which are distributed through a single distribution channel, the App Store. The absence of multiple distribution channels, which are available for competing platforms, may limit the availability and acceptance of third-party applications by the Company s customers, thereby causing developers to reduce or curtail development for the iOS platform. In addition, iOS devices are subject to rapid technological change, and, if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. As with applications for the Company s Mac products, the availability and development of these applications also depend on developers perceptions and analysis of the relative benefits of developing software for the Company s products rather than its competitors platforms, such as Android. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Company s iOS devices may suffer.

The Company depends on the performance of distributors, carriers and other resellers.

The Company distributes its products through cellular network carriers, wholesalers, national and regional retailers, and value-added resellers, many of whom distribute products from competing manufacturers. The Company also sells its products and third-party products in most of its major markets directly to education, enterprise and government customers, and consumers and small and mid-sized businesses through its online and retail stores.

Carriers providing cellular network service for iPhone typically subsidize users purchases of the device. There is no assurance that such subsidies will be continued at all or in the same amounts upon renewal of the Company s agreements with these carriers or in agreements the Company enters into with new carriers.

Many resellers have narrow operating margins and have been adversely affected in the past by weak economic conditions. Some resellers have perceived the expansion of the Company s direct sales as conflicting with their business interests as distributors and resellers of the Company s products. Such a perception could discourage resellers from investing resources in the distribution and sale of the Company s products or lead them to limit or cease distribution of those products. The Company has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers stores with Company employees and contractors and improving product placement displays. These programs could require a substantial investment while providing no assurance of return or incremental revenue. The financial condition of these resellers could weaken, these resellers could stop distributing the Company s products, or uncertainty regarding demand for the Company s products could cause resellers to reduce their ordering and marketing of the Company s products.

The Company s Retail segment has required and will continue to require a substantial investment and commitment of resources and is subject to numerous risks and uncertainties.

The Company s retail stores have required substantial fixed investment in equipment and leasehold improvements, information systems, inventory and personnel. The Company also has entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company s more typical retail stores. Due to the high fixed cost structure associated with the Retail segment, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements, and severance costs.

Many factors unique to retail operations, some of which are beyond the Company s control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, as well as the Company s inability to manage costs associated with store construction and operation, the Company s failure to manage relationships with its existing retail channel partners, more challenging environments in managing retail operations outside the U.S., costs associated with unanticipated fluctuations in the value of retail inventory, and the Company s inability to obtain and renew leases in quality retail locations at a reasonable cost.

Investment in new business strategies and acquisitions could disrupt the Company s ongoing business and present risks not originally contemplated.

The Company has invested, and in the future may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return of capital, and unidentified issues not discovered in the Company s due diligence. These new ventures are inherently risky and may not be successful.

The Company s products and services may experience quality problems from time to time that can result in decreased sales and operating margin and harm to the Company s reputation.

The Company sells complex hardware and software products and services that can contain design and manufacturing defects. Sophisticated operating system software and applications, such as those sold by the Company, often contain bugs that can unexpectedly interfere with the software s intended operation. The Company s online services may from time to time experience outages, service slowdowns, or errors. Defects may also occur in components and products the Company purchases from third parties. There can be no assurance the Company will be able to detect and fix all defects in the hardware, software and services it sells. Failure to do so could result in lost revenue, significant warranty and other expenses, and harm to the Company s reputation.

The Company is subject to laws and regulations worldwide, changes to which could increase the Company s costs and individually or in the aggregate adversely affect the Company s business.

The Company is subject to laws and regulations affecting its domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect the Company s activities including, but not limited to, areas of labor, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health, and safety.

By way of example, laws and regulations related to mobile communications and media devices in the many jurisdictions in which the Company operates are extensive and subject to change. Such changes could include, among others, restrictions on the production, manufacture, distribution, and use of devices, locking devices to a carrier s network, or mandating the use of devices on more than one carrier s network. These devices are also subject to certification and regulation by governmental and standardization bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications, delays in product shipment dates, or preclude the Company from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation could individually or in the aggregate make the Company s products and services less attractive to the Company s customers, delay the introduction of new products in one or more regions, or cause the Company to change or limit its business practices. The Company has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Company s employees, contractors, or agents will not violate such laws and regulations or the Company s policies and procedures.

The Company s success depends largely on the continued service and availability of key personnel.

Much of the Company s future success depends on the continued availability and service of key personnel, including its Chief Executive Officer, executive team and other highly skilled employees. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in Silicon Valley, where most of the Company s key personnel are located.

The Company s business may be impacted by political events, war, terrorism, public health issues, natural disasters and other circumstances.

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on the Company, its suppliers, logistics providers, manufacturing vendors and customers, including channel partners. The Company s business operations are subject to interruption by, among others, natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other events beyond its control. Such events could decrease demand for the Company s products, make it difficult or impossible for the Company to make and deliver products to its customers, including channel partners, or to receive components from its suppliers, and create delays and inefficiencies in the Company s supply chain. Should major public health issues, including pandemics, arise, the Company could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of the Company s manufacturing vendors and component suppliers. The majority of the Company s research and development activities, its corporate headquarters, information technology systems, and other critical business operations, including certain component suppliers and manufacturing vendors, are in locations that could be affected by natural disasters. In the event of a natural disaster, the Company could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

The Company s business and reputation may be impacted by information technology system failures or network disruptions.

The Company may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and the Company s disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to the Company s online stores and services, preclude retail store transactions, compromise Company or customer data, and result in delayed or cancelled orders. System failures and disruptions could also impede the manufacturing and shipping of products, delivery of online services, transactions processing and financial reporting.

The Company may be subject to breaches of its information technology systems, which could damage business partner and customer relationships, could curtail or otherwise adversely impact access to online stores and services, and could subject the Company to significant reputational, financial, legal, and operational consequences.

The Company s business requires it to use and store customer, employee, and business partner personally identifiable information (PII). This may include, among other information, names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers, and payment account information. Although malicious attacks to gain access to PII affect many companies across various industries, the Company may be at a relatively greater risk of being targeted because of its high profile and the amount of PII managed.

The Company requires user names and passwords in order to access its information technology systems. The Company also uses encryption and authentication technologies to secure the transmission and storage of data. These security measures may be compromised as a result of third-party security breaches, employee error, malfeasance, faulty password management, or other irregularity, and result in persons obtaining unauthorized access to Company data or accounts. Third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access the Company s information technology systems. To help protect customers and the Company, the Company monitors accounts and systems for unusual activity and may freeze accounts under suspicious circumstances, which may result in the delay or loss of customer orders.

The Company devotes significant resources to network security, data encryption, and other security measures to protect its systems and data, but these security measures cannot provide absolute security. The Company may experience a breach of its systems and may be unable to protect sensitive data, which could damage business partner and customer relationships, and curtail or otherwise adversely impact access to online stores and services. Moreover, if a computer security breach affects the Company s systems or results in the unauthorized release of PII, the Company s reputation and brand could be materially damaged and use of the Company s products and services could decrease. The Company would also be exposed to a risk of loss or litigation and possible liability.

The Company s business is subject to a variety of U.S. and international laws, rules, policies and other obligations regarding data protection.

The Company is subject to federal, state and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which the Company has commercial relations. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Company to incur substantial costs or require the Company to change its business practices. Noncompliance could result in penalties or significant legal liability.

The Company s privacy policy and related practices concerning the use and disclosure of data are posted on its website. Any failure by the Company, its suppliers or other parties with whom the Company does business to comply with its posted privacy policy or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against the Company by governmental entities or others.

The Company is also subject to payment card association rules and obligations under its contracts with payment card processors. Under these rules and obligations, if information is compromised, the Company could be liable to payment card issuers for associated expenses and penalties. In addition, if the Company fails to follow payment card industry security standards, even if no customer information is compromised, the Company could incur significant fines or experience a significant increase in payment card transaction costs.

The Company expects its quarterly revenue and operating results to fluctuate.

The Company s profit margins vary among its products and its distribution channels. The Company s software, accessories, and service and support contracts generally have higher gross margins than certain of the Company s other products. Gross margins on the Company s hardware products vary across product lines and can change over time as a result of product transitions, pricing and configuration changes, and component, warranty, and other cost fluctuations. The Company s direct sales generally have higher associated gross margins than its indirect sales through its channel partners. In addition, the Company s gross margin and operating margin percentages, as well as overall profitability, may be materially adversely impacted as a result of a shift in product, geographic or channel mix, new products, component cost increases, the strengthening U.S. dollar, or price competition. The Company has typically experienced higher net sales in the first fiscal quarter compared to other fiscal quarters due in part to holiday seasonal demand. Actual and anticipated timing of new product introductions by the Company can also significantly impact the level of net sales experienced by the Company in any particular quarter. The Company could be subject to unexpected developments late in a quarter, such as lower-than-anticipated demand for the Company s products, issues with new product introductions, an internal systems failure, or failure of one of the Company s logistics, components supply, or manufacturing partners.

The Company s stock price is subject to volatility.

The Company s stock continues to experience substantial price volatility. Additionally, the Company, the technology industry, and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to these companies operating performance. The Company believes its stock price reflects expectations of future growth and profitability. If the Company fails to meet these expectations its stock price may significantly decline, which could have a material adverse impact on investor confidence and employee retention.

The Company s business is subject to the risks of international operations.

The Company derives a significant portion of its revenue and earnings from its international operations. Compliance with applicable U.S. and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws, and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although the Company has implemented policies and procedures to comply with these laws and regulations, a violation by the Company s employees, contractors, or agents could nevertheless occur.

The Company also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs, political instability, and changes in the value of the U.S. dollar versus local currencies. Margins on sales of the Company s products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including duties, tariffs and antidumping penalties. The Company is also exposed to credit and collectability risk on its trade receivables with customers in certain international markets. There can be no assurance the Company can effectively limit its credit risk and avoid losses.

The Company s primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar denominated sales and operating expenses worldwide. For example, the uncertainty regarding the ability of certain European countries to continue to service their sovereign debt obligations and the related financial restructuring efforts by European governments may cause the value of several European currencies, including the euro, to fluctuate, which could adversely affect the Company s non-U.S. dollar sales and operating expenses in the impacted jurisdictions. Weakening of foreign currencies relative to the U.S. dollar adversely affects the U.S. dollar value of the Company s foreign currency-denominated sales and earnings, and generally leads the Company to raise international pricing, potentially reducing demand for the Company s products. In some circumstances, for competitive or other reasons, the Company may decide not to raise local prices to fully offset the dollar s strengthening, or at all, which would adversely affect the U.S. dollar value of the Company s foreign currency denominated sales and earnings. Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to the Company s foreign currency-denominated sales and earnings, could cause the Company to reduce international pricing and incur losses on its foreign currency derivative instruments, thereby limiting the benefit. Additionally, strengthening of foreign currencies may also increase the Company s cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Company uses derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

The Company is exposed to credit risk and fluctuations in the market values of its investment portfolio.

The Company has not recognized any significant losses on its cash, cash equivalents and marketable securities, but could experience significant declines in the market value of its investment portfolio. Given the global nature of its business, the Company has both domestic and international investments. Credit ratings and pricing of these investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of the Company s cash, cash equivalents and marketable securities could decline and result in a significant impairment.

The Company is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and prepayments related to long-term supply agreements, and this risk is heightened during periods when economic conditions worsen.

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and value-added resellers. A substantial majority of the Company s outstanding trade receivables are not covered by collateral or credit insurance. The Company s exposure to credit and collectability risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. The Company also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Company. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of inventory components. As of March 30, 2013, a significant portion of the Company s trade receivables were concentrated within cellular network carriers, and its non-trade receivables and long-term supply agreements were concentrated among a few individual vendors located primarily in Asia. While the Company has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

The Company could be impacted by unfavorable results of legal proceedings.

The Company is subject to various legal proceedings and claims that have not yet been fully resolved and that have arisen in the ordinary course of business, and additional claims may arise in the future. Results of legal proceedings are subject to significant uncertainty and, regardless of the merit of the claims, litigation may be expensive, time-consuming, disruptive to the Company s operations, and distracting to management. In recognition of these considerations, the Company may enter into arrangements to settle litigation.

Although management considers the likelihood of such an outcome to be remote, if one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management s expectations, the Company s consolidated financial statements for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Company that could materially adversely affect its financial condition and operating results.

The Company could be subject to changes in its tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.

The Company is subject to taxes in the U.S. and numerous foreign jurisdictions. Current economic and political conditions make tax rates in any jurisdiction, including the U.S., subject to significant change. The Company s future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. The Company is also subject to the examination of its tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

Effective April 19, 2013, the Company appointed Luca Maestri as the Principal Accounting Officer of the Company. Mr. Maestri, 49, joined the Company in March 2013 and serves as the Company s Corporate Controller. Prior to joining the Company, Mr. Maestri was Executive Vice President, Chief Financial Officer of Xerox Corporation from February 2011 to February 2013. Prior to that, Mr. Maestri was with Nokia Siemens Networks where he was Chief Financial Officer from October 2008 to February 2011 and he previously had a 20-year career with General Motors Corporation, where he served as Chief Financial Officer of GM Europe and GM Brazil, was executive-in-charge of the Fiat Alliance for GM Europe in Switzerland and held several executive finance positions with General Motors Corporation in Europe and Asia Pacific.

With respect to the disclosure required pursuant to Item 401(d) of Regulation S-K, there are no family relationships between Mr. Maestri and any director or executive officer of the Company. With respect to Item 404(a) of Regulation S-K, there are no transactions between Mr. Maestri and the Company that would be required to be disclosed.

Item 6. Exhibits
Index to Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Exhibit	Filing Date/ Period End Date
3.1	Restated Articles of Incorporation, filed with the Secretary of State of the State of California on July 10, 2009.	10-Q	3.1	6/27/09
3.2	Amended Bylaws of the Registrant, as of April 20, 2011.	10-Q	3.2	3/26/11
4.1	Form of Common Stock Certificate of the Registrant.	10-Q	4.1	12/30/06
10.1*	Amended Employee Stock Purchase Plan, effective as of March 8, 2010.	10-Q	10.1	3/27/10
10.2*	Form of Indemnification Agreement between the Registrant and each director and executive officer of the Registrant.	10-Q	10.2	6/27/09
10.3*	1997 Director Stock Plan, as amended through May 24, 2012.	10-Q	10.3	6/30/12
10.4*	2003 Employee Stock Plan, as amended through February 25, 2010.	8-K	10.1	3/1/10
10.5*	Form of Restricted Stock Unit Award Agreement effective as of November 11, 2008.	10-Q	10.10	12/27/08
10.6*	Form of Restricted Stock Unit Award Agreement effective as of November 16, 2010.	10-Q	10.10	12/25/10
10.7*	Form of Restricted Stock Unit Award Agreement effective as of April 6, 2012.	10-Q	10.8	3/31/12
10.8*	Summary Description of Amendment, effective as of May 24, 2012, to certain Restricted Stock Unit Award Agreements outstanding as of April 5, 2012.	10-Q	10.8	6/30/12
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.			
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.			
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.			
101.INS**	XBRL Instance Document.			
101.SCH**	XBRL Taxonomy Extension Schema Document.			
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.			
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.			
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.			

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 23, 2013

APPLE INC.

By: /s/ Peter Oppenheimer
Peter Oppenheimer
Senior Vice President,
Chief Financial Officer