

APPLE INC
Form 10-Q
April 24, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 29, 2014

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)

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California
(State or other jurisdiction)

94-2404110
(I.R.S. Employer Identification No.)

of incorporation or organization)

1 Infinite Loop

Cupertino, California
(Address of principal executive offices)

95014
(Zip Code)

(408) 996-1010

(Registrant's telephone number, including area code)

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 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 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

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

861,381,000 shares of common stock, par value \$0.00001, issued and outstanding as of April 11, 2014

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Apple Inc.

Form 10-Q

For the Fiscal Quarter Ended March 29, 2014

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Table of Contents**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 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net sales	\$ 45,646	\$ 43,603	\$ 103,240	\$ 98,115
Cost of sales	27,699	27,254	63,447	60,706
Gross margin	17,947	16,349	39,793	37,409
Operating expenses:				
Research and development	1,422	1,119	2,752	2,129
Selling, general and administrative	2,932	2,672	5,985	5,512
Total operating expenses	4,354	3,791	8,737	7,641
Operating income	13,593	12,558	31,056	29,768
Other income/(expense), net	225	347	471	809
Income before provision for income taxes	13,818	12,905	31,527	30,577
Provision for income taxes	3,595	3,358	8,232	7,952
Net income	\$ 10,223	\$ 9,547	\$ 23,295	\$ 22,625
Earnings per share:				
Basic	\$ 11.69	\$ 10.16	\$ 26.31	\$ 24.09
Diluted	\$ 11.62	\$ 10.09	\$ 26.16	\$ 23.90
Shares used in computing earnings per share:				
Basic	874,757	939,629	885,415	939,273
Diluted	879,528	946,035	890,490	946,626
Cash dividends declared per common share	\$ 3.05	\$ 2.65	\$ 6.10	\$ 5.30

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

(In millions)

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net income	\$ 10,223	\$ 9,547	\$ 23,295	\$ 22,625
Other comprehensive income/(loss):				
Change in foreign currency translation, net of tax	(19)	(51)	(86)	(77)
Change in unrecognized gains/losses on derivative instruments:				
Change in fair value of derivatives, net of tax	(109)	457	104	603
Adjustment for net (gains)/losses realized and included in net income, net of tax	(13)	42	59	154
Total change in unrecognized gains/losses on derivative instruments, net of tax	(122)	499	163	757
Change in unrealized gains/losses on marketable securities:				
Change in fair value of marketable securities, net of tax	235	(52)	193	(118)
Adjustment for net (gains)/losses realized and included in net income, net of tax	(39)	(44)	(50)	(97)
Total change in unrealized gains/losses on marketable securities, net of tax	196	(96)	143	(215)
Total other comprehensive income/(loss)	55	352	220	465
Total comprehensive income	\$ 10,278	\$ 9,899	\$ 23,515	\$ 23,090

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**APPLE INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

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

	March 29, 2014	September 28, 2013
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 18,949	\$ 14,259
Short-term marketable securities	22,401	26,287
Accounts receivable, less allowances of \$88 and \$99, respectively	9,700	13,102
Inventories	1,829	1,764
Deferred tax assets	4,014	3,453
Vendor non-trade receivables	6,120	7,539
Other current assets	7,528	6,882
Total current assets	70,541	73,286
Long-term marketable securities	109,239	106,215
Property, plant and equipment, net	15,120	16,597
Goodwill	2,055	1,577
Acquired intangible assets, net	3,928	4,179
Other assets	5,106	5,146
Total assets	\$ 205,989	\$ 207,000
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 18,914	\$ 22,367
Accrued expenses	15,984	13,856
Deferred revenue	8,310	7,435
Total current liabilities	43,208	43,658
Deferred revenue - non-current	3,164	2,625
Long-term debt	16,962	16,960
Other non-current liabilities	22,476	20,208
Total liabilities	85,810	83,451
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 1,800,000 shares authorized; 861,745 and 899,213 shares issued and outstanding, respectively	21,496	19,764
Retained earnings	98,934	104,256
Accumulated other comprehensive income/(loss)	(251)	(471)
Total shareholders' equity	120,179	123,549

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Total liabilities and shareholders' equity	\$	205,989	\$	207,000
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See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(In millions)

	Six Months Ended	
	March 29, 2014	March 30, 2013
Cash and cash equivalents, beginning of the period	\$ 14,259	\$ 10,746
Operating activities:		
Net income	23,295	22,625
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	4,031	3,280
Share-based compensation expense	1,377	1,120
Deferred income tax expense	2,059	1,957
Changes in operating assets and liabilities:		
Accounts receivable, net	3,401	3,846
Inventories	(65)	(454)
Vendor non-trade receivables	1,419	1,510
Other current and non-current assets	14	1,269
Accounts payable	(2,375)	(4,422)
Deferred revenue	1,414	1,541
Other current and non-current liabilities	1,638	3,658
Cash generated by operating activities	36,208	35,930
Investing activities:		
Purchases of marketable securities	(90,360)	(81,163)
Proceeds from maturities of marketable securities	10,869	9,243
Proceeds from sales of marketable securities	80,241	49,188
Payments made in connection with business acquisitions, net	(559)	(299)
Payments for acquisition of property, plant and equipment	(3,367)	(4,325)
Payments for acquisition of intangible assets	(163)	(429)
Other	(23)	(93)
Cash used in investing activities	(3,362)	(27,878)
Financing activities:		
Proceeds from issuance of common stock	341	275
Excess tax benefits from equity awards	363	502
Taxes paid related to net share settlement of equity awards	(430)	(588)
Dividends and dividend equivalents paid	(5,430)	(4,984)
Repurchase of common stock	(23,000)	(1,950)
Cash used in financing activities	(28,156)	(6,745)
Increase in cash and cash equivalents	4,690	1,307
Cash and cash equivalents, end of the period	\$ 18,949	\$ 12,053

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Supplemental cash flow disclosure:

Cash paid for income taxes, net	\$	5,369	\$	4,258
Cash paid for interest	\$	161	\$	0

See accompanying Notes to Condensed Consolidated Financial Statements.

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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.

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 28, 2013, included in its Annual Report on Form 10-K (the 2013 Form 10-K). The Company's fiscal year is the 52 or 53-week period that ends on the last Saturday of September. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters. The Company's fiscal years 2014 and 2013 each include 52 weeks. 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 2014, the Company adopted updated accounting standards that (i) required disclosure of additional information about the amounts reclassified out of Accumulated Other Comprehensive Income (AOCI) by component and (ii) required gross and net disclosures about offsetting assets and liabilities. The adoption of these updated standards only impacted the disclosures in the Notes to the Condensed Consolidated Financial Statements; accordingly, the adoption had no impact on the Company's financial position or results of operations. The Company has provided these additional disclosures in this Form 10-Q in Note 8, Comprehensive Income and Note 2, Financial Instruments, respectively.

Revenue Recognition

In 2013, the Company's combined best estimates of selling price (ESPs) for the unspecified software upgrade rights and the rights to receive the non-software services included with its qualifying hardware devices ranged from \$5 to \$25. Beginning in the first quarter of 2014, the Company adjusted the combined ESPs for Mac from \$20 to \$40 to reflect additions to unspecified software upgrade rights related to expansion of bundled essential software.

Table of Contents**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 29, 2014 and March 30, 2013 (in thousands, except net income in millions and per share amounts):

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Numerator:				
Net income	\$ 10,223	\$ 9,547	\$ 23,295	\$ 22,625
Denominator:				
Weighted-average shares outstanding	874,757	939,629	885,415	939,273
Effect of dilutive securities	4,771	6,406	5,075	7,353
Weighted-average diluted shares	879,528	946,035	890,490	946,626
Basic earnings per share	\$ 11.69	\$ 10.16	\$ 26.31	\$ 24.09
Diluted earnings per share	\$ 11.62	\$ 10.09	\$ 26.16	\$ 23.90

Potentially dilutive securities, the effect of which would have been antidilutive, were not significant for the three- and six-month periods ended March 29, 2014 and the three- and six-month periods ended March 30, 2013. The Company excluded these securities from the computation of diluted earnings per share.

Table of Contents**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 29, 2014 and September 28, 2013 (in millions):

	March 29, 2014							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	
Cash	\$ 10,948	\$ 0	\$ 0	\$ 10,948	\$ 10,948	\$ 0	\$ 0	
Level 1 (a):								
Money market funds	3,203	0	0	3,203	3,203	0	0	
Mutual funds	4,063	0	(213)	3,850	0	3,850	0	
Subtotal	7,266	0	(213)	7,053	3,203	3,850	0	
Level 2 (b):								
U.S. Treasury securities	24,645	12	(26)	24,631	1,359	5,445	17,827	
U.S. agency securities	10,766	5	(24)	10,747	234	1,340	9,173	
Non-U.S. government securities	6,406	42	(109)	6,339	10	480	5,849	
Certificates of deposit and time deposits	3,344	0	0	3,344	1,735	771	838	
Commercial paper	2,627	0	0	2,627	1,350	1,277	0	
Corporate securities	63,575	351	(145)	63,781	110	8,373	55,298	
Municipal securities	4,117	32	(3)	4,146	0	839	3,307	
Mortgage- and asset-backed securities	17,004	34	(65)	16,973	0	26	16,947	
Subtotal	132,484	476	(372)	132,588	4,798	18,551	109,239	
Total	\$ 150,698	\$ 476	\$ (585)	\$ 150,589	\$ 18,949	\$ 22,401	\$ 109,239	

	September 28, 2013							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	
Cash	\$ 8,705	\$ 0	\$ 0	\$ 8,705	\$ 8,705	\$ 0	\$ 0	
Level 1 (a):								
Money market funds	1,793	0	0	1,793	1,793	0	0	
Mutual funds	3,999	0	(197)	3,802	0	3,802	0	
Subtotal	5,792	0	(197)	5,595	1,793	3,802	0	
Level 2 (b):								
U.S. Treasury securities	27,642	24	(47)	27,619	431	7,554	19,634	
U.S. agency securities	16,878	12	(52)	16,838	177	3,412	13,249	

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Non-U.S. government securities	5,545	35	(137)	5,443	50	313	5,080
Certificates of deposit and time deposits	2,344	0	0	2,344	1,264	844	236
Commercial paper	2,998	0	0	2,998	1,835	1,163	0
Corporate securities	54,586	275	(252)	54,609	0	8,077	46,532
Municipal securities	6,257	45	(22)	6,280	4	1,114	5,162
Mortgage- and asset-backed securities	16,396	23	(89)	16,330	0	8	16,322
Subtotal	132,646	414	(599)	132,461	3,761	22,485	106,215
Total	\$ 147,143	\$ 414	\$ (796)	\$ 146,761	\$ 14,259	\$ 26,287	\$ 106,215

- (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.

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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 29, 2014 and March 30, 2013. The maturities of the Company's long-term marketable securities generally range from one to five years.

As of March 29, 2014 and September 28, 2013, 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 29, 2014, the Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy limits the amount of credit exposure to any one issuer. The policy generally requires investments 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, changes in market interest rates, 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 29, 2014 and March 30, 2013, 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 and interest rate risk. The Company may enter into forward contracts, option contracts, swaps, or other derivative instruments to offset some of the risk on expected future cash flows, 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, typically for up to 12 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.

To help protect against adverse fluctuations in interest rates, the Company may enter into interest rate swaps, options, or other instruments to offset a portion of the changes in income or expense due to fluctuations in interest 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 for 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 AOCI until the hedged item is recognized in earnings. The effective portions of net investment hedges are recorded in other comprehensive income (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.

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. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized as a component of other income/(expense), net in the same period as the related income or expense is recognized. The Company's hedged foreign currency transactions and hedged interest rate transactions as of March 29, 2014 are expected to occur within 12 months and five years, respectively.

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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 29, 2014 and March 30, 2013.

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 29, 2014 and September 28, 2013. The ineffective portions 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 29, 2014 and March 30, 2013.

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 29, 2014 and September 28, 2013 (in millions):

	March 29, 2014		September 28, 2013	
	Notional Principal	Credit Risk	Notional Principal	Credit Risk
Instruments designated as accounting hedges:				
Foreign exchange contracts	\$ 18,099	\$ 160	\$ 35,013	\$ 159
Interest rate contracts	\$ 3,000	\$ 45	\$ 3,000	\$ 44
Instruments not designated as accounting hedges:				
Foreign exchange contracts	\$ 22,155	\$ 28	\$ 16,131	\$ 25

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 or interest 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 currency and interest rates change. Although the table above reflects the notional principal and credit risk amounts of the Company's derivative instruments, it does not reflect the gains or losses associated with the exposures and transactions that the 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 29, 2014, the Company received \$15 million of net 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 28, 2013, the Company posted cash collateral related to the derivative instruments under its collateral security arrangements of \$164 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 29, 2014 or September 28, 2013.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. However, the Company has elected to present the derivative assets and derivative liabilities on a gross basis in its Condensed Consolidated Balance Sheets. As of March 29, 2014 and September 28, 2013, the potential effects of these rights of set-off associated with the Company's derivative contracts, including the effects of collateral, would be a reduction to both derivative assets and derivative liabilities of \$166 million and \$333 million, respectively, resulting in net derivative assets of \$73 million and net derivative liabilities of \$57 million, respectively.

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The following tables show the Company's derivative instruments at gross fair value as reflected in the Condensed Consolidated Balance Sheets as of March 29, 2014 and September 28, 2013 (in millions):

	Fair Value of Derivatives Designated as Hedge Instruments	March 29, 2014 Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	\$ 160	\$ 28	\$ 188
Interest rate contracts	\$ 45	\$ 0	\$ 45
Derivative liabilities (b):			
Foreign exchange contracts	\$ 110	\$ 35	\$ 145

	Fair Value of Derivatives Designated as Hedge Instruments	September 28, 2013 Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	\$ 145	\$ 25	\$ 170
Interest rate contracts	\$ 44	\$ 0	\$ 44
Derivative liabilities (b):			
Foreign exchange contracts	\$ 389	\$ 46	\$ 435

(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 tables show 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 29, 2014 and March 30, 2013 (in millions):

	Three Months Ended							
	Gains/(Losses) Recognized - Ineffective							
	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Portion and Amount Excluded from			March 30, 2013
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	Financial Statement Line Item	Effectiveness Testing	March 29, 2014	
Cash flow hedges:								
Foreign exchange contracts	\$ (121)	\$ 741	\$ 22	\$ (29)	Other income/(expense), net		\$ (8)	\$ (61)

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Interest rate contracts	(27)	0	(4)	0	Other income/(expense), net	0	0
Net investment hedges:							
Foreign exchange contracts	(19)	70	0	0	Other income/(expense), net	0	1
Total	\$ (167)	\$ 811	\$ 18	\$ (29)		\$ (8)	\$ (60)

Six Months Ended

Gains/(Losses) Recognized - Ineffective

	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Portion and Amount Excluded from		
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	Financial Statement Line Item	Effectiveness Testing	
						March 29, 2014	March 30, 2013
Cash flow hedges:							
Foreign exchange contracts	\$ 143	\$ 946	\$ (52)	\$ (188)	Other income/(expense), net	\$ (11)	\$ (52)
Interest rate contracts	(6)	0	(8)	0	Other income/(expense), net	0	0
Net investment hedges:							
Foreign exchange contracts	5	106	0	0	Other income/(expense), net	1	1
Total	\$ 142	\$ 1,052	\$ (60)	\$ (188)		\$ (10)	\$ (51)

Table of Contents**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. As of March 29, 2014, the Company had one customer that accounted for 13% of the Company's trade receivables. As of September 28, 2013, the Company had two customers that represented 10% or more of total trade receivables, one of which accounted for 13% and the other 10%. The Company's cellular network carriers accounted for 59% and 68% of trade receivables as of March 29, 2014 and September 28, 2013, respectively.

Additionally, the Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these manufacturing vendors who manufacture sub-assemblies or assemble final products for the Company. Vendor non-trade receivables from three of the Company's vendors accounted for 52%, 22% and 12% of total non-trade receivables as of March 29, 2014 and three of the Company's vendors accounted for 47%, 21% and 15% of total non-trade receivables as of September 28, 2013.

Note 3 Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of March 29, 2014 and September 28, 2013 (in millions):

Inventories

	March 29, 2014	September 28, 2013
Components	\$ 444	\$ 683
Finished goods	1,385	1,081
Total inventories	\$ 1,829	\$ 1,764

Property, Plant and Equipment

	March 29, 2014	September 28, 2013
Land and buildings	\$ 4,029	\$ 3,309
Machinery, equipment and internal-use software	22,147	21,242
Leasehold improvements	4,230	3,968
Gross property, plant and equipment	30,406	28,519
Accumulated depreciation and amortization	(15,286)	(11,922)
Net property, plant and equipment	\$ 15,120	\$ 16,597

Accrued Expenses

	March 29, 2014	September 28, 2013
Accrued warranty and related costs	\$	