

SHARE REPURCHASES AND DIVIDENDS

Share Repurchases

On September 16, 2013, our Board of Directors approved a share repurchase program authorizing up to \$40.0 billion in share repurchases. The share repurchase program became effective on October 1, 2013, has no expiration date, and may be suspended or discontinued at any time without notice. This share repurchase program replaced the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013. As of June 30, 2016, \$7.1 billion remained of our \$40.0 billion share repurchase program. All repurchases were made using cash resources.

We repurchased the following shares of common stock under the above-described repurchase plans:

(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Year Ended June 30,		2016		2015		2014 ^(a)
First quarter	89	\$ 4,000	43	\$ 2,000	47	\$ 1,500
Second quarter	66	3,600	43	2,000	53	2,000
Third quarter	69	3,600	116	5,000	47	1,791
Fourth quarter	70	3,600	93	4,209	28	1,118
Total		\$ 14,800				
	294		295	\$ 13,209	175	\$ 6,409

(a) Of the 175 million shares repurchased in fiscal year 2014, 128 million shares were repurchased for \$4.9 billion under the share repurchase program approved by our Board of Directors on September 16, 2013 and 47 million shares were repurchased for \$1.5 billion under the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013.

The above table excludes shares repurchased to settle statutory employee tax withholding related to the vesting of stock awards.

Dividends

In fiscal year 2016, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
			(In millions)	
September 15, 2015	\$ 0.36	November 19, 2015	\$ 2,868	December 10, 2015
December 2, 2015	\$ 0.36	February 18, 2016	\$ 2,842	March 10, 2016
March 15, 2016	\$ 0.36	May 19, 2016	\$ 2,821	June 9, 2016
June 14, 2016	\$ 0.36	August 18, 2016	\$ 2,811	September 8, 2016

The dividend declared on June 14, 2016 will be paid after the filing of our Form 10-K and was included in other current liabilities as of June 30, 2016.

In fiscal year 2015, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
			(In millions)	
September 16, 2014	\$ 0.31	November 20, 2014	\$ 2,547	December 11, 2014
December 3, 2014	\$ 0.31	February 19, 2015	\$ 2,532	March 12, 2015
March 10, 2015	\$ 0.31	May 21, 2015	\$ 2,496	June 11, 2015
June 9, 2015	\$ 0.31	August 20, 2015	\$ 2,475	September 10, 2015

The dividend declared on June 9, 2015 was included in other current liabilities as of June 30, 2015.

Item 6. Selected Financial Data

The information set forth below for the five years ended September 29, 2018, is not necessarily indicative of results of future operations, and should be read in conjunction with Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto included in Part II, Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below (in millions, except number of shares, which are reflected in thousands, and per share amounts).

	2018	2017	2016	2015	2014
Net sales	\$ 265,595	\$ 229,234	\$ 215,639	\$ 233,715	\$ 182,795
Net income	\$ 59,531	\$ 48,351	\$ 45,687	\$ 53,394	\$ 39,510
Earnings per share:					
Basic	\$ 12.01	\$ 9.27	\$ 8.35	\$ 9.28	\$ 6.49
Diluted	\$ 11.91	\$ 9.21	\$ 8.31	\$ 9.22	\$ 6.45
Cash dividends declared per share	\$ 2.72	\$ 2.40	\$ 2.18	\$ 1.98	\$ 1.82
Shares used in computing earnings per share:					
Basic	4,955,377	5,217,242	5,470,820	5,753,421	6,085,572
Diluted	5,000,109	5,251,692	5,500,281	5,793,069	6,122,663
Total cash, cash equivalents and marketable securities	\$ 237,100	\$ 268,895	\$ 237,585	\$ 205,666	\$ 155,239
Total assets	\$ 365,725	\$ 375,319	\$ 321,686	\$ 290,345	\$ 231,839
Non-current portion of term debt	\$ 93,735	\$ 97,207	\$ 75,427	\$ 53,329	\$ 28,987
Other non-current liabilities	\$ 45,180	\$ 40,415	\$ 36,074	\$ 33,427	\$ 24,826

Sales Data

The following table shows net sales by reportable segment and net sales and unit sales by product for 2018, 2017 and 2016 (dollars in millions and units in thousands):

	2018	Change	2017	Change	2016
Net Sales by Reportable Segment:					
Americas	\$ 112,093	16 %	\$ 96,600	12 %	\$ 86,613
Europe	62,420	14 %	54,938	10 %	49,952
Greater China	51,942	16 %	44,764	(8)%	48,492
Japan	21,733	23 %	17,733	5 %	16,928
Rest of Asia Pacific	17,407	15 %	15,199	11 %	13,654
Total net sales	<u>\$ 265,595</u>	16 %	<u>\$ 229,234</u>	6 %	<u>\$ 215,639</u>
Net Sales by Product:					
iPhone ⁽¹⁾	\$ 166,699	18 %	\$ 141,319	3 %	\$ 136,700
iPad ⁽¹⁾	18,805	(2)%	19,222	(7)%	20,628
Mac ⁽¹⁾	25,484	(1)%	25,850	13 %	22,831
Services ⁽²⁾	37,190	24 %	29,980	23 %	24,348
Other Products ⁽¹⁾⁽³⁾	17,417	35 %	12,863	16 %	11,132
Total net sales	<u>\$ 265,595</u>	16 %	<u>\$ 229,234</u>	6 %	<u>\$ 215,639</u>
Unit Sales by Product:					
iPhone	217,722	— %	216,756	2 %	211,884
iPad	43,535	— %	43,753	(4)%	45,590
Mac	18,209	(5)%	19,251	4 %	18,484

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

(2) Includes revenue from Digital Content and Services, AppleCare, Apple Pay, licensing and other services. Services net sales in 2018 included a favorable one-time item of \$236 million in connection with the final resolution of various lawsuits. Services net sales in 2017 included a favorable one-time adjustment of \$640 million due to a change in estimate based on the availability of additional supporting information.

(3) Includes sales of AirPods, Apple TV, Apple Watch, Beats products, HomePod, iPod touch and other Apple-branded and third-party accessories.

Product Performance

iPhone

The following table presents iPhone net sales and unit sales information for 2018, 2017 and 2016 (dollars in millions and units in thousands):

	2018	Change	2017	Change	2016
Net sales	\$ 166,699	18%	\$ 141,319	3%	\$ 136,700
Percentage of total net sales	63%		62%		63%
Unit sales	217,722	—%	216,756	2%	211,884

iPhone net sales increased during 2018 compared to 2017 due primarily to a different mix of iPhones resulting in higher average selling prices.

iPhone net sales increased during 2017 compared to 2016 due to higher iPhone unit sales and a different mix of iPhones with higher average selling prices. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on iPhone net sales during 2017.

iPad

The following table presents iPad net sales and unit sales information for 2018, 2017 and 2016 (dollars in millions and units in thousands):

	2018	Change	2017	Change	2016
Net sales	\$ 18,805	(2)%	\$ 19,222	(7)%	\$ 20,628
Percentage of total net sales	7%		8%		10%
Unit sales	43,535	— %	43,753	(4)%	45,590

iPad net sales decreased during 2018 compared to 2017 due primarily to a different mix of iPads resulting in lower average selling prices. The strength in foreign currencies relative to the U.S. dollar had a favorable impact on iPad net sales during 2018.

iPad net sales decreased during 2017 compared to 2016 due to lower iPad unit sales and a different mix of iPads with lower average selling prices. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on iPad net sales during 2017.

Mac

The following table presents Mac net sales and unit sales information for 2018, 2017 and 2016 (dollars in millions and units in thousands):

	2018	Change	2017	Change	2016
Net sales	\$ 25,484	(1)%	\$ 25,850	13%	\$ 22,831
Percentage of total net sales	10%		11%		11%
Unit sales	18,209	(5)%	19,251	4%	18,484

Mac net sales decreased during 2018 compared to 2017 due primarily to lower Mac unit sales, partially offset by a different mix of Macs with higher average selling prices. The strength in foreign currencies relative to the U.S. dollar had a favorable impact on Mac net sales during 2018.

Mac net sales increased during 2017 compared to 2016 due primarily to a different mix of Macs with higher average selling prices and higher Mac unit sales. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Mac net sales during 2017.

Services

The following table presents Services net sales information for 2018, 2017 and 2016 (dollars in millions):

	2018	Change	2017	Change	2016
Net sales	\$ 37,190	24%	\$ 29,980	23%	\$ 24,348
Percentage of total net sales	14%		13%		11%

The year-over-year growth in Services net sales in 2018 was due primarily to licensing, App Store and AppleCare. During 2018, the Company recognized a favorable one-time item of \$236 million in connection with the final resolution of various lawsuits.

The year-over-year growth in Services net sales in 2017 was due primarily to increases in App Store and licensing sales. Services net sales in 2017 included a favorable one-time adjustment of \$640 million due to a change in estimate based on the availability of additional supporting information.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. Americas includes both North and South America. Europe includes European countries, as well as India, the Middle East and Africa. Greater China includes China, Hong Kong and Taiwan. Rest of Asia Pacific includes Australia and those Asian countries not included in the Company's other reportable segments. Although the reportable segments provide similar hardware and software products and similar services, each one is managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. Further information regarding the Company's reportable segments can be found in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 10, "Segment Information and Geographic Data."

Americas

The following table presents Americas net sales information for 2018, 2017 and 2016 (dollars in millions):

	2018	Change	2017	Change	2016
Net sales	\$ 112,093	16%	\$ 96,600	12%	\$ 86,613
Percentage of total net sales	42%		42%		40%

Americas net sales increased during 2018 compared to 2017 due to higher net sales of iPhone, Services and Other Products.

Americas net sales increased during 2017 compared to 2016 due primarily to higher net sales of iPhone, Services and Mac.

Europe

The following table presents Europe net sales information for 2018, 2017 and 2016 (dollars in millions):

	2018	Change	2017	Change	2016
Net sales	\$ 62,420	14%	\$ 54,938	10%	\$ 49,952
Percentage of total net sales	24%		24%		23%

Europe net sales increased during 2018 compared to 2017 due primarily to higher net sales of iPhone and Services. The strength in foreign currencies relative to the U.S. dollar had a favorable impact on Europe net sales during 2018.

Europe net sales increased during 2017 compared to 2016 due primarily to higher net sales of iPhone and Services. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Europe net sales during 2017.

Gross margin increased in 2017 compared to 2016 due primarily to a shift in mix to Services and an overall increase in product volumes. Gross margin percentage decreased year-over-year due primarily to higher product costs, partially offset by a favorable shift in mix to Services. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on gross margin and gross margin percentage during 2017.

The Company anticipates gross margin percentage during the first quarter of 2019 to be between 38.0% and 38.5%. The foregoing statement regarding the Company's expected gross margin percentage in the first quarter of 2019 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part I, Item 1A of this Form 10-K under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins will be subject to volatility and remain under downward pressure due to a variety of factors, including: continued industry-wide global product pricing pressures and product pricing actions that the Company may take in response to such pressures; increased competition; the Company's ability to effectively stimulate demand for certain of its products; compressed product life cycles; potential increases in the cost of components and outside manufacturing services; the Company's ability to manage product quality and warranty costs effectively; shifts in the mix of products and services, or in the geographic, currency or channel mix; fluctuations in exchange rates; and costs associated with the Company's frequent introductions and transitions of products and services.

Operating Expenses

Operating expenses for 2018, 2017 and 2016 were as follows (dollars in millions):

	2018	Change	2017	Change	2016
Research and development	\$ 14,236	23%	\$ 11,581	15%	\$ 10,045
Percentage of total net sales	5%		5%		5%
Selling, general and administrative	\$ 16,705	9%	\$ 15,261	8%	\$ 14,194
Percentage of total net sales	6%		7%		7%
Total operating expenses	\$ 30,941	15%	\$ 26,842	11%	\$ 24,239
Percentage of total net sales	12%		12%		11%

Research and Development

The year-over-year growth in R&D expense in 2018 was driven primarily by increases in headcount-related expenses, infrastructure-related costs and material costs to support expanded R&D activities. R&D expense increased during 2017 compared to 2016 due primarily to increases in headcount-related expenses and material costs 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 to the development of new and updated products and services that are central to the Company's core business strategy.

Selling, General and Administrative

The year-over-year growth in selling, general and administrative expense in 2018 was driven primarily by increases in headcount-related expenses, professional services and infrastructure-related costs. The increase in selling, general and administrative expense in 2017 compared to 2016 was driven primarily by an increase in headcount-related expenses, variable selling expenses and infrastructure-related costs.

Other Income/(Expense), Net

Other income/(expense), net for 2018, 2017 and 2016 was as follows (dollars in millions):

	2018	Change	2017	Change	2016
Interest and dividend income	\$ 5,686		\$ 5,201		\$ 3,999
Interest expense	(3,240)		(2,323)		(1,456)
Other expense, net	(441)		(133)		(1,195)
Total other income/(expense), net	\$ 2,005	(27)%	\$ 2,745	104%	\$ 1,348

The year-over-year decrease in other income/(expense), net during 2018 was due primarily to higher interest expense on debt and the impact of foreign exchange-related items, partially offset by higher interest income. The year-over-year increase in other income/(expense), net during 2017 was due primarily to higher interest income and the favorable impact of foreign exchange-related items, partially offset by higher interest expense on debt. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 2.16%, 1.99% and 1.73% in 2018, 2017 and 2016, respectively.

IMPAIRMENT AND RESTRUCTURING EXPENSES

Impairment and restructuring expenses include costs associated with the impairment of intangible assets related to our Phone business, and employee severance expenses and other costs associated with the consolidation of facilities and manufacturing operations related to restructuring activities.

Fiscal Year 2018 Compared with Fiscal Year 2017

During fiscal year 2017, we recorded \$306 million of employee severance expenses primarily related to our sales and marketing restructuring plan.

Fiscal Year 2017 Compared with Fiscal Year 2016

Impairment and restructuring expenses were \$306 million for fiscal year 2017, compared to \$1.1 billion for fiscal year 2016.

During fiscal year 2016, we recorded \$630 million of asset impairment charges related to our Phone business. We also recorded \$480 million of restructuring charges, including employee severance expenses and contract termination costs, primarily related to our previously announced Phone business restructuring plans.

OTHER INCOME (EXPENSE), NET

The components of other income (expense), net were as follows:

(In millions)

Year Ended June 30,	2018	2017	2016
Dividends and interest income	\$ 2,214	\$ 1,387	\$ 903
Interest expense	(2,733)	(2,222)	(1,243)
Net recognized gains on investments	2,399	2,583	668
Net losses on derivatives	(187)	(510)	(443)
Net losses on foreign currency remeasurements	(218)	(111)	(129)
Other, net	(59)	(251)	(195)
Total	<u>\$ 1,416</u>	<u>\$ 876</u>	<u>\$ (439)</u>

We use derivative instruments to: manage risks related to foreign currencies, equity prices, interest rates, and credit; enhance investment returns; and facilitate portfolio diversification. Gains and losses from changes in fair values of derivatives that are not designated as hedges are primarily recognized in other income (expense), net.

Fiscal Year 2018 Compared with Fiscal Year 2017

Dividends and interest income increased primarily due to higher average portfolio balances and yields on fixed-income securities. Interest expense increased primarily due to higher average outstanding long-term debt and higher finance lease expense. Net recognized gains on investments decreased primarily due to higher losses on sales of fixed-income securities, offset in part by higher gains on sales of equity securities. Net losses on derivatives decreased primarily due to lower losses on equity, foreign exchange, and commodity derivatives, offset in part by losses on interest rate derivatives in the current period as compared to gains in the prior period.

Fiscal Year 2017 Compared with Fiscal Year 2016

Dividends and interest income increased primarily due to higher portfolio balances and yields on fixed-income securities. Interest expense increased primarily due to higher outstanding long-term debt. Net recognized gains on

Corporate and Other operating loss decreased \$2.0 billion, primarily due to an \$8.9 billion reduction in impairment, integration, and restructuring expenses, driven by prior year goodwill and asset impairment charges related to our phone business, offset in part by lower revenue.

Fiscal year 2015 compared with fiscal year 2014

Corporate and Other revenue increased \$613 million, primarily due to the timing of net revenue deferrals compared to the prior year. During fiscal year 2015, we recognized a net \$303 million of previously deferred revenue related to Bundled Offerings. During fiscal year 2014, we deferred a net \$349 million of revenue related to Bundled Offerings.

Corporate and Other operating loss increased \$9.3 billion, primarily due to higher impairment, integration, and restructuring expenses, offset in part by increased revenue.

OPERATING EXPENSES

Research and Development

(In millions, except percentages)	2016	2015	2014	Percentage Change 2016 Versus 2015	Percentage Change 2015 Versus 2014
Research and development	\$ 11,988	\$ 12,046	\$ 11,381	0%	6%
As a percent of revenue	14%	13%	13%	1ppt	0ppt

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, localization costs incurred to translate software for international markets, and the amortization of purchased software code.

Fiscal year 2016 compared with fiscal year 2015

Research and development expenses decreased \$58 million, primarily due to a reduction in phone expenses, driven by the change in strategy for the phone business, offset in part by increased strategic investments and acquisitions to drive cloud innovation.

Fiscal year 2015 compared with fiscal year 2014

Research and development expenses increased \$665 million or 6%, mainly due to increased investment in new products and services, including \$739 million higher phone expenses, offset in part by reduced headcount-related expenses.

Sales and Marketing

(In millions, except percentages)	2016	2015	2014	Percentage Change 2016 Versus 2015	Percentage Change 2015 Versus 2014
Sales and marketing	\$ 14,697	\$ 15,713	\$ 15,811	(6)%	(1)%
As a percent of revenue	17%	17%	18%	0ppt	(1)ppt

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel and the costs of advertising, promotions, trade shows, seminars, and other programs.

Fiscal year 2016 compared with fiscal year 2015

Sales and marketing expenses decreased \$1.0 billion or 6%, primarily due to a reduction in phone expenses, driven by the change in strategy for the phone business. Expenses included a favorable foreign currency impact of approximately 2%.

Fiscal year 2015 compared with fiscal year 2014

Sales and marketing expenses decreased \$98 million or 1%, primarily due to a decline in advertising and marketing programs costs and a reduction in headcount-related expenses, offset in part by an increase in phone expenses. Expenses included a favorable foreign currency impact of approximately 4%.

General and Administrative

(In millions, except percentages)	2016	2015	2014	Percentage Change 2016 Versus 2015	Percentage Change 2015 Versus 2014
General and administrative	\$ 4,563	\$ 4,611	\$ 4,677	(1)%	(1)%
As a percent of revenue	5%	5%	5%	0ppt	0ppt

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, severance expense, and other headcount-related expenses associated with finance, legal, facilities, certain human resources and other administrative personnel, certain taxes, and legal and other administrative fees.

Fiscal year 2016 compared with fiscal year 2015

General and administrative expenses decreased \$48 million or 1%, primarily due to a reduction in employee-related expenses, offset in part by increased investments in infrastructure supporting our business transformation. Expenses included a favorable foreign currency impact of approximately 2%.

Fiscal year 2015 compared with fiscal year 2014

General and administrative expenses were comparable to the prior year.

IMPAIRMENT, INTEGRATION, AND RESTRUCTURING EXPENSES

Impairment, integration, and restructuring expenses include costs associated with the impairment of goodwill and intangible assets related to our phone business, employee severance expenses and costs associated with the consolidation of facilities and manufacturing operations related to restructuring activities, and systems consolidation and other business integration expenses associated with our acquisition of NDS.

Fiscal year 2016 compared with fiscal year 2015

Impairment, integration, and restructuring expenses were \$1.1 billion for fiscal year 2016, compared to \$10.0 billion for fiscal year 2015.

During fiscal year 2016, we recorded \$630 million of asset impairment charges related to our phone business. We also recorded \$480 million of restructuring charges, including employee severance expenses and contract termination costs, primarily related to our previously announced phone business restructuring plans.

NOTE 22 — QUARTERLY INFORMATION (UNAUDITED)

(In millions, except per share amounts)

Quarter Ended	September 30	December 31	March 31	June 30	Total
Fiscal Year 2017 ^(a)					
Revenue ^(b)		\$ 24,090			
	\$ 20,453		\$ 22,090	\$ 23,317	\$ 89,950
Gross margin	12,609	14,189	14,030	14,861	55,689
Operating income	5,225	6,177	5,594	5,330	22,326
Net income	4,690	5,200	4,801	6,513 ^(c)	21,204 ^(c)
Basic earnings per share	0.60	0.67	0.62	0.84	2.74
Diluted earnings per share	0.60	0.66	0.61	0.83 ^(c)	2.71 ^(c)
Fiscal Year 2016					
Revenue ^(d)	\$ 20,379	\$ 23,796	\$ 20,531	\$ 20,614	\$ 85,320
Gross margin	13,172	13,924	12,809	12,635	52,540
Operating income	5,793	6,026	5,283	3,080	20,182
Net income	4,902	5,018	3,756	3,122 ^(e)	16,798 ^(e)
Basic earnings per share	0.61	0.63	0.48	0.40	2.12
Diluted earnings per share	0.61	0.62	0.47	0.39 ^(e)	2.10 ^(e)

- (a) On December 8, 2016, we acquired LinkedIn Corporation. LinkedIn has been included in our consolidated results of operations starting on the acquisition date.
- (b) Reflects the impact of the net revenue deferral from Windows 10 of \$1.9 billion, \$2.0 billion, \$1.5 billion, and \$1.4 billion, for the first, second, third, and fourth quarter of fiscal year 2017, respectively, and \$6.7 billion for fiscal year 2017.
- (c) Includes \$306 million of employee severance expenses primarily related to our sales and marketing restructuring plan, which decreased operating income, net income, and diluted EPS by \$306 million, \$243 million, and \$0.03, respectively.
- (d) Reflects the impact of the net revenue deferral from Windows 10 of \$1.3 billion, \$1.7 billion, \$1.6 billion, and \$2.0 billion, for the first, second, third, and fourth quarter of fiscal year 2016, respectively, and \$6.6 billion for fiscal year 2016.
- (e) Includes \$630 million of asset impairment charges related to our phone business, and \$480 million of restructuring charges associated with our 2016 restructuring plans, which together decreased operating income, net income, and diluted EPS by \$1.1 billion, \$895 million, and \$0.11, respectively.