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 27, 2021

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: **001-36743**

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.)
One Apple Park Way **Cupertino, California**	**95014**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.00001 par value per share	**AAPL**	**The Nasdaq Stock Market LLC**
1.000% Notes due 2022	—	**The Nasdaq Stock Market LLC**
1.375% Notes due 2024	—	**The Nasdaq Stock Market LLC**
0.000% Notes due 2025	—	**The Nasdaq Stock Market LLC**
0.875% Notes due 2025	—	**The Nasdaq Stock Market LLC**
1.625% Notes due 2026	—	**The Nasdaq Stock Market LLC**
2.000% Notes due 2027	—	**The Nasdaq Stock Market LLC**
1.375% Notes due 2029	—	**The Nasdaq Stock Market LLC**
3.050% Notes due 2029	—	**The Nasdaq Stock Market LLC**
0.500% Notes due 2031	—	**The Nasdaq Stock Market LLC**
3.600% Notes due 2042	—	**The Nasdaq Stock Market LLC**

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 every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

16,687,631,000 shares of common stock were issued and outstanding as of April 16, 2021.

Apple Inc.

Form 10-Q

For the Fiscal Quarter Ended March 27, 2021

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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 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Net sales:				
Products	$ 72,683	$ 44,965	$ 168,361	$ 124,069
Services	16,901	13,348	32,662	26,063
Total net sales	89,584	58,313	201,023	150,132
Cost of sales:				
Products	46,447	31,321	108,577	83,396
Services	5,058	4,622	10,039	9,149
Total cost of sales	51,505	35,943	118,616	92,545
Gross margin	38,079	22,370	82,407	57,587
Operating expenses:				
Research and development	5,262	4,565	10,425	9,016
Selling, general and administrative	5,314	4,952	10,945	10,149
Total operating expenses	10,576	9,517	21,370	19,165
Operating income	27,503	12,853	61,037	38,422
Other income/(expense), net	508	282	553	631
Income before provision for income taxes	28,011	13,135	61,590	39,053
Provision for income taxes	4,381	1,886	9,205	5,568
Net income	$ 23,630	$ 11,249	$ 52,385	$ 33,485
Earnings per share:				
Basic	$ 1.41	$ 0.64	$ 3.11	$ 1.91
Diluted	$ 1.40	$ 0.64	$ 3.08	$ 1.89
Shares used in computing earnings per share:				
Basic	16,753,476	17,440,402	16,844,298	17,550,281
Diluted	16,929,157	17,618,765	17,021,423	17,718,591

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 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Net income	$ 23,630	$ 11,249	$ 52,385	$ 33,485
Other comprehensive income/(loss):				
Change in foreign currency translation, net of tax	(78)	(566)	471	(364)
Change in unrealized gains/losses on derivative instruments, net of tax:				
Change in fair value of derivatives	332	(143)	28	(32)
Adjustment for net (gains)/losses realized and included in net income	759	634	576	236
Total change in unrealized gains/losses on derivative instruments	1,091	491	604	204
Change in unrealized gains/losses on marketable debt securities, net of tax:				
Change in fair value of marketable debt securities	(1,403)	(2,325)	(775)	(2,200)
Adjustment for net (gains)/losses realized and included in net income	(75)	29	(180)	19
Total change in unrealized gains/losses on marketable debt securities	(1,478)	(2,296)	(955)	(2,181)
Total other comprehensive income/(loss)	(465)	(2,371)	120	(2,341)
Total comprehensive income	$ 23,165	$ 8,878	$ 52,505	$ 31,144

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 and par value)

	March 27, 2021	September 26, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 38,466	$ 38,016
Marketable securities	31,368	52,927
Accounts receivable, net	18,503	16,120
Inventories	5,219	4,061
Vendor non-trade receivables	14,533	21,325
Other current assets	13,376	11,264
Total current assets	121,465	143,713
Non-current assets:		
Marketable securities	134,539	100,887
Property, plant and equipment, net	37,815	36,766
Other non-current assets	43,339	42,522
Total non-current assets	215,693	180,175
Total assets	$ 337,158	$ 323,888
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 40,127	$ 42,296
Other current liabilities	45,660	42,684
Deferred revenue	7,595	6,643
Commercial paper	5,000	4,996
Term debt	8,003	8,773
Total current liabilities	106,385	105,392
Non-current liabilities:		
Term debt	108,642	98,667
Other non-current liabilities	52,953	54,490
Total non-current liabilities	161,595	153,157
Total liabilities	267,980	258,549
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.00001 par value: 50,400,000 shares authorized; 16,686,305 and 16,976,763 shares issued and outstanding, respectively	54,203	50,779
Retained earnings	15,261	14,966
Accumulated other comprehensive income/(loss)	(286)	(406)
Total shareholders' equity	69,178	65,339
Total liabilities and shareholders' equity	$ 337,158	$ 323,888

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(In millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Total shareholders' equity, beginning balances	$ 66,224	$ 89,531	$ 65,339	$ 90,488
Common stock and additional paid-in capital:				
Beginning balances	51,744	45,972	50,779	45,174
Common stock issued	561	428	561	430
Common stock withheld related to net share settlement of equity awards	(135)	(101)	(1,236)	(1,052)
Share-based compensation	2,033	1,733	4,099	3,480
Ending balances	54,203	48,032	54,203	48,032
Retained earnings:				
Beginning balances	14,301	43,977	14,966	45,898
Net income	23,630	11,249	52,385	33,485
Dividends and dividend equivalents declared	(3,495)	(3,432)	(7,042)	(6,917)
Common stock withheld related to net share settlement of equity awards	(174)	(96)	(2,047)	(632)
Common stock repurchased	(19,001)	(18,516)	(43,001)	(38,516)
Cumulative effect of change in accounting principle	—	—	—	(136)
Ending balances	15,261	33,182	15,261	33,182
Accumulated other comprehensive income/(loss):				
Beginning balances	179	(418)	(406)	(584)
Other comprehensive income/(loss)	(465)	(2,371)	120	(2,341)
Cumulative effect of change in accounting principle	—	—	—	136
Ending balances	(286)	(2,789)	(286)	(2,789)
Total shareholders' equity, ending balances	$ 69,178	$ 78,425	$ 69,178	$ 78,425
Dividends and dividend equivalents declared per share or RSU	$ 0.205	$ 0.1925	$ 0.41	$ 0.385

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Six Months Ended	
	March 27, 2021	March 28, 2020
Cash, cash equivalents and restricted cash, beginning balances	$ 39,789	$ 50,224
Operating activities:		
Net income	52,385	33,485
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	5,463	5,602
Share-based compensation expense	4,001	3,407
Deferred income tax benefit	(207)	(651)
Other	(474)	(259)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,347)	7,284
Inventories	(1,226)	699
Vendor non-trade receivables	6,792	7,923
Other current and non-current assets	(4,333)	(8,866)
Accounts payable	(1,997)	(13,520)
Deferred revenue	1,642	1,223
Other current and non-current liabilities	3,045	7,500
Cash generated by operating activities	62,744	43,827
Investing activities:		
Purchases of marketable securities	(74,424)	(66,489)
Proceeds from maturities of marketable securities	39,605	39,738
Proceeds from sales of marketable securities	21,645	27,762
Payments for acquisition of property, plant and equipment	(5,769)	(3,960)
Payments made in connection with business acquisitions, net	(9)	(1,134)
Other	—	(572)
Cash used in investing activities	(18,952)	(4,655)
Financing activities:		
Proceeds from issuance of common stock	561	430
Payments for taxes related to net share settlement of equity awards	(3,160)	(1,566)
Payments for dividends and dividend equivalents	(7,060)	(6,914)
Repurchases of common stock	(43,323)	(39,280)
Proceeds from issuance of term debt, net	13,923	2,210
Repayments of term debt	(4,500)	(5,250)
Proceeds from commercial paper, net	22	1,518
Proceeds from repurchase agreement	—	2,556
Other	(38)	(51)
Cash used in financing activities	(43,575)	(46,347)
Increase/(Decrease) in cash, cash equivalents and restricted cash	217	(7,175)
Cash, cash equivalents and restricted cash, ending balances	$ 40,006	$ 43,049
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	$ 10,276	$ 7,505
Cash paid for interest	$ 1,327	$ 1,689

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation and Preparation

The condensed consolidated financial statements include the accounts of Apple Inc. and its wholly owned subsidiaries (collectively "Apple" or the "Company"). Intercompany accounts and transactions have been eliminated. In the opinion of the Company's management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these condensed consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ materially from those estimates. Certain prior period amounts in the consolidated financial statements and accompanying notes 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 accompanying notes included in its Annual Report on Form 10-K for the fiscal year ended September 26, 2020 (the "2020 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 every five or six years to realign the Company's fiscal quarters with calendar quarters. The Company's fiscal years 2021 and 2020 span 52 weeks each. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years.

Common Stock Split

On August 28, 2020, the Company effected a four-for-one stock split to shareholders of record as of August 24, 2020. All share, restricted stock unit ("RSU") and per share or per RSU information has been retroactively adjusted to reflect the stock split.

Recently Adopted Accounting Pronouncements

Financial Instruments – Credit Losses

At the beginning of the first quarter of 2021, the Company adopted the Financial Accounting Standards Board's Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which modifies the measurement of expected credit losses on certain financial instruments. The Company adopted ASU 2016-13 utilizing the modified retrospective transition method. The adoption of ASU 2016-13 did not have a material impact on the Company's condensed consolidated financial statements.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (net income in millions and shares in thousands):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Numerator:				
Net income	$ 23,630	$ 11,249	$ 52,385	$ 33,485
Denominator:				
Weighted-average basic shares outstanding	16,753,476	17,440,402	16,844,298	17,550,281
Effect of dilutive securities	175,681	178,363	177,125	168,310
Weighted-average diluted shares	16,929,157	17,618,765	17,021,423	17,718,591
Basic earnings per share	$ 1.41	$ 0.64	$ 3.11	$ 1.91
Diluted earnings per share	$ 1.40	$ 0.64	$ 3.08	$ 1.89

Note 2 – Revenue Recognition

Net sales consist of revenue from the sale of iPhone®, Mac®, iPad®, Services and other products. The Company recognizes revenue at the amount to which it expects to be entitled when control of the products or services is transferred to its customers. Control is generally transferred when the Company has a present right to payment and title and the significant risks and rewards of ownership of products or services are transferred to its customers. For most of the Company's Products net sales, control transfers when products are shipped. For the Company's Services net sales, control transfers over time as services are delivered. Payment for Products and Services net sales is collected within a short period following transfer of control or commencement of delivery of services, as applicable.

The Company records reductions to Products net sales related to future product returns, price protection and other customer incentive programs based on the Company's expectations and historical experience.

For arrangements with multiple performance obligations, which represent promises within an arrangement that are distinct, the Company allocates revenue to all distinct performance obligations based on their relative stand-alone selling prices ("SSPs"). When available, the Company uses observable prices to determine SSPs. When observable prices are not available, SSPs are established that reflect the Company's best estimates of what the selling prices of the performance obligations would be if they were sold regularly on a stand-alone basis. The Company's process for estimating SSPs without observable prices considers multiple factors that may vary depending upon the unique facts and circumstances related to each performance obligation including, where applicable, prices charged by the Company for similar offerings, market trends in the pricing for similar offerings, product-specific business objectives and the estimated cost to provide the performance obligation.

The Company has identified up to three performance obligations regularly included in arrangements involving the sale of iPhone, Mac, iPad and certain other products. The first performance obligation, which represents the substantial portion of the allocated sales price, is the hardware and bundled software delivered at the time of sale. The second performance obligation is the right to receive certain product-related bundled services, which include iCloud®, Siri® and Maps. The third performance obligation is the right to receive, on a when-and-if-available basis, future unspecified software upgrades relating to the software bundled with each device. The Company allocates revenue and any related discounts to these performance obligations based on their relative SSPs. Because the Company lacks observable prices for the undelivered performance obligations, the allocation of revenue is based on the Company's estimated SSPs. Revenue allocated to the delivered hardware and bundled software is recognized when control has transferred to the customer, which generally occurs when the product is shipped. Revenue allocated to the product-related bundled services and unspecified software upgrade rights is deferred and recognized on a straight-line basis over the estimated period they are expected to be provided. Cost of sales related to delivered hardware and bundled software, including estimated warranty costs, are recognized at the time of sale. Costs incurred to provide product-related bundled services and unspecified software upgrade rights are recognized as cost of sales as incurred.

For certain long-term service arrangements, the Company has performance obligations for services it has not yet delivered. For these arrangements, the Company does not have a right to bill for the undelivered services. The Company has determined that any unbilled consideration relates entirely to the value of the undelivered services. Accordingly, the Company has not recognized revenue, and has elected not to disclose amounts, related to these undelivered services.

For the sale of third-party products where the Company obtains control of the product before transferring it to the customer, the Company recognizes revenue based on the gross amount billed to customers. The Company considers multiple factors when determining whether it obtains control of third-party products including, but not limited to, evaluating if it can establish the price of the product, retains inventory risk for tangible products or has the responsibility for ensuring acceptability of the product. For third-party applications sold through the App Store® and certain digital content sold through the Company's other digital content stores, the Company does not obtain control of the product before transferring it to the customer. Therefore, the Company accounts for such sales on a net basis by recognizing in Services net sales only the commission it retains.

The Company has elected to record revenue net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded within other current liabilities until remitted to the relevant government authority.

Deferred Revenue

As of March 27, 2021 and September 26, 2020, the Company had total deferred revenue of $11.9 billion and $10.2 billion, respectively. As of March 27, 2021, the Company expects 64% of total deferred revenue to be realized in less than a year, 26% within one-to-two years, 8% within two-to-three years and 2% in greater than three years.

Disaggregated Revenue

Net sales disaggregated by significant products and services for the three- and six-month periods ended March 27, 2021 and March 28, 2020 were as follows (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
iPhone (1)	$ 47,938	$ 28,962	$ 113,535	$ 84,919
Mac (1)	9,102	5,351	17,777	12,511
iPad (1)	7,807	4,368	16,242	10,345
Wearables, Home and Accessories (1)(2)	7,836	6,284	20,807	16,294
Services (3)	16,901	13,348	32,662	26,063
Total net sales (4)	$ 89,584	$ 58,313	$ 201,023	$ 150,132

(1) Products net sales include amortization of the deferred value of unspecified software upgrade rights, which are bundled in the sales price of the respective product.

(2) Wearables, Home and Accessories net sales include sales of AirPods®, Apple TV®, Apple Watch®, Beats® products, HomePod®, iPod touch® and Apple-branded and third-party accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare®, digital content and other services. Services net sales also include amortization of the deferred value of Maps, Siri, and free iCloud storage and Apple TV+SM services, which are bundled in the sales price of certain products.

(4) Includes $2.7 billion of revenue recognized in the three months ended March 27, 2021 that was included in deferred revenue as of December 26, 2020, $1.9 billion of revenue recognized in the three months ended March 28, 2020 that was included in deferred revenue as of December 28, 2019, $4.1 billion of revenue recognized in the six months ended March 27, 2021 that was included in deferred revenue as of September 26, 2020, and $3.0 billion of revenue recognized in the six months ended March 28, 2020 that was included in deferred revenue as of September 28, 2019.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 11, "Segment Information and Geographic Data" for the three- and six-month periods ended March 27, 2021 and March 28, 2020.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash and marketable securities by significant investment category as of March 27, 2021 and September 26, 2020 (in millions):

	March 27, 2021						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Non-Current Marketable Securities
Cash	$ 19,444	$ —	$ —	$ 19,444	$ 19,444	$ —	$ —
Level 1 (1):							
Money market funds	11,998	—	—	11,998	11,998	—	—
Mutual funds	143	1	(2)	142	—	142	—
Subtotal	12,141	1	(2)	12,140	11,998	142	—
Level 2 (2):							
U.S. Treasury securities	21,331	168	(149)	21,350	205	8,058	13,087
U.S. agency securities	8,228	5	(72)	8,161	—	3,212	4,949
Non-U.S. government securities	19,849	211	(169)	19,891	200	2,881	16,810
Certificates of deposit and time deposits	7,198	—	—	7,198	5,814	1,114	270
Commercial paper	3,353	—	—	3,353	805	2,548	—
Corporate debt securities	88,108	1,506	(444)	89,170	—	13,036	76,134
Municipal securities	980	16	(1)	995	—	136	859
Mortgage- and asset-backed securities	22,624	234	(187)	22,671	—	241	22,430
Subtotal	171,671	2,140	(1,022)	172,789	7,024	31,226	134,539
Total (3)	$ 203,256	$ 2,141	$ (1,024)	$ 204,373	$ 38,466	$ 31,368	$ 134,539

	September 26, 2020						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Non-Current Marketable Securities
Cash	$ 17,773	$ —	$ —	$ 17,773	$ 17,773	$ —	$ —
Level 1 (1): Money market funds	2,171	—	—	2,171	2,171	—	—
Level 2 (2):							
U.S. Treasury securities	28,439	331	—	28,770	8,580	11,972	8,218
U.S. agency securities	8,604	8	—	8,612	2,009	3,078	3,525
Non-U.S. government securities	19,361	275	(186)	19,450	255	3,329	15,866
Certificates of deposit and time deposits	10,399	—	—	10,399	4,043	6,246	110
Commercial paper	11,226	—	—	11,226	3,185	8,041	—
Corporate debt securities	76,937	1,834	(175)	78,596	—	19,687	58,909
Municipal securities	1,001	22	—	1,023	—	139	884
Mortgage- and asset-backed securities	13,520	314	(24)	13,810	—	435	13,375
Subtotal	169,487	2,784	(385)	171,886	18,072	52,927	100,887
Total (3)	$ 189,431	$ 2,784	$ (385)	$ 191,830	$ 38,016	$ 52,927	$ 100,887

(1) Level 1 fair value estimates are based on quoted prices in active markets for identical assets or liabilities.

(2) Level 2 fair value estimates are 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.

(3) As of March 27, 2021 and September 26, 2020, total marketable securities included $19.0 billion and $18.6 billion, respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes") and other agreements.

The Company may sell certain of its marketable debt securities prior to their stated maturities for reasons including, but not limited to, managing liquidity, credit risk, duration and asset allocation. The following table shows the fair value of the Company's non-current marketable debt securities, by contractual maturity, as of March 27, 2021 (in millions):

Due after 1 year through 5 years	$ 83,364
Due after 5 years through 10 years	28,835
Due after 10 years	22,340
Total fair value	$ 134,539

The Company typically invests in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer. Fair values were determined for each individual security in the investment portfolio.

Non-Marketable Securities

The Company holds non-marketable equity securities of certain privately held companies without readily determinable fair values. As of March 27, 2021 and September 26, 2020, the Company's non-marketable equity securities had a carrying value of $2.7 billion and $2.8 billion, respectively.

Restricted Cash

A reconciliation of the Company's cash and cash equivalents in the Condensed Consolidated Balance Sheets to cash, cash equivalents and restricted cash in the Condensed Consolidated Statements of Cash Flows as of March 27, 2021 and September 26, 2020 is as follows (in millions):

	March 27, 2021	September 26, 2020
Cash and cash equivalents	$ 38,466	$ 38,016
Restricted cash	1,540	1,773
Cash, cash equivalents and restricted cash	$ 40,006	$ 39,789

The Company's restricted cash primarily consisted of cash to support the Company's iPhone Upgrade Program. Substantially all of the Company's restricted cash was included in other non-current assets in the Condensed Consolidated Balance Sheets.

Derivative Financial Instruments

The Company may use derivatives to partially offset its business exposure to foreign currency and interest rate risk on expected future cash flows, net investments in certain foreign subsidiaries, and certain existing assets and liabilities. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations or 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 or interest rates.

To protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company's subsidiaries whose functional currency is the U.S. dollar may hedge a portion of forecasted foreign currency revenue, and subsidiaries whose functional currency is not the U.S. dollar may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries' functional currencies. The Company may enter into forward contracts, option contracts or other instruments to manage this risk and may designate these instruments as cash flow hedges. The Company generally hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months.

To protect the net investment in a foreign operation from fluctuations in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset a portion of the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates. In addition, the Company may use non-derivative financial instruments, such as its foreign currency–denominated debt, as hedges of its net investments in certain foreign subsidiaries. In both of these cases, the Company designates these instruments as net investment hedges.

To protect the Company's foreign currency–denominated term debt or marketable securities from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, cross-currency swaps or other instruments. These instruments may offset a portion of the foreign currency remeasurement gains or losses, or changes in fair value. The Company may designate these instruments as either cash flow or fair value hedges. As of March 27, 2021, the Company's hedged term debt– and marketable securities–related foreign currency transactions are expected to be recognized within 21 years.

The Company may also enter into non-designated foreign currency contracts to offset a portion of the foreign currency exchange gains and losses generated by the remeasurement of certain assets and liabilities denominated in non-functional currencies.

To protect the Company's foreign currency–denominated term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. These instruments may offset a portion of the changes in interest income or expense, or changes in fair value. The Company designates these instruments as either cash flow or fair value hedges. As of March 27, 2021, the Company's hedged interest rate transactions are expected to be recognized within seven years.

Cash Flow Hedges

Cash flow hedge amounts that are included in the assessment of hedge effectiveness are deferred in accumulated other comprehensive income/(loss) ("AOCI") until the hedged item is recognized in earnings. 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 in other income/(expense), net ("OI&E") in the same period as the related income or expense is recognized. For options designated as cash flow hedges, the time value is excluded from the assessment of hedge effectiveness and recognized in the financial statement line item to which the hedge relates on a straight-line basis over the life of the hedge. Changes in the fair value of amounts excluded from the assessment of hedge effectiveness are recognized in other comprehensive income/(loss) ("OCI").

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 into OI&E in the period of de-designation. Any subsequent changes in fair value of such derivative instruments are reflected in OI&E unless they are re-designated as hedges of other transactions.

Net Investment Hedges

Net investment hedge amounts that are included in the assessment of hedge effectiveness are recorded in OCI as a part of the cumulative translation adjustment. For foreign exchange forward contracts designated as net investment hedges, the forward carry component is excluded from the assessment of hedge effectiveness and recognized in OCI on a straight-line basis over the life of the hedge. Changes in the fair value of amounts excluded from the assessment of hedge effectiveness are recognized in OCI.

Fair Value Hedges

Fair value hedge gains and losses related to amounts that are included in the assessment of hedge effectiveness are recognized in earnings along with a corresponding loss or gain related to the change in value of the hedged item in the same line in the Condensed Consolidated Statements of Operations. For foreign exchange forward contracts designated as fair value hedges, the forward carry component is excluded from the assessment of hedge effectiveness and recognized in OI&E on a straight-line basis over the life of the hedge. Amounts excluded from the effectiveness assessment of fair value hedges and recognized in OI&E were gains of $60 million and $142 million for the three- and six-month periods ended March 27, 2021, respectively, and were gains of $126 million and $254 million for the three- and six-month periods ended March 28, 2020, respectively. Changes in the fair value of amounts excluded from the assessment of hedge effectiveness are recognized in OCI.

Non-Designated Derivatives

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 records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of March 27, 2021 and September 26, 2020 (in millions):

	March 27, 2021		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (1):			
Foreign exchange contracts	$ 717	$ 778	$ 1,495
Interest rate contracts	$ 923	$ —	$ 923
Derivative liabilities (2):			
Foreign exchange contracts	$ 1,014	$ 702	$ 1,716

	September 26, 2020		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (1):			
Foreign exchange contracts	$ 749	$ 303	$ 1,052
Interest rate contracts	$ 1,557	$ —	$ 1,557
Derivative liabilities (2):			
Foreign exchange contracts	$ 1,561	$ 485	$ 2,046

(1) The fair value of derivative assets is measured using Level 2 fair value inputs and is included in other current assets and other non-current assets in the Condensed Consolidated Balance Sheets.

(2) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is included in other current liabilities and other non-current liabilities in the Condensed Consolidated Balance Sheets.

The Company classifies cash flows related to derivative financial instruments as operating activities in its Condensed Consolidated Statements of Cash Flows.

The following table shows the pre-tax gains and losses of the Company's derivative and non-derivative instruments designated as cash flow and net investment hedges in OCI and the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Gains/(Losses) recognized in OCI – included in effectiveness assessment:				
Cash flow hedges:				
Foreign exchange contracts	$ 338	$ (462)	$ 147	$ (191)
Interest rate contracts	39	(66)	93	(66)
Total	$ 377	$ (528)	$ 240	$ (257)
Net investment hedges:				
Foreign currency debt	$ —	$ 11	$ —	$ 35
Gains/(Losses) reclassified from AOCI into net income – included in effectiveness assessment:				
Cash flow hedges:				
Foreign exchange contracts	$ (885)	$ (817)	$ (571)	$ (326)
Interest rate contracts	(2)	(1)	(5)	(3)
Total	$ (887)	$ (818)	$ (576)	$ (329)

Amounts excluded from the effectiveness assessment of the Company's hedges and recognized in OCI were a gain of $41 million and a loss of $97 million for the three- and six-month periods ended March 27, 2021, respectively, and were gains of $258 million and $169 million for the three- and six-month periods ended March 28, 2020, respectively.

The following tables show information about the Company's derivative instruments designated as fair value hedges and the related hedged items for the three- and six-month periods ended March 27, 2021 and March 28, 2020 and as of March 27, 2021 and September 26, 2020 (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Gains/(Losses) on derivative instruments [1]:				
Foreign exchange contracts	$ 570	$ 436	$ (183)	$ 253
Interest rate contracts	(451)	1,290	(618)	1,128
Total	$ 119	$ 1,726	$ (801)	$ 1,381
Gains/(Losses) related to hedged items [1]:				
Marketable securities	$ (569)	$ (436)	$ 183	$ (253)
Fixed-rate debt	451	(1,290)	618	(1,128)
Total	$ (118)	$ (1,726)	$ 801	$ (1,381)

	March 27, 2021	September 26, 2020
Carrying amounts of hedged assets/(liabilities):		
Marketable securities [2]	$ 16,423	$ 16,270
Fixed-rate debt [3]	$ (18,416)	$ (21,033)
Cumulative hedging adjustments included in the carrying amounts of hedged items:		
Marketable securities carrying amount increases/(decreases)	$ 403	$ 493
Fixed-rate debt carrying amount (increases)/decreases	$ (923)	$ (1,541)

(1) Gains and losses related to fair value hedges are included in OI&E in the Condensed Consolidated Statements of Operations.

(2) The carrying amounts of marketable securities that are designated as hedged items in fair value hedges are included in current marketable securities and non-current marketable securities in the Condensed Consolidated Balance Sheets

(3) The carrying amounts of fixed-rate debt instruments that are designated as hedged items in fair value hedges are included in current term debt and non-current term debt in the Condensed Consolidated Balance Sheets.

The following table shows the notional amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of March 27, 2021 and September 26, 2020 (in millions):

	March 27, 2021		September 26, 2020	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
Instruments designated as accounting hedges:				
Foreign exchange contracts	$ 53,312	$ 717	$ 57,410	$ 749
Interest rate contracts	$ 17,500	$ 923	$ 20,700	$ 1,557
Instruments not designated as accounting hedges:				
Foreign exchange contracts	$ 104,434	$ 778	$ 88,636	$ 303

The notional 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 exposure to credit loss and market risk will vary over time as currency and interest rates change. Although the table above reflects the notional 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 in its Condensed Consolidated Balance Sheets. As of March 27, 2021 and September 26, 2020, the net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was $935 million and $875 million, respectively. The Company includes gross collateral posted and received in other current assets and other current liabilities in the Condensed Consolidated Balance Sheets, respectively.

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. As of March 27, 2021 and September 26, 2020, 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 $2.4 billion and $2.8 billion, respectively, resulting in net derivative liabilities of $233 million and $312 million, respectively.

Accounts Receivable

Trade Receivables

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, resellers, small and mid-sized businesses and education, enterprise and government customers. The Company generally does not require collateral from its customers; however, the Company will require collateral or third-party credit support in certain instances to limit credit risk. In addition, when possible, the Company attempts to limit credit risk on trade receivables with credit insurance for certain customers or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit risk sharing related to any of these arrangements.

As of March 27, 2021, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 13%. As of September 26, 2020, the Company had no customers that individually represented 10% or more of total trade receivables. The Company's cellular network carriers accounted for 35% of total trade receivables as of March 27, 2021.

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of March 27, 2021, the Company had one vendor that represented 10% or more of total vendor non-trade receivables, which accounted for 65%. As of September 26, 2020, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 57%, and 11%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of March 27, 2021 and September 26, 2020 (in millions):

Property, Plant and Equipment, Net

	March 27, 2021	September 26, 2020
Land and buildings	$ 19,000	$ 17,952
Machinery, equipment and internal-use software	77,841	75,291
Leasehold improvements	10,439	10,283
Gross property, plant and equipment	107,280	103,526
Accumulated depreciation and amortization	(69,465)	(66,760)
Total property, plant and equipment, net	$ 37,815	$ 36,766

Other Non-Current Liabilities

	March 27, 2021	September 26, 2020
Long-term taxes payable	$ 25,162	$ 28,170
Other non-current liabilities	27,791	26,320
Total other non-current liabilities	$ 52,953	$ 54,490

Other Income/(Expense), Net

The following table shows the detail of OI&E for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Interest and dividend income	$ 718	$ 1,049	$ 1,465	$ 2,094
Interest expense	(670)	(757)	(1,308)	(1,542)
Other income/(expense), net	460	(10)	396	79
Total other income/(expense), net	$ 508	$ 282	$ 553	$ 631

Note 5 – Income Taxes

Uncertain Tax Positions

As of March 27, 2021, the total amount of gross unrecognized tax benefits was $16.9 billion, of which $8.3 billion, if recognized, would impact the Company's effective tax rate. The Company had accrued $1.6 billion of gross interest and penalties related to income tax matters as of March 27, 2021.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and many state and foreign jurisdictions. The U.S. Internal Revenue Service concluded its review of the years 2013 through 2015 in 2018, and all years before 2016 are closed. Tax years after 2014 remain open in certain major foreign jurisdictions and are subject to examination by the taxing authorities. The Company 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 inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although the timing of resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease in the next 12 months by as much as $3.1 billion.

European Commission State Aid Decision

On August 30, 2016, the European Commission announced its decision that Ireland granted state aid to the Company by providing tax opinions in 1991 and 2007 concerning the tax allocation of profits of the Irish branches of two subsidiaries of the Company (the "State Aid Decision"). The State Aid Decision ordered Ireland to calculate and recover additional taxes from the Company for the period June 2003 through December 2014. Irish legislative changes, effective as of January 2015, eliminated the application of the tax opinions from that date forward. The recovery amount was calculated to be €13.1 billion, plus interest of €1.2 billion. The Company and Ireland appealed the State Aid Decision to the General Court of the Court of Justice of the European Union (the "General Court"). On July 15, 2020, the General Court annulled the State Aid Decision. On September 25, 2020, the European Commission appealed the General Court's decision to the European Court of Justice. The Company believes that any incremental Irish corporate income taxes potentially due related to the State Aid Decision would be creditable against U.S. taxes, subject to any foreign tax credit limitations in the U.S. Tax Cuts and Jobs Act of 2017.

On an annual basis, the Company may request approval from the Irish Minister for Finance to reduce the recovery amount for certain taxes paid to other countries. As of March 27, 2021, the adjusted recovery amount was €12.9 billion, excluding interest. The adjusted recovery amount plus interest is funded into escrow, where it will remain restricted from general use pending the conclusion of all legal proceedings. Refer to the Cash, Cash Equivalents and Marketable Securities section of Note 3, "Financial Instruments" for more information.

Note 6 – Debt

Commercial Paper and Repurchase Agreement

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of both March 27, 2021 and September 26, 2020, the Company had $5.0 billion of Commercial Paper outstanding, with maturities generally less than nine months. The weighted-average interest rate of the Company's Commercial Paper was 0.06% and 0.62% as of March 27, 2021 and September 26, 2020, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the six months ended March 27, 2021 and March 28, 2020 (in millions):

	Six Months Ended	
	March 27, 2021	March 28, 2020
Maturities 90 days or less:		
Proceeds from commercial paper, net	$ 2,008	$ 1,377
Maturities greater than 90 days:		
Proceeds from commercial paper	1,368	4,797
Repayments of commercial paper	(3,354)	(4,656)
Proceeds from/(Repayments of) commercial paper, net	(1,986)	141
Total proceeds from commercial paper, net	$ 22	$ 1,518

In the second quarter of 2020, the Company entered into an agreement to sell certain of its marketable securities with a promise to repurchase the securities at a specified time and amount ("Repo"). Due to the Company's continuing involvement with the marketable securities, the Company accounted for the Repo as a collateralized borrowing. As of September 26, 2020, the Repo had been settled.

Term Debt

As of March 27, 2021, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of $116.0 billion (collectively the "Notes"). The Notes are senior unsecured obligations and interest is payable in arrears. The following table provides a summary of the Company's term debt as of March 27, 2021 and September 26, 2020:

		March 27, 2021		September 26, 2020	
	Maturities (calendar year)	**Amount** (in millions)	**Effective Interest Rate**	**Amount** (in millions)	**Effective Interest Rate**
2013 – 2020 debt issuances:					
Floating-rate notes	2022	$ 1,750	0.55% – 0.69%	$ 2,250	0.60% – 1.39%
Fixed-rate 0.000% – 4.650% notes	2021 – 2060	100,255	0.03% – 4.78%	103,828	0.03% – 4.78%
2021 debt issuance:					
Fixed-rate 0.700% – 2.800% notes	2026 – 2061	14,000	0.75% – 2.81%	—	— %
Total term debt		116,005		106,078	
Unamortized premium/(discount) and issuance costs, net		(371)		(314)	
Hedge accounting fair value adjustments		1,011		1,676	
Less: Current portion of term debt		(8,003)		(8,773)	
Total non-current portion of term debt		$ 108,642		$ 98,667	

To manage interest rate risk on certain of its U.S. dollar–denominated fixed- or floating-rate notes, the Company has entered into interest rate swaps to effectively convert the fixed interest rates to floating interest rates or the floating interest rates to fixed interest rates on a portion of these notes. Additionally, to manage foreign currency risk on certain of its foreign currency–denominated notes, the Company has entered into foreign currency swaps to effectively convert these notes to U.S. dollar–denominated notes.

The effective interest rates for the Notes include the interest on the Notes, amortization of the discount or premium and, if applicable, adjustments related to hedging. The Company recognized $657 million and $1.3 billion of interest cost on its term debt for the three- and six-month periods ended March 27, 2021, respectively. The Company recognized $725 million and $1.5 billion of interest cost on its term debt for the three- and six-month periods ended March 28, 2020, respectively.

As of March 27, 2021 and September 26, 2020, the fair value of the Company's Notes, based on Level 2 inputs, was $121.2 billion and $117.1 billion, respectively.

Note 7 – Shareholders' Equity

Share Repurchase Program

As of March 27, 2021, the Company was authorized to purchase up to $225 billion of the Company's common stock under a share repurchase program (the "Program"). During the six months ended March 27, 2021, the Company repurchased 347 million shares of its common stock for $43.0 billion, bringing the total utilization under the Program to $211.6 billion. On April 28, 2021, the Company announced the Board of Directors increased the Program authorization by $90 billion. The Program does not obligate the Company to acquire any specific number of shares. Under the Program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Note 8 – Comprehensive Income

The Company's OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as hedges, and unrealized gains and losses on marketable debt securities classified as available-for-sale.

The following table shows the pre-tax amounts reclassified from AOCI into the Condensed Consolidated Statements of Operations, and the associated financial statement line items, for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (in millions):

Comprehensive Income Components	Financial Statement Line Items	Three Months Ended March 27, 2021	Three Months Ended March 28, 2020	Six Months Ended March 27, 2021	Six Months Ended March 28, 2020
Unrealized (gains)/losses on derivative instruments:					
Foreign exchange contracts	Total net sales	$ 314	$ 34	$ 418	$ (63)
	Total cost of sales	406	12	651	(159)
	Other income/(expense), net	193	771	(435)	548
Interest rate contracts	Other income/(expense), net	2	1	5	3
		915	818	639	329
Unrealized (gains)/losses on marketable debt securities	Other income/(expense), net	(96)	37	(214)	24
Total amounts reclassified from AOCI		$ 819	$ 855	$ 425	$ 353

The following table shows the changes in AOCI by component for the six months ended March 27, 2021 (in millions):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Debt Securities	Total
Balances as of September 26, 2020	$ (1,375)	$ (877)	$ 1,846	$ (406)
Other comprehensive income/(loss) before reclassifications	471	111	(1,067)	(485)
Amounts reclassified from AOCI	—	639	(214)	425
Tax effect	—	(146)	326	180
Other comprehensive income/(loss)	471	604	(955)	120
Balances as of March 27, 2021	$ (904)	$ (273)	$ 891	$ (286)

Note 9 – Benefit Plans

Stock Plans

The Company had 718 million shares reserved for future issuance under its stock plans as of March 27, 2021. RSUs granted under the Company's stock plans generally vest over four years, based on continued employment, and are settled upon vesting in shares of the Company's common stock on a one-for-one basis. RSUs granted under the Company's stock plans reduce the number of shares available for grant under the plans by a factor of two times the number of RSUs granted. RSUs canceled and shares withheld to satisfy tax withholding obligations increase the number of shares available for grant under the plans utilizing a factor of two times the number of RSUs canceled or shares withheld.

Rule 10b5-1 Trading Plans

During the three months ended March 27, 2021, Section 16 officers Katherine L. Adams, Timothy D. Cook, Chris Kondo, Luca Maestri, Deirdre O'Brien and Jeffrey Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under 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 under the Company's employee and director equity plans.

Restricted Stock Units

A summary of the Company's RSU activity and related information for the six months ended March 27, 2021 is as follows:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value Per RSU	Aggregate Fair Value (in millions)
Balance as of September 26, 2020	310,778	$ 51.58	
RSUs granted	79,068	$ 113.39	
RSUs vested	(75,295)	$ 45.83	
RSUs canceled	(5,918)	$ 63.67	
Balance as of March 27, 2021	308,633	$ 68.58	$ 37,409

The fair value as of the respective vesting dates of RSUs was $867 million and $9.4 billion for the three- and six-month periods ended March 27, 2021, respectively, and was $558 million and $4.8 billion for the three- and six-month periods ended March 28, 2020, respectively.

Share-Based Compensation

The following table shows share-based compensation expense and the related income tax benefit included in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Share-based compensation expense	$ 1,981	$ 1,697	$ 4,001	$ 3,407
Income tax benefit related to share-based compensation expense	$ (575)	$ (444)	$ (2,199)	$ (1,202)

As of March 27, 2021, the total unrecognized compensation cost related to outstanding RSUs and stock options was $16.7 billion, which the Company expects to recognize over a weighted-average period of 2.8 years.

Note 10 – Commitments and Contingencies

Accrued Warranty and Guarantees

The following table shows changes in the Company's accrued warranties and related costs for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Beginning accrued warranty and related costs	$ 4,124	$ 3,873	$ 3,354	$ 3,570
Cost of warranty claims	(649)	(689)	(1,372)	(1,604)
Accruals for product warranty	309	739	1,802	1,957
Ending accrued warranty and related costs	$ 3,784	$ 3,923	$ 3,784	$ 3,923

The Company offers an iPhone Upgrade Program, which is available to customers who purchase a qualifying iPhone in the U.S., the U.K. and China mainland. The iPhone Upgrade Program provides customers the right to trade in that iPhone for a specified amount when purchasing a new iPhone, provided certain conditions are met. The Company accounts for the trade-in right as a guarantee liability and recognizes arrangement revenue net of the fair value of such right, with subsequent changes to the guarantee liability recognized within net sales.

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, certain components are currently obtained from single or limited sources. The Company also competes for various components with other participants in the markets for smartphones, personal computers, tablets and other electronic devices. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant commodity pricing fluctuations.

The Company uses some custom components that are not commonly used by its competitors, 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 their manufacturing capacities have increased. The continued availability of these components at acceptable prices, or at all, may be affected if suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements.

The Company has entered into agreements for the supply of many 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.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia, with some Mac computers manufactured in the U.S. and Ireland.

Unconditional Purchase Obligations

The Company has entered into certain off–balance sheet commitments that require the future purchase of goods or services ("unconditional purchase obligations"). The Company's unconditional purchase obligations primarily consist of payments for content creation, Internet and telecommunications services and supplier arrangements. As of March 27, 2021, the Company's total future payments under noncancelable unconditional purchase obligations having a remaining term in excess of one year were $8.2 billion.

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 resolved. The outcome of litigation is inherently uncertain. When a loss related to a legal proceeding or claim is probable and reasonably estimable, the Company accrues its best estimate for the ultimate resolution of the matter. If one or more legal matters were resolved against the Company in a reporting period for amounts above management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. 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 greater than a recorded accrual, concerning loss contingencies for asserted legal and other claims, except for the following matters:

VirnetX

VirnetX, Inc. ("VirnetX") filed a lawsuit against the Company alleging that certain of the Company's products infringe on patents owned by VirnetX. On April 11, 2018, a jury returned a verdict against the Company in the U.S. District Court for the Eastern District of Texas (the "Eastern Texas District Court"). The Company appealed the verdict to the U.S. Court of Appeals for the Federal Circuit, which remanded the case back to the Eastern Texas District Court, where a re-trial was held in October 2020. The jury returned a verdict against the Company and awarded damages of $503 million, which the Company has appealed. The Company has challenged the validity of the patents at issue in the re-trial at the U.S. Patent and Trademark Office (the "PTO"), and the PTO has declared the patents invalid, subject to further appeal by VirnetX.

iOS Performance Management Cases

On April 5, 2018, several U.S. federal actions alleging violation of consumer protection laws, fraud, computer intrusion and other causes of action related to the Company's performance management feature used in its iPhone operating systems, introduced to certain iPhones in iOS updates 10.2.1 and 11.2, were consolidated through a Multidistrict Litigation process into a single action in the U.S. District Court for the Northern District of California (the "Northern California District Court"). On February 28, 2020, the parties in the Multidistrict Litigation reached a settlement to resolve the U.S. federal and California state class actions. On March 18, 2021, the Northern California District Court granted final approval of the Multidistrict Litigation settlement, which will result in an aggregate payment of $310 million to settle all claims. The Company continues to believe that its iPhones were not defective, that the performance management feature introduced with iOS updates 10.2.1 and 11.2 was intended to, and did, improve customers' user experience, and that the Company did not make any misleading statements or fail to disclose any material information.

French Competition Authority

On March 16, 2020, the French Competition Authority ("FCA") announced its decision that aspects of the Company's sales and distribution practices in France violate French competition law and issued a fine of €1.1 billion. The Company strongly disagrees with the FCA's decision and has appealed.

Optis

Optis Wireless Technology, LLC and related entities ("Optis") filed a lawsuit in the U.S. District Court for the Eastern District of Texas against the Company alleging that certain of the Company's products infringe on patents owned by Optis. On August 11, 2020, a jury returned a verdict against the Company and awarded damages of $506 million. In post-trial proceedings, the damages portion of the verdict was set aside, and the case remains pending further proceedings.

Note 11 – 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. 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 mainland, 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. 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 2020 Form 10-K.

The Company evaluates the performance of its reportable segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers and sales through the Company's retail stores located in those geographic locations. 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 reportable segments. Costs excluded from segment operating income include various corporate expenses such as research and development, corporate marketing expenses, certain share-based compensation expenses, income taxes, various nonrecurring charges and other separately managed general and administrative costs. The Company does not include intercompany transfers between segments for management reporting purposes.

The following table shows information by reportable segment for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Americas:				
Net sales	$ 34,306	$ 25,473	$ 80,616	$ 66,840
Operating income	$ 12,050	$ 7,261	$ 27,835	$ 20,353
Europe:				
Net sales	$ 22,264	$ 14,294	$ 49,570	$ 37,567
Operating income	$ 8,265	$ 4,528	$ 17,854	$ 12,247
Greater China:				
Net sales	$ 17,728	$ 9,455	$ 39,041	$ 23,033
Operating income	$ 7,758	$ 3,758	$ 16,288	$ 9,121
Japan:				
Net sales	$ 7,742	$ 5,206	$ 16,027	$ 11,429
Operating income	$ 3,428	$ 2,236	$ 6,931	$ 5,014
Rest of Asia Pacific:				
Net sales	$ 7,544	$ 3,885	$ 15,769	$ 11,263
Operating income	$ 2,736	$ 1,290	$ 5,689	$ 4,021

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 27, 2021 and March 28, 2020 is as follows (in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	**March 28, 2020**	**March 27, 2021**	**March 28, 2020**
Segment operating income	$ 34,237	$ 19,073	$ 74,597	$ 50,756
Research and development expense	(5,262)	(4,565)	(10,425)	(9,016)
Other corporate expenses, net	(1,472)	(1,655)	(3,135)	(3,318)
Total operating income	$ 27,503	$ 12,853	$ 61,037	$ 38,422

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

This section and other parts of this Quarterly Report on Form 10-Q ("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. For example, statements in this Form 10-Q regarding the potential future impact of the COVID-19 pandemic on the Company's business and results of operations are forward-looking statements. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," 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 I, Item 1A of the Company's Annual Report on Form 10-K for the year ended September 26, 2020 (the "2020 Form 10-K") under the heading "Risk Factors." The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Unless otherwise stated, all information presented herein is based on the Company's fiscal calendar, and references to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods 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 following discussion should be read in conjunction with the 2020 Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") and the condensed consolidated financial statements and accompanying notes included in Part I, Item 1 of this Form 10-Q.

Available Information

The Company periodically provides certain information for investors on its corporate website, www.apple.com, and its investor relations website, investor.apple.com. This includes press releases and other information about financial performance, information on corporate governance and details related to the Company's annual meeting of shareholders. The information contained on the websites referenced in this Form 10-Q is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

Quarterly Highlights

Business Seasonality and Product Introductions

The Company has historically experienced higher net sales in its first quarter compared to other quarters in its fiscal year due in part to seasonal holiday demand. Additionally, new product and service introductions can significantly impact net sales, cost of sales and operating expenses. The timing of product introductions can also impact the Company's net sales to its indirect distribution channels as these channels are filled with new inventory following a product launch, and channel inventory of an older product often declines as the launch of a newer product approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction.

COVID-19 Update

The COVID-19 pandemic has prompted governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of businesses, and quarantines and shelter-in-place orders. The COVID-19 pandemic has significantly curtailed global economic activity and caused significant volatility and disruption in global financial markets. The COVID-19 pandemic and the measures taken by many countries in response have affected and could in the future materially impact the Company's business, results of operations, financial condition and stock price.

During the second quarter of 2021, aspects of the Company's business continued to be affected by the COVID-19 pandemic, with many of the Company's retail stores, as well as channel partner points of sale, temporarily closed at various times, and the vast majority of the Company's employees working remotely. The Company has reopened some of its offices and retail stores, subject to operating restrictions to protect public health and the health and safety of employees and customers, and it continues to work on safely reopening the remainder of its offices and retail stores, subject to local rules and regulations.

The full extent of the future impact of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the imposition of protective public safety measures; and the impact of the pandemic on the global economy and demand for consumer products. Refer to Part I, Item 1A of the 2020 Form 10-K under the heading "Risk Factors," for more information.

The Company believes its existing balances of cash, cash equivalents and marketable securities, along with commercial paper and other short-term liquidity arrangements, will be sufficient to satisfy its working capital needs, capital asset purchases, dividends, share repurchases, debt repayments and other liquidity requirements associated with its existing operations.

Second Quarter Fiscal 2021 Highlights

Total net sales increased 54% or $31.3 billion during the second quarter of 2021 compared to the same quarter in 2020, driven by higher net sales in all Products and Services categories in each of the Company's reportable segments. The COVID-19 pandemic had an unfavorable impact on the Company's net sales during the second quarter of 2020.

The Company repurchased $19.0 billion of its common stock and paid dividends and dividend equivalents of $3.4 billion during the second quarter of 2021.

In April 2021, the Company announced the following new products and services, all of which are expected to be available in the spring of 2021:

- iMac®, powered by the Apple M1 chip;
- iPad Pro®, powered by the Apple M1 chip;
- Apple TV 4K®, with a redesigned Siri Remote®;
- AirTag™, an accessory that helps keep track of items using the Find My™ network; and
- Apple Podcasts® Subscriptions.

Products and Services Performance

The following table shows net sales by category for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 27, 2021	**March 28, 2020**	**Change**	**March 27, 2021**	**March 28, 2020**	**Change**
Net sales by category:						
iPhone [1]	$ 47,938	$ 28,962	66 %	$ 113,535	$ 84,919	34 %
Mac [1]	9,102	5,351	70 %	17,777	12,511	42 %
iPad [1]	7,807	4,368	79 %	16,242	10,345	57 %
Wearables, Home and Accessories [1][2]	7,836	6,284	25 %	20,807	16,294	28 %
Services [3]	16,901	13,348	27 %	32,662	26,063	25 %
Total net sales	$ 89,584	$ 58,313	54 %	$ 201,023	$ 150,132	34 %

(1) Products net sales include amortization of the deferred value of unspecified software upgrade rights, which are bundled in the sales price of the respective product.

(2) Wearables, Home and Accessories net sales include sales of AirPods, Apple TV, Apple Watch, Beats products, HomePod, iPod touch and Apple-branded and third-party accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare, digital content and other services. Services net sales also include amortization of the deferred value of Maps, Siri, and free iCloud storage and Apple TV+ services, which are bundled in the sales price of certain products.

iPhone

iPhone net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales from the successful launch of the Company's new iPhone models in the first quarter of 2021 and a favorable mix of iPhone sales.

Mac

Mac net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of MacBook Air® and MacBook Pro®.

iPad

iPad net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of iPad Air® and the 10-inch version of iPad.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of Apple Watch and accessories.

Services

Services net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales from the App Store, advertising and cloud services.

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 mainland, 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 I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 11, "Segment Information and Geographic Data."

The following table shows net sales by reportable segment for the three- and six-month periods ended March 27, 2021 and March 28, 2020 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 27, 2021	March 28, 2020	Change	March 27, 2021	March 28, 2020	Change
Net sales by reportable segment:						
Americas	$ 34,306	$ 25,473	35 %	$ 80,616	$ 66,840	21 %
Europe	22,264	14,294	56 %	49,570	37,567	32 %
Greater China	17,728	9,455	87 %	39,041	23,033	70 %
Japan	7,742	5,206	49 %	16,027	11,429	40 %
Rest of Asia Pacific	7,544	3,885	94 %	15,769	11,263	40 %
Total net sales	$ 89,584	$ 58,313	54 %	$ 201,023	$ 150,132	34 %

Americas

Americas net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of iPhone, Services and Mac.

Europe

Europe net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of iPhone, iPad and Mac.

Greater China

Greater China net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of iPhone and iPad. The strength of the Chinese renminbi relative to the U.S. dollar had a favorable impact on Greater China net sales during the second quarter and first six months of 2021.

Japan

Japan net sales increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher net sales of iPhone, Services and iPad. The strength of the Japanese yen relative to the U.S. dollar had a favorable impact on Japan net sales during the second quarter and first six months of 2021.

Rest of Asia Pacific

Rest of Asia Pacific net sales increased during the second quarter of 2021 compared to the second quarter of 2020 due primarily to higher net sales of iPhone, iPad and Mac. Year-over-year Rest of Asia Pacific net sales increased during the first six months of 2021 due primarily to higher net sales of iPhone, iPad and Wearables, Home and Accessories. The movement of foreign currencies in the Rest of Asia Pacific relative to the U.S. dollar had a net favorable impact on net sales during the second quarter and first six months of 2021.

Gross Margin

Products and Services gross margin and gross margin percentage for the three- and six-month periods ended March 27, 2021 and March 28, 2020 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Gross margin:				
Products	$ 26,236	$ 13,644	$ 59,784	$ 40,673
Services	11,843	8,726	22,623	16,914
Total gross margin	$ 38,079	$ 22,370	$ 82,407	$ 57,587
Gross margin percentage:				
Products	36.1 %	30.3 %	35.5 %	32.8 %
Services	70.1 %	65.4 %	69.3 %	64.9 %
Total gross margin percentage	42.5 %	38.4 %	41.0 %	38.4 %

Products Gross Margin

Products gross margin increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher Products volume, a different Products mix and the strength in foreign currencies relative to the U.S. dollar.

Year-over-year Products gross margin percentage increased during the second quarter and first six months of 2021 due primarily to higher leverage, a different Products mix and the strength in foreign currencies relative to the U.S. dollar.

Services Gross Margin

Services gross margin increased during the second quarter and first six months of 2021 compared to the same periods in 2020 due primarily to higher Services net sales, a different Services mix and the strength in foreign currencies relative to the U.S. dollar.

Year-over-year Services gross margin percentage increased during the second quarter and first six months of 2021 due primarily to a different Services mix, higher leverage and the strength in foreign currencies relative to the U.S. dollar.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of the 2020 Form 10-K under the heading "Risk Factors." As a result, the Company believes, in general, gross margins will be subject to volatility and downward pressure.

Operating Expenses

Operating expenses for the three- and six-month periods ended March 27, 2021 and March 28, 2020 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Research and development	$ 5,262	$ 4,565	$ 10,425	$ 9,016
Percentage of total net sales	6 %	8 %	5 %	6 %
Selling, general and administrative	$ 5,314	$ 4,952	$ 10,945	$ 10,149
Percentage of total net sales	6 %	8 %	5 %	7 %
Total operating expenses	$ 10,576	$ 9,517	$ 21,370	$ 19,165
Percentage of total net sales	12 %	16 %	11 %	13 %

Research and Development

The growth in research and development ("R&D") expense during the second quarter and first six months of 2021 compared to the same periods in 2020 was driven primarily by increases in headcount-related expenses. 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 growth in selling, general and administrative expense during the second quarter and first six months of 2021 compared to the same periods in 2020 was driven primarily by increases in headcount-related expenses and higher variable selling expenses.

Other Income/(Expense), Net

Other income/(expense), net ("OI&E") for the three- and six-month periods ended March 27, 2021 and March 28, 2020 was as follows (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 27, 2021	March 28, 2020	Change	March 27, 2021	March 28, 2020	Change
Interest and dividend income	$ 718	$ 1,049		$ 1,465	$ 2,094	
Interest expense	(670)	(757)		(1,308)	(1,542)	
Other income/(expense), net	460	(10)		396	79	
Total other income/(expense), net	$ 508	$ 282	80 %	$ 553	$ 631	(12) %

OI&E increased during the second quarter of 2021 compared to the second quarter of 2020 due primarily to impairments of marketable and non-marketable securities in 2020 and a favorable carrying value adjustment of non-marketable securities in 2021, partially offset by lower interest income in 2021.

OI&E decreased during the first six months of 2021 compared to the same period in 2020 due primarily to lower interest income in 2021, partially offset by impairments of marketable and non-marketable securities in 2020 and lower interest expense in 2021.

The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.37% and 2.01% in the second quarter of 2021 and 2020, respectively, and 1.43% and 2.05% in the first six months of 2021 and 2020, respectively.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for the three- and six-month periods ended March 27, 2021 and March 28, 2020 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 27, 2021	March 28, 2020	March 27, 2021	March 28, 2020
Provision for income taxes	$ 4,381	$ 1,886	$ 9,205	$ 5,568
Effective tax rate	15.6 %	14.4 %	14.9 %	14.3 %
Statutory federal income tax rate	21 %	21 %	21 %	21 %

The Company's effective tax rate for the second quarter of 2021 was lower than the statutory federal income tax rate due primarily to lower taxes on foreign earnings. The Company's effective tax rate for the first six months of 2021 was lower than the statutory federal income tax rate due primarily to lower taxes on foreign earnings and tax benefits from share-based compensation.

The Company's effective tax rate for the second quarter of 2021 was higher compared to the second quarter of 2020 due primarily to higher taxes on foreign earnings and a lower impact of the U.S. federal R&D tax credit. The Company's effective tax rate for the first six months of 2021 was higher compared to the same period in 2020 due primarily to higher taxes on foreign earnings, partially offset by higher tax benefits from share-based compensation.

Liquidity and Capital Resources

The following tables present selected financial information and statistics as of March 27, 2021 and September 26, 2020 and for the first six months of 2021 and 2020 (in millions):

	March 27, 2021	September 26, 2020
Cash, cash equivalents and marketable securities [(1)]	$ 204,373	$ 191,830
Property, plant and equipment, net	$ 37,815	$ 36,766
Commercial paper	$ 5,000	$ 4,996
Total term debt	$ 116,645	$ 107,440
Working capital	$ 15,080	$ 38,321

	Six Months Ended	
	March 27, 2021	March 28, 2020
Cash generated by operating activities	$ 62,744	$ 43,827
Cash used in investing activities	$ (18,952)	$ (4,655)
Cash used in financing activities	$ (43,575)	$ (46,347)

(1) As of March 27, 2021 and September 26, 2020, total marketable securities included $19.0 billion and $18.6 billion, respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes" in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q) and other agreements.

The Company believes its existing balances of cash, cash equivalents and marketable securities, along with commercial paper and other short-term liquidity arrangements, will be sufficient to satisfy its working capital needs, capital asset purchases, dividends, share repurchases, debt repayments and other liquidity requirements associated with its existing operations over the next 12 months.

In connection with the State Aid Decision, as of March 27, 2021, the adjusted recovery amount of €12.9 billion plus interest of €1.2 billion was funded into escrow, where it will remain restricted from general use pending the conclusion of all legal proceedings. Further information regarding the State Aid Decision can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 5, "Income Taxes."

The Company's marketable securities investment portfolio is primarily invested in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer.

During the six months ended March 27, 2021, cash generated by operating activities of $62.7 billion was a result of $52.4 billion of net income, non-cash adjustments to net income of $8.8 billion and an increase in the net change in operating assets and liabilities of $1.6 billion. Cash used in investing activities of $19.0 billion during the six months ended March 27, 2021 consisted primarily of cash used for purchases of marketable securities, net of maturities and sales, of $13.2 billion and cash used to acquire property, plant and equipment of $5.8 billion. Cash used in financing activities of $43.6 billion during the six months ended March 27, 2021 consisted primarily of cash used to repurchase common stock of $43.3 billion, cash used to pay dividends and dividend equivalents of $7.1 billion and cash used to repay or redeem term debt of $4.5 billion, partially offset by net proceeds from issuance of term debt of $13.9 billion.

During the six months ended March 28, 2020, cash generated by operating activities of $43.8 billion was a result of $33.5 billion of net income, non-cash adjustments to net income of $8.1 billion and an increase in the net change in operating assets and liabilities of $2.2 billion. Cash used in investing activities of $4.7 billion during the six months ended March 28, 2020 consisted primarily of cash used to acquire property, plant and equipment of $4.0 billion, partially offset by proceeds from maturities and sales of marketable securities, net of purchases, of $1.0 billion. Cash used in financing activities of $46.3 billion during the six months ended March 28, 2020 consisted primarily of cash used to repurchase common stock of $39.3 billion, cash used to pay dividends and dividend equivalents of $6.9 billion and cash used to repay or redeem term debt of $5.3 billion, partially offset by net proceeds from commercial paper and repurchase agreement of $4.1 billion and net proceeds from issuance of term debt of $2.2 billion.

Debt

The Company issues unsecured short-term promissory notes (“Commercial Paper”) pursuant to a commercial paper program. The Company uses the net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of March 27, 2021, the Company had $5.0 billion of Commercial Paper outstanding, with a weighted-average interest rate of 0.06% and maturities generally less than nine months.

As of March 27, 2021, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of $116.0 billion (collectively the “Notes”). During the first six months of 2021, the Company issued $13.9 billion and repaid or redeemed $4.5 billion of Notes. The Company has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on the Notes. In addition, the Company has entered, and in the future may enter, into foreign currency swaps to manage foreign currency risk on the Notes.

Further information regarding the Company’s debt issuances and related hedging activity can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 3, “Financial Instruments” and Note 6, “Debt.”

Capital Return

As of March 27, 2021, the Company was authorized to purchase up to $225 billion of the Company’s common stock under a share repurchase program (the “Program”). During the six months ended March 27, 2021, the Company repurchased 347 million shares of its common stock for $43.0 billion, bringing the total utilization under the Program to $211.6 billion. On April 28, 2021, the Company announced the Board of Directors increased the Program authorization by $90 billion. The Program does not obligate the Company to acquire any specific number of shares. Under the Program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

On April 28, 2021, the Company also announced the Board of Directors raised the Company’s quarterly cash dividend from $0.205 to $0.22 per share, beginning with the dividend to be paid during the third quarter of 2021. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Contractual Obligations

Leases

The Company has lease arrangements for certain equipment and facilities, including retail, corporate, manufacturing and data center space. The Company’s retail store and other facility leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options. The Company’s total fixed lease payment obligation of $13.1 billion as of March 27, 2021 included future payments under leases that had commenced as of March 27, 2021, and were therefore recorded on the Company’s Condensed Consolidated Balance Sheet, as well as leases that had been signed but not yet commenced as of March 27, 2021.

Manufacturing Purchase Obligations

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. As of March 27, 2021, the Company expects to pay $35.4 billion under manufacturing-related supplier arrangements, which are primarily noncancelable.

Other Purchase Obligations

The Company's other purchase obligations primarily consist of noncancelable obligations to acquire capital assets, including product tooling and manufacturing process equipment, and noncancelable obligations related to advertising, content creation and Internet and telecommunications services. As of March 27, 2021, the Company had other purchase obligations of $8.6 billion.

Deemed Repatriation Tax Payable

As of March 27, 2021, the balance of the deemed repatriation tax payable imposed by the U.S. Tax Cuts and Jobs Act (the "Act") was $27.8 billion, of which $25.1 billion was included in other non-current liabilities in the Company's Condensed Consolidated Balance Sheet. The Company pays the deemed repatriation tax payable in installments in accordance with the Act.

Other Non-Current Liabilities

The Company's remaining other non-current liabilities primarily consist of items for which the Company is unable to make a reasonably reliable estimate of the timing or amount of payments.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles 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. 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.

Note 1, "Summary of Significant Accounting Policies" in Part I, Item 1 of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2020 Form 10-K, and "Critical Accounting Policies and Estimates" in Part II, Item 7 of the 2020 Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's condensed consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates since the 2020 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's market risk during the first six months of 2021. For a discussion of the Company's exposure to market risk, refer to the Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the 2020 Form 10-K.

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 27, 2021 to provide reasonable assurance 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 SEC 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 2021, 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 legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company's material legal proceedings are described in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies."

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts above management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. The Company settled certain matters during the second quarter of 2021 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results.

Item 1A. 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 in Part I, Item 1A of the 2020 Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price. There have been no material changes to the Company's risk factors since the 2020 Form 10-K.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share repurchase activity during the three months ended March 27, 2021 was as follows (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
December 27, 2020 to January 30, 2021:				
Open market and privately negotiated purchases	63,892	$ 133.04	63,892	
January 31, 2021 to February 27, 2021:				
Open market and privately negotiated purchases	34,328	$ 131.09	34,328	
February 28, 2021 to March 27, 2021:				
Open market and privately negotiated purchases	49,187	$ 121.98	49,187	
Total	147,407			$ 13,352

(1) As of March 27, 2021, the Company was authorized to purchase up to $225 billion of the Company's common stock under the Program, announced on April 30, 2020, of which $211.6 billion had been utilized. The remaining $13.4 billion in the table represents the amount available to repurchase shares under the Program as of March 27, 2021. On April 28, 2021, the Company announced the Board of Directors increased the Program authorization by $90 billion. The Program does not obligate the Company to acquire any specific number of shares. Under the Program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

		Incorporated by Reference		
Exhibit Number	**Exhibit Description**	**Form**	**Exhibit**	**Filing Date/ Period End Date**
4.1	Officer's Certificate of the Registrant, dated as of February 8, 2021, including forms of global notes representing the 0.700% Notes due 2026, 1.200% Notes due 2028, 1.650% Notes due 2031, 2.375% Notes due 2041, 2.650% Notes due 2051 and 2.800% Notes due 2061.	8-K	4.1	2/8/21
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*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.			
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set.			

* Filed herewith.

** Furnished herewith.

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 28, 2021	Apple Inc.
	By: /s/ Luca Maestri
	Luca Maestri Senior Vice President, Chief Financial Officer