

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 June 25, 2022

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

(State or other jurisdiction
of incorporation or organization)

One Apple Park Way
Cupertino, California

(Address of principal executive offices)

94-2404110

(I.R.S. Employer Identification No.)

95014

(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 ☒
Non-accelerated filer ☐

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 ☒

16,070,752,000 shares of common stock were issued and outstanding as of July 15, 2022.

Apple Inc.
Form 10-Q
For the Fiscal Quarter Ended June 25, 2022
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PART I — FINANCIAL INFORMATION**Item 1. Financial Statements****Apple Inc.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Net sales: | | | | |
| Products | \$ 63,355 | \$ 63,948 | \$ 245,241 | \$ 232,309 |
| Services | 19,604 | 17,486 | 58,941 | 50,148 |
| Total net sales | 82,959 | 81,434 | 304,182 | 282,457 |
| Cost of sales: | | | | |
| Products | 41,485 | 40,899 | 155,084 | 149,476 |
| Services | 5,589 | 5,280 | 16,411 | 15,319 |
| Total cost of sales | 47,074 | 46,179 | 171,495 | 164,795 |
| Gross margin | 35,885 | 35,255 | 132,687 | 117,662 |
| Operating expenses: | | | | |
| Research and development | 6,797 | 5,717 | 19,490 | 16,142 |
| Selling, general and administrative | 6,012 | 5,412 | 18,654 | 16,357 |
| Total operating expenses | 12,809 | 11,129 | 38,144 | 32,499 |
| Operating income | 23,076 | 24,126 | 94,543 | 85,163 |
| Other income/(expense), net | (10) | 243 | (97) | 796 |
| Income before provision for income taxes | 23,066 | 24,369 | 94,446 | 85,959 |
| Provision for income taxes | 3,624 | 2,625 | 15,364 | 11,830 |
| Net income | \$ 19,442 | \$ 21,744 | \$ 79,082 | \$ 74,129 |
| Earnings per share: | | | | |
| Basic | \$ 1.20 | \$ 1.31 | \$ 4.86 | \$ 4.42 |
| Diluted | \$ 1.20 | \$ 1.30 | \$ 4.82 | \$ 4.38 |
| Shares used in computing earnings per share: | | | | |
| Basic | 16,162,945 | 16,629,371 | 16,277,824 | 16,772,656 |
| Diluted | 16,262,203 | 16,781,735 | 16,394,937 | 16,941,527 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Net income | \$ 19,442 | \$ 21,744 | \$ 79,082 | \$ 74,129 |
| Other comprehensive income/(loss): | | | | |
| Change in foreign currency translation, net of tax | (721) | 188 | (1,102) | 659 |
| Change in unrealized gains/losses on derivative instruments, net of tax: | | | | |
| Change in fair value of derivative instruments | 852 | (24) | 1,548 | 4 |
| Adjustment for net (gains)/losses realized and included in net income | 121 | 17 | (87) | 593 |
| Total change in unrealized gains/losses on derivative instruments | 973 | (7) | 1,461 | 597 |
| Change in unrealized gains/losses on marketable debt securities, net of tax: | | | | |
| Change in fair value of marketable debt securities | (3,150) | 217 | (9,959) | (558) |
| Adjustment for net (gains)/losses realized and included in net income | 95 | (54) | 140 | (234) |
| Total change in unrealized gains/losses on marketable debt securities | (3,055) | 163 | (9,819) | (792) |
| Total other comprehensive income/(loss) | (2,803) | 344 | (9,460) | 464 |
| Total comprehensive income | \$ 16,639 | \$ 22,088 | \$ 69,622 | \$ 74,593 |

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)

| | June 25, 2022 | September 25, 2021 |
|---|------------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 27,502 | \$ 34,940 |
| Marketable securities | 20,729 | 27,699 |
| Accounts receivable, net | 21,803 | 26,278 |
| Inventories | 5,433 | 6,580 |
| Vendor non-trade receivables | 20,439 | 25,228 |
| Other current assets | 16,386 | 14,111 |
| Total current assets | 112,292 | 134,836 |
| Non-current assets: | | |
| Marketable securities | 131,077 | 127,877 |
| Property, plant and equipment, net | 40,335 | 39,440 |
| Other non-current assets | 52,605 | 48,849 |
| Total non-current assets | 224,017 | 216,166 |
| Total assets | \$ 336,309 | \$ 351,002 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 48,343 | \$ 54,763 |
| Other current liabilities | 48,811 | 47,493 |
| Deferred revenue | 7,728 | 7,612 |
| Commercial paper | 10,982 | 6,000 |
| Term debt | 14,009 | 9,613 |
| Total current liabilities | 129,873 | 125,481 |
| Non-current liabilities: | | |
| Term debt | 94,700 | 109,106 |
| Other non-current liabilities | 53,629 | 53,325 |
| Total non-current liabilities | 148,329 | 162,431 |
| Total liabilities | 278,202 | 287,912 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,095,378 and 16,426,786 shares issued and outstanding, respectively | 62,115 | 57,365 |
| Retained earnings | 5,289 | 5,562 |
| Accumulated other comprehensive income/(loss) | (9,297) | 163 |
| Total shareholders' equity | 58,107 | 63,090 |
| Total liabilities and shareholders' equity | \$ 336,309 | \$ 351,002 |

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 | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Total shareholders' equity, beginning balances | \$ 67,399 | \$ 69,178 | \$ 63,090 | \$ 65,339 |
| Common stock and additional paid-in capital: | | | | |
| Beginning balances | 61,181 | 54,203 | 57,365 | 50,779 |
| Common stock issued | — | — | 593 | 561 |
| Common stock withheld related to net share settlement of equity awards | (1,371) | (1,224) | (2,783) | (2,460) |
| Share-based compensation | 2,305 | 2,010 | 6,940 | 6,109 |
| Ending balances | 62,115 | 54,989 | 62,115 | 54,989 |
| Retained earnings: | | | | |
| Beginning balances | 12,712 | 15,261 | 5,562 | 14,966 |
| Net income | 19,442 | 21,744 | 79,082 | 74,129 |
| Dividends and dividend equivalents declared | (3,760) | (3,713) | (11,058) | (10,755) |
| Common stock withheld related to net share settlement of equity awards | (1,403) | (1,559) | (3,323) | (3,606) |
| Common stock repurchased | (21,702) | (22,500) | (64,974) | (65,501) |
| Ending balances | 5,289 | 9,233 | 5,289 | 9,233 |
| Accumulated other comprehensive income/(loss): | | | | |
| Beginning balances | (6,494) | (286) | 163 | (406) |
| Other comprehensive income/(loss) | (2,803) | 344 | (9,460) | 464 |
| Ending balances | (9,297) | 58 | (9,297) | 58 |
| Total shareholders' equity, ending balances | \$ 58,107 | \$ 64,280 | \$ 58,107 | \$ 64,280 |
| Dividends and dividend equivalents declared per share or RSU | \$ 0.23 | \$ 0.22 | \$ 0.67 | \$ 0.63 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

| | Nine Months Ended | |
|--|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 |
| Cash, cash equivalents and restricted cash, beginning balances | \$ 35,929 | \$ 39,789 |
| Operating activities: | | |
| Net income | 79,082 | 74,129 |
| Adjustments to reconcile net income to cash generated by operating activities: | | |
| Depreciation and amortization | 8,239 | 8,295 |
| Share-based compensation expense | 6,760 | 5,961 |
| Deferred income tax expense/(benefit) | 2,756 | (737) |
| Other | (61) | (689) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 4,561 | (1,316) |
| Inventories | 1,049 | (1,213) |
| Vendor non-trade receivables | 4,789 | 4,892 |
| Other current and non-current assets | (3,289) | (5,899) |
| Accounts payable | (6,108) | (1,786) |
| Deferred revenue | 260 | 1,738 |
| Other current and non-current liabilities | (14) | 463 |
| Cash generated by operating activities | 98,024 | 83,838 |
| Investing activities: | | |
| Purchases of marketable securities | (70,178) | (94,052) |
| Proceeds from maturities of marketable securities | 24,203 | 49,880 |
| Proceeds from sales of marketable securities | 33,609 | 36,745 |
| Payments for acquisition of property, plant and equipment | (7,419) | (7,862) |
| Payments made in connection with business acquisitions, net | (169) | (13) |
| Other | (1,183) | (78) |
| Cash used in investing activities | (21,137) | (15,380) |
| Financing activities: | | |
| Payments for taxes related to net share settlement of equity awards | (5,915) | (5,855) |
| Payments for dividends and dividend equivalents | (11,138) | (10,827) |
| Repurchases of common stock | (64,974) | (66,223) |
| Proceeds from issuance of term debt, net | — | 13,923 |
| Repayments of term debt | (6,750) | (7,500) |
| Proceeds from commercial paper, net | 4,970 | 3,022 |
| Other | (148) | 489 |
| Cash used in financing activities | (83,955) | (72,971) |
| Decrease in cash, cash equivalents and restricted cash | (7,068) | (4,513) |
| Cash, cash equivalents and restricted cash, ending balances | \$ 28,861 | \$ 35,276 |
| Supplemental cash flow disclosure: | | |
| Cash paid for income taxes, net | \$ 12,251 | \$ 18,536 |
| Cash paid for interest | \$ 1,910 | \$ 1,870 |

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 condensed 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 25, 2021.

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 2022 and 2021 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.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 (net income in millions and shares in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Numerator: | | | | |
| Net income | \$ 19,442 | \$ 21,744 | \$ 79,082 | \$ 74,129 |
| Denominator: | | | | |
| Weighted-average basic shares outstanding | 16,162,945 | 16,629,371 | 16,277,824 | 16,772,656 |
| Effect of dilutive securities | 99,258 | 152,364 | 117,113 | 168,871 |
| Weighted-average diluted shares | <u>16,262,203</u> | <u>16,781,735</u> | <u>16,394,937</u> | <u>16,941,527</u> |
| Basic earnings per share | \$ 1.20 | \$ 1.31 | \$ 4.86 | \$ 4.42 |
| Diluted earnings per share | \$ 1.20 | \$ 1.30 | \$ 4.82 | \$ 4.38 |

Note 2 – Revenue

Net sales disaggregated by significant products and services for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 were as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|-------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| iPhone [®] (1) | \$ 40,665 | \$ 39,570 | \$ 162,863 | \$ 153,105 |
| Mac [®] (1) | 7,382 | 8,235 | 28,669 | 26,012 |
| iPad [®] (1) | 7,224 | 7,368 | 22,118 | 23,610 |
| Wearables, Home and Accessories (1)(2) | 8,084 | 8,775 | 31,591 | 29,582 |
| Services (3) | 19,604 | 17,486 | 58,941 | 50,148 |
| Total net sales (4) | <u>\$ 82,959</u> | <u>\$ 81,434</u> | <u>\$ 304,182</u> | <u>\$ 282,457</u> |

(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 mini[®] and accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare[®], cloud, digital content, payment and other services. Services net sales also include amortization of the deferred value of services bundled in the sales price of certain products.

(4) Includes \$3.1 billion of revenue recognized in the three months ended June 25, 2022 that was included in deferred revenue as of March 26, 2022, \$3.0 billion of revenue recognized in the three months ended June 26, 2021 that was included in deferred revenue as of March 27, 2021, \$6.3 billion of revenue recognized in the nine months ended June 25, 2022 that was included in deferred revenue as of September 25, 2021, and \$5.5 billion of revenue recognized in the nine months ended June 26, 2021 that was included in deferred revenue as of September 26, 2020.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 9, "Segment Information and Geographic Data" for the three- and nine-month periods ended June 25, 2022 and June 26, 2021, except in Greater China, where iPhone revenue represented a moderately higher proportion of net sales.

As of June 25, 2022 and September 25, 2021, the Company had total deferred revenue of \$12.2 billion and \$11.9 billion, respectively. As of June 25, 2022, the Company expects 63% of total deferred revenue to be realized in less than a year, 27% within one-to-two years, 8% within two-to-three years and 2% in greater than three years.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash, cash equivalents and marketable securities by significant investment category as of June 25, 2022 and September 25, 2021 (in millions):

| June 25, 2022 | | | | | | | |
|---|---------------|------------------|-------------------|------------|---------------------------|-------------------------------|-----------------------------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 12,852 | \$ — | \$ — | \$ 12,852 | \$ 12,852 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 10,970 | — | — | 10,970 | 10,970 | — | — |
| Mutual funds | 252 | — | (32) | 220 | — | 220 | — |
| Subtotal | 11,222 | — | (32) | 11,190 | 10,970 | 220 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 25,296 | — | (1,328) | 23,968 | 91 | 3,511 | 20,366 |
| U.S. agency securities | 5,805 | — | (511) | 5,294 | 4 | 240 | 5,050 |
| Non-U.S. government securities | 17,597 | 6 | (1,023) | 16,580 | — | 6,336 | 10,244 |
| Certificates of deposit and time deposits | 3,928 | — | — | 3,928 | 3,374 | 504 | 50 |
| Commercial paper | 966 | — | — | 966 | 209 | 757 | — |
| Corporate debt securities | 88,912 | 15 | (6,455) | 82,472 | 2 | 8,738 | 73,732 |
| Municipal securities | 978 | — | (26) | 952 | — | 203 | 749 |
| Mortgage- and asset-backed securities | 23,058 | — | (1,952) | 21,106 | — | 220 | 20,886 |
| Subtotal | 166,540 | 21 | (11,295) | 155,266 | 3,680 | 20,509 | 131,077 |
| Total ⁽³⁾ | \$ 190,614 | \$ 21 | \$ (11,327) | \$ 179,308 | \$ 27,502 | \$ 20,729 | \$ 131,077 |
| September 25, 2021 | | | | | | | |
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 17,305 | \$ — | \$ — | \$ 17,305 | \$ 17,305 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 9,608 | — | — | 9,608 | 9,608 | — | — |
| Mutual funds | 175 | 11 | (1) | 185 | — | 185 | — |
| Subtotal | 9,783 | 11 | (1) | 9,793 | 9,608 | 185 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| Equity securities | 1,527 | — | (564) | 963 | — | 963 | — |
| U.S. Treasury securities | 22,878 | 102 | (77) | 22,903 | 3,596 | 6,625 | 12,682 |
| U.S. agency securities | 8,949 | 2 | (64) | 8,887 | 1,775 | 1,930 | 5,182 |
| Non-U.S. government securities | 20,201 | 211 | (101) | 20,311 | 390 | 3,091 | 16,830 |
| Certificates of deposit and time deposits | 1,300 | — | — | 1,300 | 490 | 810 | — |
| Commercial paper | 2,639 | — | — | 2,639 | 1,776 | 863 | — |
| Corporate debt securities | 83,883 | 1,242 | (267) | 84,858 | — | 12,327 | 72,531 |
| Municipal securities | 967 | 14 | — | 981 | — | 130 | 851 |
| Mortgage- and asset-backed securities | 20,529 | 171 | (124) | 20,576 | — | 775 | 19,801 |
| Subtotal | 162,873 | 1,742 | (1,197) | 163,418 | 8,027 | 27,514 | 127,877 |
| Total ⁽³⁾ | \$ 189,961 | \$ 1,753 | \$ (1,198) | \$ 190,516 | \$ 34,940 | \$ 27,699 | \$ 127,877 |

(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 June 25, 2022 and September 25, 2021, total marketable securities included \$14.1 billion and \$17.9 billion, respectively, that were restricted from general use, related to the European Commission decision finding that Ireland granted state aid to the Company, and other agreements.

The following table shows the fair value of the Company's non-current marketable debt securities, by contractual maturity, as of June 25, 2022 (in millions):

| | | |
|------------------------------------|----|---------|
| Due after 1 year through 5 years | \$ | 92,970 |
| Due after 5 years through 10 years | | 19,317 |
| Due after 10 years | | 18,790 |
| Total fair value | \$ | 131,077 |

Derivative Instruments and Hedging

The Company may use derivative instruments to partially offset its business exposure to foreign exchange and interest rate risk. However, the Company may choose not to hedge certain exposures for a variety of reasons, including 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 exchange or interest rates.

Foreign Exchange Risk

To protect gross margins from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, option contracts or other instruments, 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 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. The Company designates these instruments as either cash flow or fair value hedges. As of June 25, 2022, the Company's hedged term debt- and marketable securities-related foreign currency transactions are expected to be recognized within 20 years.

The Company may also enter into derivative instruments that are not designated as accounting hedges to protect gross margins from certain fluctuations in foreign currency exchange rates, as well as 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.

Interest Rate Risk

To protect the Company's term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. The Company designates these instruments as either cash flow or fair value hedges.

The notional amounts of the Company's outstanding derivative instruments as of June 25, 2022 and September 25, 2021 were as follows (in millions):

| | June 25, 2022 | September 25, 2021 |
|---|------------------|-----------------------|
| Derivative instruments designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 76,234 | \$ 76,475 |
| Interest rate contracts | \$ 20,775 | \$ 16,875 |
| Derivative instruments not designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 84,506 | \$ 126,918 |

The gross fair values of the Company's derivative assets and liabilities were not material as of June 25, 2022 and September 25, 2021.

The gains and losses recognized in other comprehensive income/(loss) and amounts reclassified from accumulated other comprehensive income/(loss) to net income for the Company's derivative instruments designated as cash flow hedges were not material in the three- and nine-month periods ended June 25, 2022 and June 26, 2021.

The carrying amounts of the Company's hedged items in fair value hedges as of June 25, 2022 and September 25, 2021 were as follows (in millions):

| | June 25, 2022 | September 25, 2021 |
|---|------------------|-----------------------|
| Hedged assets/(liabilities): | | |
| Current and non-current marketable securities | \$ 14,250 | \$ 15,954 |
| Current and non-current term debt | \$ (19,281) | \$ (17,857) |

The gains and losses on the Company's derivative instruments designated as fair value hedges and the related hedged item adjustments were not material in the three- and nine-month periods ended June 25, 2022 and June 26, 2021.

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.

The Company's cellular network carriers accounted for 36% and 42% of total trade receivables as of June 25, 2022 and September 25, 2021, respectively.

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 subassemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of June 25, 2022, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 54% and 12%. As of September 25, 2021, the Company had three vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 52%, 11% and 11%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of June 25, 2022 and September 25, 2021 (in millions):

Property, Plant and Equipment, Net

| | June 25, 2022 | September 25, 2021 |
|---|------------------|-----------------------|
| Gross property, plant and equipment | \$ 111,851 | \$ 109,723 |
| Accumulated depreciation and amortization | (71,516) | (70,283) |
| Total property, plant and equipment, net | \$ 40,335 | \$ 39,440 |

Other Non-Current Liabilities

| | June 25, 2022 | September 25, 2021 |
|-------------------------------------|------------------|-----------------------|
| Long-term taxes payable | \$ 20,699 | \$ 24,689 |
| Other non-current liabilities | 32,930 | 28,636 |
| Total other non-current liabilities | \$ 53,629 | \$ 53,325 |

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Interest and dividend income | \$ 722 | \$ 719 | \$ 2,072 | \$ 2,184 |
| Interest expense | (719) | (665) | (2,104) | (1,973) |
| Other income/(expense), net | (13) | 189 | (65) | 585 |
| Total other income/(expense), net | <u>\$ (10)</u> | <u>\$ 243</u> | <u>\$ (97)</u> | <u>\$ 796</u> |

Note 5 – Debt**Commercial Paper**

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 June 25, 2022 and September 25, 2021, the Company had \$11.0 billion and \$6.0 billion of Commercial Paper outstanding, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the nine months ended June 25, 2022 and June 26, 2021 (in millions):

| | Nine Months Ended | |
|---|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 |
| Maturities 90 days or less: | | |
| Proceeds from commercial paper, net | \$ 4,383 | \$ 2,745 |
| Maturities greater than 90 days: | | |
| Proceeds from commercial paper | 5,731 | 3,993 |
| Repayments of commercial paper | (5,144) | (3,716) |
| Proceeds from commercial paper, net | <u>587</u> | <u>277</u> |
| Total proceeds from commercial paper, net | <u>\$ 4,970</u> | <u>\$ 3,022</u> |

Term Debt

As of June 25, 2022 and September 25, 2021, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate carrying amount of \$108.7 billion and \$118.7 billion, respectively (collectively the “Notes”). As of June 25, 2022 and September 25, 2021, the fair value of the Company’s Notes, based on Level 2 inputs, was \$101.0 billion and \$125.3 billion, respectively.

Note 6 – Shareholders’ Equity**Share Repurchase Program**

During the nine months ended June 25, 2022, the Company repurchased 408 million shares of its common stock for \$65.0 billion under a share repurchase program authorized by the Board of Directors (the “Program”), including 35 million shares delivered under accelerated share repurchase agreements totaling \$6.0 billion that were entered into in November 2021. The Program does not obligate the Company to acquire a minimum amount 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.

Note 7 – Benefit Plans

Restricted Stock Units

A summary of the Company's restricted stock unit ("RSU") activity and related information for the nine months ended June 25, 2022 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 25, 2021 | 240,427 | \$ 75.16 | |
| RSUs granted | 84,927 | \$ 150.02 | |
| RSUs vested | (109,846) | \$ 70.96 | |
| RSUs canceled | (12,986) | \$ 98.26 | |
| Balance as of June 25, 2022 | 202,522 | \$ 107.35 | \$ 28,689 |

The fair value as of the respective vesting dates of RSUs was \$7.8 billion and \$17.3 billion for the three- and nine-month periods ended June 25, 2022, respectively, and was \$7.9 billion and \$17.3 billion for the three- and nine-month periods ended June 26, 2021, 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 nine-month periods ended June 25, 2022 and June 26, 2021 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Share-based compensation expense | \$ 2,243 | \$ 1,960 | \$ 6,760 | \$ 5,961 |
| Income tax benefit related to share-based compensation expense | \$ (1,231) | \$ (1,319) | \$ (3,416) | \$ (3,518) |

As of June 25, 2022, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$18.1 billion, which the Company expects to recognize over a weighted-average period of 2.7 years.

Note 8 – Commitments and Contingencies

Accrued Warranty

The following table shows changes in the Company's accrued warranties and related costs for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Beginning accrued warranty and related costs | \$ 3,206 | \$ 3,784 | \$ 3,364 | \$ 3,354 |
| Cost of warranty claims | (534) | (636) | (1,787) | (2,008) |
| Accruals for product warranty | 177 | 384 | 1,272 | 2,186 |
| Ending accrued warranty and related costs | \$ 2,849 | \$ 3,532 | \$ 2,849 | \$ 3,532 |

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. 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.

Note 9 – Segment Information and Geographic Data

The following table shows information by reportable segment for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Americas: | | | | |
| Net sales | \$ 37,472 | \$ 35,870 | \$ 129,850 | \$ 116,486 |
| Operating income | \$ 13,914 | \$ 12,916 | \$ 48,778 | \$ 40,751 |
| Europe: | | | | |
| Net sales | \$ 19,287 | \$ 18,943 | \$ 72,323 | \$ 68,513 |
| Operating income | \$ 7,124 | \$ 7,085 | \$ 27,174 | \$ 24,939 |
| Greater China: | | | | |
| Net sales | \$ 14,604 | \$ 14,762 | \$ 58,730 | \$ 53,803 |
| Operating income | \$ 5,760 | \$ 6,303 | \$ 25,055 | \$ 22,591 |
| Japan: | | | | |
| Net sales | \$ 5,446 | \$ 6,464 | \$ 20,277 | \$ 22,491 |
| Operating income | \$ 2,418 | \$ 3,031 | \$ 9,263 | \$ 9,962 |
| Rest of Asia Pacific: | | | | |
| Net sales | \$ 6,150 | \$ 5,395 | \$ 23,002 | \$ 21,164 |
| Operating income | \$ 2,367 | \$ 2,116 | \$ 9,185 | \$ 7,805 |

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 is as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Segment operating income | \$ 31,583 | \$ 31,451 | \$ 119,455 | \$ 106,048 |
| Research and development expense | (6,797) | (5,717) | (19,490) | (16,142) |
| Other corporate expenses, net | (1,710) | (1,608) | (5,422) | (4,743) |
| Total operating income | \$ 23,076 | \$ 24,126 | \$ 94,543 | \$ 85,163 |

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 fiscal year ended September 25, 2021 (the "2021 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 2021 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 environmental, social and corporate governance matters, 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.

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.

Quarterly Highlights

Total net sales increased 2% or \$1.5 billion during the third quarter of 2022 compared to the same quarter in 2021, driven primarily by higher net sales of Services and iPhone, partially offset by lower net sales of Mac and Wearables, Home and Accessories. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on all Products and Services net sales during the third quarter of 2022.

At the end of the third quarter of 2022, the Company introduced an all-new MacBook Air[®] and an updated 13-inch MacBook Pro[®], both powered by the new Apple M2 chip. The Company also announced iOS 16, macOS[®] Ventura, iPadOS[®] 16 and watchOS[®] 9, updates to its operating systems that are expected to be available in the fall of 2022.

The Company repurchased \$21.7 billion of its common stock and paid dividends and dividend equivalents of \$3.8 billion during the third quarter of 2022.

COVID-19

The COVID-19 pandemic has had, and continues to have, a significant impact around the world, prompting governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of businesses, and quarantine and shelter-in-place orders. The COVID-19 pandemic has at times 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 and financial condition.

Certain of the Company's outsourcing partners, component suppliers and logistical service providers have experienced disruptions during the COVID-19 pandemic, resulting in supply shortages. Similar disruptions could occur in the future.

Products and Services Performance

The following table shows net sales by category for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 (dollars in millions):

| | Three Months Ended | | | Nine Months Ended | | |
|---|--------------------|------------------|------------|-------------------|-------------------|------------|
| | June 25, 2022 | June 26, 2021 | Change | June 25, 2022 | June 26, 2021 | Change |
| Net sales by category: | | | | | | |
| iPhone ⁽¹⁾ | \$ 40,665 | \$ 39,570 | 3 % | \$ 162,863 | \$ 153,105 | 6 % |
| Mac ⁽¹⁾ | 7,382 | 8,235 | (10)% | 28,669 | 26,012 | 10 % |
| iPad ⁽¹⁾ | 7,224 | 7,368 | (2)% | 22,118 | 23,610 | (6)% |
| Wearables, Home and Accessories ⁽¹⁾⁽²⁾ | 8,084 | 8,775 | (8)% | 31,591 | 29,582 | 7 % |
| Services ⁽³⁾ | 19,604 | 17,486 | 12 % | 58,941 | 50,148 | 18 % |
| Total net sales | <u>\$ 82,959</u> | <u>\$ 81,434</u> | <u>2 %</u> | <u>\$ 304,182</u> | <u>\$ 282,457</u> | <u>8 %</u> |

(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 mini and accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare, cloud, digital content, payment and other services. Services net sales also include amortization of the deferred value of services bundled in the sales price of certain products.

iPhone

iPhone net sales increased during the third quarter and first nine months of 2022 compared to the same periods in 2021 due primarily to higher net sales from the Company's new iPhone models.

Mac

Mac net sales decreased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to lower net sales of MacBook Air and iMac®, partially offset by higher net sales of MacBook Pro. Year-over-year Mac net sales increased during the first nine months of 2022 due primarily to higher net sales of MacBook Pro, partially offset by lower net sales of MacBook Air.

iPad

iPad net sales decreased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to lower net sales of iPad Pro®, partially offset by higher net sales of all other iPad models. Year-over-year iPad net sales decreased during the first nine months of 2022 due primarily to lower net sales of the 10-inch version of iPad and iPad Air®, partially offset by higher net sales of iPad mini®.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales decreased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to lower net sales of AirPods and Apple Watch. Year-over-year Wearables, Home and Accessories net sales increased during the first nine months of 2022 due primarily to higher net sales of Apple Watch and AirPods.

Services

Services net sales increased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to higher net sales from advertising, cloud services and AppleCare. Year-over-year Services net sales increased during the first nine months of 2022 due primarily to higher net sales from advertising, the App Store® 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 9, "Segment Information and Geographic Data."

The following table shows net sales by reportable segment for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 (dollars in millions):

| | Three Months Ended | | | Nine Months Ended | | |
|----------------------------------|--------------------|------------------|------------|-------------------|-------------------|------------|
| | June 25, 2022 | June 26, 2021 | Change | June 25, 2022 | June 26, 2021 | Change |
| Net sales by reportable segment: | | | | | | |
| Americas | \$ 37,472 | \$ 35,870 | 4 % | \$ 129,850 | \$ 116,486 | 11 % |
| Europe | 19,287 | 18,943 | 2 % | 72,323 | 68,513 | 6 % |
| Greater China | 14,604 | 14,762 | (1)% | 58,730 | 53,803 | 9 % |
| Japan | 5,446 | 6,464 | (16)% | 20,277 | 22,491 | (10)% |
| Rest of Asia Pacific | 6,150 | 5,395 | 14 % | 23,002 | 21,164 | 9 % |
| Total net sales | <u>\$ 82,959</u> | <u>\$ 81,434</u> | <u>2 %</u> | <u>\$ 304,182</u> | <u>\$ 282,457</u> | <u>8 %</u> |

Americas

Americas net sales increased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to higher net sales of Services and iPhone, partially offset by lower net sales of Mac and Wearables, Home and Accessories. Year-over-year Americas net sales increased during the first nine months of 2022 due primarily to higher net sales of iPhone, Services and Wearables, Home and Accessories.

Europe

Europe net sales increased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to higher net sales of iPhone, partially offset by lower net sales of Mac. Year-over-year Europe net sales increased during the first nine months of 2022 due primarily to higher net sales of Services and iPhone. The weakness in foreign currencies relative to the U.S. dollar had a net unfavorable impact on Europe net sales during the third quarter and first nine months of 2022.

Greater China

Greater China net sales decreased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to lower net sales of iPhone, partially offset by higher net sales of Services. Year-over-year Greater China net sales increased during the first nine months of 2022 due primarily to higher net sales of iPhone and Services. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Greater China net sales during the third quarter of 2022. The strength of the renminbi relative to the U.S. dollar had a favorable impact on Greater China net sales during the first nine months of 2022.

Japan

Japan net sales decreased during the third quarter and first nine months of 2022 compared to the same periods in 2021 due primarily to lower net sales of iPhone and iPad. The weakness of the yen relative to the U.S. dollar had an unfavorable impact on Japan net sales during the third quarter and first nine months of 2022.

Rest of Asia Pacific

Rest of Asia Pacific net sales increased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to higher net sales of iPhone and Services. Year-over-year Rest of Asia Pacific net sales increased during the first nine months of 2022 due primarily to higher net sales of Services, iPhone and Mac. The weakness in foreign currencies relative to the U.S. dollar had a net unfavorable impact on Rest of Asia Pacific net sales during the third quarter and first nine months of 2022.

Gross Margin

Products and Services gross margin and gross margin percentage for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--------------------|------------------|-------------------|-------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Gross margin: | | | | |
| Products | \$ 21,870 | \$ 23,049 | \$ 90,157 | \$ 82,833 |
| Services | 14,015 | 12,206 | 42,530 | 34,829 |
| Total gross margin | <u>\$ 35,885</u> | <u>\$ 35,255</u> | <u>\$ 132,687</u> | <u>\$ 117,662</u> |
| Gross margin percentage: | | | | |
| Products | 34.5 % | 36.0 % | 36.8 % | 35.7 % |
| Services | 71.5 % | 69.8 % | 72.2 % | 69.5 % |
| Total gross margin percentage | 43.3 % | 43.3 % | 43.6 % | 41.7 % |

Products Gross Margin

Products gross margin decreased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to the weakness in foreign currencies relative to the U.S. dollar. Year-over-year Products gross margin increased during the first nine months of 2022 due primarily to a different Products mix and higher Products volume, partially offset by the weakness in foreign currencies relative to the U.S. dollar.

Products gross margin percentage decreased during the third quarter of 2022 compared to the third quarter of 2021 due primarily to the weakness in foreign currencies relative to the U.S. dollar and a different Products mix. Year-over-year Products gross margin percentage increased during the first nine months of 2022 due primarily to a different Products mix.

Services Gross Margin

Services gross margin increased during the third quarter and first nine months of 2022 compared to the same periods in 2021 due primarily to higher Services net sales, partially offset by the weakness in foreign currencies relative to the U.S. dollar.

Services gross margin percentage increased during the third quarter and first nine months of 2022 compared to the same periods in 2021 due primarily to improved leverage and a different Services mix, partially offset by the weakness in foreign currencies relative to the U.S. dollar and higher Services costs.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of the 2021 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 nine-month periods ended June 25, 2022 and June 26, 2021 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Research and development | \$ 6,797 | \$ 5,717 | \$ 19,490 | \$ 16,142 |
| Percentage of total net sales | 8 % | 7 % | 6 % | 6 % |
| Selling, general and administrative | \$ 6,012 | \$ 5,412 | \$ 18,654 | \$ 16,357 |
| Percentage of total net sales | 7 % | 7 % | 6 % | 6 % |
| Total operating expenses | \$ 12,809 | \$ 11,129 | \$ 38,144 | \$ 32,499 |
| Percentage of total net sales | 15 % | 14 % | 13 % | 12 % |

Research and Development

The growth in research and development ("R&D") expense during the third quarter and first nine months of 2022 compared to the same periods in 2021 was driven primarily by increases in headcount-related expenses, engineering program costs and professional services. 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 third quarter and first nine months of 2022 compared to the same periods in 2021 was driven primarily by increases in headcount-related expenses, advertising and professional services.

Other Income/(Expense), Net

Other income/(expense), net ("OI&E") for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 was as follows (dollars in millions):

| | Three Months Ended | | | Nine Months Ended | | |
|-----------------------------------|--------------------|------------------|--------|-------------------|------------------|--------|
| | June 25, 2022 | June 26, 2021 | Change | June 25, 2022 | June 26, 2021 | Change |
| Interest and dividend income | \$ 722 | \$ 719 | | \$ 2,072 | \$ 2,184 | |
| Interest expense | (719) | (665) | | (2,104) | (1,973) | |
| Other income/(expense), net | (13) | 189 | | (65) | 585 | |
| Total other income/(expense), net | \$ (10) | \$ 243 | (104)% | \$ (97) | \$ 796 | (112)% |

OI&E decreased during the third quarter and first nine months of 2022 compared to the same periods in 2021 due primarily to fair value adjustments and realized losses on marketable securities and higher interest expense, partially offset by foreign exchange gains.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for the three- and nine-month periods ended June 25, 2022 and June 26, 2021 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|
| | June 25, 2022 | June 26, 2021 | June 25, 2022 | June 26, 2021 |
| Provision for income taxes | \$ 3,624 | \$ 2,625 | \$ 15,364 | \$ 11,830 |
| Effective tax rate | 15.7 % | 10.8 % | 16.3 % | 13.8 % |
| Statutory federal income tax rate | 21 % | 21 % | 21 % | 21 % |

The Company's effective tax rate for the third quarter and first nine months of 2022 was lower than the statutory federal income tax rate due primarily to a lower effective tax rate on foreign earnings, tax benefits from share-based compensation and the impact of the U.S. federal R&D tax credit, partially offset by state income taxes.

The Company's effective tax rate for the third quarter of 2022 was higher compared to the third quarter of 2021 due primarily to a higher effective tax rate on foreign earnings and an adjustment to prior years' foreign-derived intangible income deductions. The Company's effective tax rate for the first nine months of 2022 was higher compared to the same period in 2021 due primarily to a higher effective tax rate on foreign earnings, lower tax benefits from share-based compensation, and the impact to U.S. foreign tax credits as a result of regulations issued by the U.S. Department of the Treasury in January 2022.

Liquidity and Capital Resources

The Company believes its balances of cash, cash equivalents and unrestricted marketable securities, along with cash generated by ongoing operations and continued access to debt markets, will be sufficient to satisfy its cash requirements and capital return program over the next 12 months and beyond.

The Company's contractual cash requirements have not changed materially since the 2021 Form 10-K, except for manufacturing purchase obligations.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture subassemblies for the Company's products and to perform final assembly and testing of finished products. The Company also obtains individual components for its products from a wide variety of individual suppliers. Outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. As of June 25, 2022, the Company had manufacturing purchase obligations of \$43.1 billion, with \$43.0 billion payable within 12 months. The Company's manufacturing purchase obligations are primarily noncancelable.

In addition to its contractual cash requirements, the Company has a share repurchase program authorized by the Board of Directors (the "Program"). The Program does not obligate the Company to acquire a minimum amount of shares. As of June 25, 2022, the Company's quarterly cash dividend was \$0.23 per share. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Critical Accounting 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. Note 1, "Summary of Significant Accounting Policies" of the Notes to condensed consolidated Financial Statements 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 2021 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 estimates since the 2021 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 nine months of 2022. 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 2021 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective as of June 25, 2022 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 third quarter of 2022, 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

Epic Games

Epic Games, Inc. ("Epic") filed a lawsuit in the U.S. District Court for the Northern District of California (the "Northern California District Court") against the Company alleging violations of federal and state antitrust laws and California's unfair competition law based upon the Company's operation of its App Store. The Company filed a counterclaim for breach of contract. On September 10, 2021, the Northern California District Court ruled in favor of the Company with respect to nine out of the ten counts included in Epic's claim, and in favor of the Company with respect to the Company's claims for breach of contract. The Northern California District Court found that certain provisions of the Company's App Store Review Guidelines violate California's unfair competition law and issued an injunction. Epic appealed the decision. The Company filed a cross-appeal and has been granted a stay pending the appeal.

Other Legal Proceedings

The Company is subject to other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company settled certain matters during the third quarter of 2022 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results. 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.

Item 1A. Risk Factors

The Company's business, reputation, results of operations and financial condition, as well as the price of the Company's stock, can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of the 2021 Form 10-K under the heading "Risk Factors." When any one or more of these risks materialize from time to time, the Company's business, reputation, results of operations and financial condition, as well as the price of the Company's stock, can be materially and adversely affected. There have been no material changes to the Company's risk factors since the 2021 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 June 25, 2022 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⁾ |
|--|----------------------------------|------------------------------|--|---|
| March 27, 2022 to April 30, 2022: | | | | |
| Open market and privately negotiated purchases | 50,578 | \$ 168.06 | 50,578 | |
| May 1, 2022 to May 28, 2022: | | | | |
| Open market and privately negotiated purchases | 42,069 | \$ 148.45 | 42,069 | |
| May 29, 2022 to June 25, 2022: | | | | |
| Open market and privately negotiated purchases | 50,027 | \$ 139.06 | 50,027 | |
| Total | 142,674 | | | \$ 85,877 |

- (1) On April 28, 2022, the Board of Directors authorized the purchase of an additional \$90 billion of the Company's common stock under the Program. As of June 25, 2022, total utilization under the April 2022 authorization was \$4.1 billion. During the third quarter of 2022, the Company also utilized the final \$17.6 billion under the \$90 billion Program authorization approved in April 2021. The Program does not obligate the Company to acquire a minimum amount 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**Rule 10b5-1 Trading Plans**

During the three months ended June 25, 2022, Katherine L. Adams, Timothy D. Cook, Luca Maestri, Deirdre O'Brien and Jeffrey Williams, each an officer for purposes of Section 16 of the Exchange Act, 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 preestablishes 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 sales of shares acquired under the Company's employee and director equity plans.

Item 6. Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|----------------|--|---------------------------|---------|------------------------------------|
| | | Form | Exhibit | Filing Date/ Period End Date |
| 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.

Date: July 28, 2022

Apple Inc.

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

CERTIFICATION

I, Timothy D. Cook, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 28, 2022

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

CERTIFICATION

I, Luca Maestri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 28, 2022

By: /s/ Luca Maestri
 Luca Maestri
 Senior Vice President,
 Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy D. Cook, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended June 25, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: July 28, 2022

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

I, Luca Maestri, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended June 25, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: July 28, 2022

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Apple Inc. and will be retained by Apple Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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 December 31, 2022

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

(State or other jurisdiction
of incorporation or organization)

One Apple Park Way
Cupertino, California

(Address of principal executive offices)

94-2404110

(I.R.S. Employer Identification No.)

95014

(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 |
| 1.375% 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



Non-accelerated filer



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 ☒

15,821,946,000 shares of common stock were issued and outstanding as of January 20, 2023.

Apple Inc.
Form 10-Q
For the Fiscal Quarter Ended December 31, 2022
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PART I — FINANCIAL INFORMATION**Item 1. Financial Statements****Apple Inc.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

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

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Net sales: | | |
| Products | \$ 96,388 | \$ 104,429 |
| Services | 20,766 | 19,516 |
| Total net sales | 117,154 | 123,945 |
| Cost of sales: | | |
| Products | 60,765 | 64,309 |
| Services | 6,057 | 5,393 |
| Total cost of sales | 66,822 | 69,702 |
| Gross margin | 50,332 | 54,243 |
| Operating expenses: | | |
| Research and development | 7,709 | 6,306 |
| Selling, general and administrative | 6,607 | 6,449 |
| Total operating expenses | 14,316 | 12,755 |
| Operating income | 36,016 | 41,488 |
| Other income/(expense), net | (393) | (247) |
| Income before provision for income taxes | 35,623 | 41,241 |
| Provision for income taxes | 5,625 | 6,611 |
| Net income | \$ 29,998 | \$ 34,630 |
| Earnings per share: | | |
| Basic | \$ 1.89 | \$ 2.11 |
| Diluted | \$ 1.88 | \$ 2.10 |
| Shares used in computing earnings per share: | | |
| Basic | 15,892,723 | 16,391,724 |
| Diluted | 15,955,718 | 16,519,291 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions)

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Net income | \$ 29,998 | \$ 34,630 |
| Other comprehensive income/(loss): | | |
| Change in foreign currency translation, net of tax | (14) | (360) |
| Change in unrealized gains/losses on derivative instruments, net of tax: | | |
| Change in fair value of derivative instruments | (988) | 362 |
| Adjustment for net (gains)/losses realized and included in net income | (1,766) | 93 |
| Total change in unrealized gains/losses on derivative instruments | (2,754) | 455 |
| Change in unrealized gains/losses on marketable debt securities, net of tax: | | |
| Change in fair value of marketable debt securities | 900 | (1,176) |
| Adjustment for net (gains)/losses realized and included in net income | 65 | (9) |
| Total change in unrealized gains/losses on marketable debt securities | 965 | (1,185) |
| Total other comprehensive income/(loss) | (1,803) | (1,090) |
| Total comprehensive income | \$ 28,195 | \$ 33,540 |

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)

| | December 31, 2022 | September 24, 2022 |
|---|----------------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,535 | \$ 23,646 |
| Marketable securities | 30,820 | 24,658 |
| Accounts receivable, net | 23,752 | 28,184 |
| Inventories | 6,820 | 4,946 |
| Vendor non-trade receivables | 30,428 | 32,748 |
| Other current assets | 16,422 | 21,223 |
| Total current assets | 128,777 | 135,405 |
| Non-current assets: | | |
| Marketable securities | 114,095 | 120,805 |
| Property, plant and equipment, net | 42,951 | 42,117 |
| Other non-current assets | 60,924 | 54,428 |
| Total non-current assets | 217,970 | 217,350 |
| Total assets | \$ 346,747 | \$ 352,755 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 57,918 | \$ 64,115 |
| Other current liabilities | 59,893 | 60,845 |
| Deferred revenue | 7,992 | 7,912 |
| Commercial paper | 1,743 | 9,982 |
| Term debt | 9,740 | 11,128 |
| Total current liabilities | 137,286 | 153,982 |
| Non-current liabilities: | | |
| Term debt | 99,627 | 98,959 |
| Other non-current liabilities | 53,107 | 49,142 |
| Total non-current liabilities | 152,734 | 148,101 |
| Total liabilities | 290,020 | 302,083 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 15,842,407 and 15,943,425 shares issued and outstanding, respectively | 66,399 | 64,849 |
| Retained earnings/(Accumulated deficit) | 3,240 | (3,068) |
| Accumulated other comprehensive income/(loss) | (12,912) | (11,109) |
| Total shareholders' equity | 56,727 | 50,672 |
| Total liabilities and shareholders' equity | \$ 346,747 | \$ 352,755 |

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 | |
|--|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Total shareholders' equity, beginning balances | \$ 50,672 | \$ 63,090 |
| Common stock and additional paid-in capital: | | |
| Beginning balances | 64,849 | 57,365 |
| Common stock withheld related to net share settlement of equity awards | (1,434) | (1,263) |
| Share-based compensation | 2,984 | 2,322 |
| Ending balances | 66,399 | 58,424 |
| Retained earnings/(Accumulated deficit): | | |
| Beginning balances | (3,068) | 5,562 |
| Net income | 29,998 | 34,630 |
| Dividends and dividend equivalents declared | (3,712) | (3,665) |
| Common stock withheld related to net share settlement of equity awards | (978) | (1,730) |
| Common stock repurchased | (19,000) | (20,362) |
| Ending balances | 3,240 | 14,435 |
| Accumulated other comprehensive income/(loss): | | |
| Beginning balances | (11,109) | 163 |
| Other comprehensive income/(loss) | (1,803) | (1,090) |
| Ending balances | (12,912) | (927) |
| Total shareholders' equity, ending balances | \$ 56,727 | \$ 71,932 |
| Dividends and dividend equivalents declared per share or RSU | \$ 0.23 | \$ 0.22 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Cash, cash equivalents and restricted cash, beginning balances | \$ 24,977 | \$ 35,929 |
| Operating activities: | | |
| Net income | 29,998 | 34,630 |
| Adjustments to reconcile net income to cash generated by operating activities: | | |
| Depreciation and amortization | 2,916 | 2,697 |
| Share-based compensation expense | 2,905 | 2,265 |
| Other | (317) | 849 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 4,275 | (3,934) |
| Inventories | (1,807) | 681 |
| Vendor non-trade receivables | 2,320 | (9,812) |
| Other current and non-current assets | (4,099) | (4,921) |
| Accounts payable | (6,075) | 19,813 |
| Deferred revenue | 131 | 462 |
| Other current and non-current liabilities | 3,758 | 4,236 |
| Cash generated by operating activities | 34,005 | 46,966 |
| Investing activities: | | |
| Purchases of marketable securities | (5,153) | (34,913) |
| Proceeds from maturities of marketable securities | 7,127 | 11,309 |
| Proceeds from sales of marketable securities | 509 | 10,675 |
| Payments for acquisition of property, plant and equipment | (3,787) | (2,803) |
| Other | (141) | (374) |
| Cash used in investing activities | (1,445) | (16,106) |
| Financing activities: | | |
| Payments for taxes related to net share settlement of equity awards | (2,316) | (2,888) |
| Payments for dividends and dividend equivalents | (3,768) | (3,732) |
| Repurchases of common stock | (19,475) | (20,478) |
| Repayments of term debt | (1,401) | — |
| Repayments of commercial paper, net | (8,214) | (1,000) |
| Other | (389) | (61) |
| Cash used in financing activities | (35,563) | (28,159) |
| Increase/(Decrease) in cash, cash equivalents and restricted cash | (3,003) | 2,701 |
| Cash, cash equivalents and restricted cash, ending balances | \$ 21,974 | \$ 38,630 |
| Supplemental cash flow disclosure: | | |
| Cash paid for income taxes, net | \$ 828 | \$ 5,235 |
| Cash paid for interest | \$ 703 | \$ 531 |

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 condensed 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 24, 2022.

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, which occurred in the first fiscal quarter of 2023. The Company’s fiscal years 2023 and 2022 span 53 and 52 weeks, respectively. 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.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three months ended December 31, 2022 and December 25, 2021 (net income in millions and shares in thousands):

| | Three Months Ended | |
|---|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Numerator: | | |
| Net income | \$ 29,998 | \$ 34,630 |
| Denominator: | | |
| Weighted-average basic shares outstanding | 15,892,723 | 16,391,724 |
| Effect of dilutive securities | 62,995 | 127,567 |
| Weighted-average diluted shares | 15,955,718 | 16,519,291 |
| Basic earnings per share | \$ 1.89 | \$ 2.11 |
| Diluted earnings per share | \$ 1.88 | \$ 2.10 |

Approximately 89 million restricted stock units (“RSUs”) were excluded from the computation of diluted earnings per share for the three months ended December 31, 2022 because their effect would have been antidilutive.

Note 2 – Revenue

Net sales disaggregated by significant products and services for the three months ended December 31, 2022 and December 25, 2021 were as follows (in millions):

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| iPhone [®] (1) | \$ 65,775 | \$ 71,628 |
| Mac [®] (1) | 7,735 | 10,852 |
| iPad [®] (1) | 9,396 | 7,248 |
| Wearables, Home and Accessories (1)(2) | 13,482 | 14,701 |
| Services (3) | 20,766 | 19,516 |
| Total net sales (4) | <u>\$ 117,154</u> | <u>\$ 123,945</u> |

(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 mini[®] and accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare[®], cloud, digital content, payment and other services. Services net sales also include amortization of the deferred value of services bundled in the sales price of certain products.

(4) Includes \$3.4 billion of revenue recognized in the three months ended December 31, 2022 that was included in deferred revenue as of September 24, 2022 and \$3.0 billion of revenue recognized in the three months ended December 25, 2021 that was included in deferred revenue as of September 25, 2021.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 9, "Segment Information and Geographic Data" for the three months ended December 31, 2022 and December 25, 2021, except in Greater China, where iPhone revenue represented a moderately higher proportion of net sales.

As of December 31, 2022 and September 24, 2022, the Company had total deferred revenue of \$12.6 billion and \$12.4 billion, respectively. As of December 31, 2022, the Company expects 63% of total deferred revenue to be realized in less than a year, 27% within one-to-two years, 8% within two-to-three years and 2% in greater than three years.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash, cash equivalents and marketable securities by significant investment category as of December 31, 2022 and September 24, 2022 (in millions):

| December 31, 2022 | | | | | | | |
|---|---------------|------------------|-------------------|------------|---------------------------|-------------------------------|-----------------------------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 17,908 | \$ — | \$ — | \$ 17,908 | \$ 17,908 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 818 | — | — | 818 | 818 | — | — |
| Mutual funds | 330 | 2 | (40) | 292 | — | 292 | — |
| Subtotal | 1,148 | 2 | (40) | 1,110 | 818 | 292 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 24,128 | 1 | (1,576) | 22,553 | 13 | 9,105 | 13,435 |
| U.S. agency securities | 5,743 | — | (643) | 5,100 | — | 310 | 4,790 |
| Non-U.S. government securities | 17,778 | 14 | (1,029) | 16,763 | — | 9,907 | 6,856 |
| Certificates of deposit and time deposits | 2,025 | — | — | 2,025 | 1,795 | 230 | — |
| Commercial paper | 237 | — | — | 237 | — | 237 | — |
| Corporate debt securities | 85,895 | 14 | (7,039) | 78,870 | 1 | 10,377 | 68,492 |
| Municipal securities | 864 | — | (26) | 838 | — | 278 | 560 |
| Mortgage- and asset-backed securities | 22,448 | 3 | (2,405) | 20,046 | — | 84 | 19,962 |
| Subtotal | 159,118 | 32 | (12,718) | 146,432 | 1,809 | 30,528 | 114,095 |
| Total ⁽³⁾ | \$ 178,174 | \$ 34 | \$ (12,758) | \$ 165,450 | \$ 20,535 | \$ 30,820 | \$ 114,095 |
| September 24, 2022 | | | | | | | |
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 18,546 | \$ — | \$ — | \$ 18,546 | \$ 18,546 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 2,929 | — | — | 2,929 | 2,929 | — | — |
| Mutual funds | 274 | — | (47) | 227 | — | 227 | — |
| Subtotal | 3,203 | — | (47) | 3,156 | 2,929 | 227 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 25,134 | — | (1,725) | 23,409 | 338 | 5,091 | 17,980 |
| U.S. agency securities | 5,823 | — | (655) | 5,168 | — | 240 | 4,928 |
| Non-U.S. government securities | 16,948 | 2 | (1,201) | 15,749 | — | 8,806 | 6,943 |
| Certificates of deposit and time deposits | 2,067 | — | — | 2,067 | 1,805 | 262 | — |
| Commercial paper | 718 | — | — | 718 | 28 | 690 | — |
| Corporate debt securities | 87,148 | 9 | (7,707) | 79,450 | — | 9,023 | 70,427 |
| Municipal securities | 921 | — | (35) | 886 | — | 266 | 620 |
| Mortgage- and asset-backed securities | 22,553 | — | (2,593) | 19,960 | — | 53 | 19,907 |
| Subtotal | 161,312 | 11 | (13,916) | 147,407 | 2,171 | 24,431 | 120,805 |
| Total ⁽³⁾ | \$ 183,061 | \$ 11 | \$ (13,963) | \$ 169,109 | \$ 23,646 | \$ 24,658 | \$ 120,805 |

(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 December 31, 2022 and September 24, 2022, total marketable securities included \$13.6 billion and \$12.7 billion, respectively, that were restricted from general use, related to the European Commission decision finding that Ireland granted state aid to the Company, and other agreements.

The following table shows the fair value of the Company's non-current marketable debt securities, by contractual maturity, as of December 31, 2022 (in millions):

| | | |
|------------------------------------|----|---------|
| Due after 1 year through 5 years | \$ | 82,497 |
| Due after 5 years through 10 years | | 14,243 |
| Due after 10 years | | 17,355 |
| Total fair value | \$ | 114,095 |

Derivative Instruments and Hedging

The Company may use derivative instruments to partially offset its business exposure to foreign exchange and interest rate risk. However, the Company may choose not to hedge certain exposures for a variety of reasons, including 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 exchange or interest rates.

Foreign Exchange Risk

To protect gross margins from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, option contracts or other instruments, 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 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. The Company designates these instruments as either cash flow or fair value hedges. As of December 31, 2022, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for term debt-related foreign currency transactions is 20 years.

The Company may also enter into derivative instruments that are not designated as accounting hedges to protect gross margins from certain fluctuations in foreign currency exchange rates, as well as 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.

Interest Rate Risk

To protect the Company's term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. The Company designates these instruments as either cash flow or fair value hedges.

The notional amounts of the Company's outstanding derivative instruments as of December 31, 2022 and September 24, 2022 were as follows (in millions):

| | December 31, 2022 | September 24, 2022 |
|---|----------------------|-----------------------|
| Derivative instruments designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 66,054 | \$ 102,670 |
| Interest rate contracts | \$ 20,125 | \$ 20,125 |
| Derivative instruments not designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 134,971 | \$ 185,381 |

The gross fair values of the Company's derivative assets and liabilities as of September 24, 2022 were as follows (in millions):

| | September 24, 2022 | | |
|---|---|---|---------------------|
| | Fair Value of Derivatives Designated as Accounting Hedges | Fair Value of Derivatives Not Designated as Accounting Hedges | Total Fair Value |
| Derivative assets ⁽¹⁾ : | | | |
| Foreign exchange contracts | \$ 4,317 | \$ 2,819 | \$ 7,136 |
| Derivative liabilities ⁽²⁾ : | | | |
| Foreign exchange contracts | \$ 2,205 | \$ 2,547 | \$ 4,752 |
| Interest rate contracts | \$ 1,367 | \$ — | \$ 1,367 |

(1) Derivative assets are measured using Level 2 fair value inputs and are included in other current assets and other non-current assets in the Condensed Consolidated Balance Sheet.

(2) Derivative liabilities are measured using Level 2 fair value inputs and are included in other current liabilities and other non-current liabilities in the Condensed Consolidated Balance Sheet.

The derivative assets above represent the Company's gross credit exposure if all counterparties failed to perform. To mitigate credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair values of certain derivatives fluctuate from contractually established thresholds. To further limit credit risk, the Company generally enters into master netting arrangements with the respective counterparties to the Company's derivative contracts, under which the Company is allowed to settle transactions with a single net amount payable by one party to the other. As of September 24, 2022, 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 \$7.8 billion, resulting in a net derivative asset of \$412 million.

The carrying amounts of the Company's hedged items in fair value hedges as of December 31, 2022 and September 24, 2022 were as follows (in millions):

| | December 31, 2022 | September 24, 2022 |
|---|----------------------|-----------------------|
| Hedged assets/(liabilities): | | |
| Current and non-current marketable securities | \$ 14,311 | \$ 13,378 |
| Current and non-current term debt | \$ (18,731) | \$ (18,739) |

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 both December 31, 2022 and September 24, 2022, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 11% and 10%, respectively. The Company's cellular network carriers accounted for 43% and 44% of total trade receivables as of December 31, 2022 and September 24, 2022, respectively.

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 subassemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of December 31, 2022, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 54% and 16%. As of September 24, 2022, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 54% and 13%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of December 31, 2022 and September 24, 2022 (in millions):

Inventories

| | December 31, 2022 | September 24, 2022 |
|-------------------|----------------------|-----------------------|
| Components | \$ 2,513 | \$ 1,637 |
| Finished goods | 4,307 | 3,309 |
| Total inventories | <u>\$ 6,820</u> | <u>\$ 4,946</u> |

Property, Plant and Equipment, Net

| | December 31, 2022 | September 24, 2022 |
|---|----------------------|-----------------------|
| Gross property, plant and equipment | \$ 110,995 | \$ 114,457 |
| Accumulated depreciation and amortization | (68,044) | (72,340) |
| Total property, plant and equipment, net | <u>\$ 42,951</u> | <u>\$ 42,117</u> |

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for the three months ended December 31, 2022 and December 25, 2021 (in millions):

| | Three Months Ended | |
|-----------------------------------|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Interest and dividend income | \$ 868 | \$ 650 |
| Interest expense | (1,003) | (694) |
| Other expense, net | (258) | (203) |
| Total other income/(expense), net | <u>\$ (393)</u> | <u>\$ (247)</u> |

Note 5 – Debt**Commercial Paper**

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 December 31, 2022 and September 24, 2022, the Company had \$1.7 billion and \$10.0 billion of Commercial Paper outstanding, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the three months ended December 31, 2022 and December 25, 2021 (in millions):

| | Three Months Ended | |
|---|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Maturities 90 days or less: | | |
| Proceeds from/(Repayments of) commercial paper, net | \$ (5,569) | \$ 1,339 |
| Maturities greater than 90 days: | | |
| Proceeds from commercial paper | — | 1,191 |
| Repayments of commercial paper | (2,645) | (3,530) |
| Repayments of commercial paper, net | <u>(2,645)</u> | <u>(2,339)</u> |
| Total repayments of commercial paper, net | <u>\$ (8,214)</u> | <u>\$ (1,000)</u> |

Term Debt

As of December 31, 2022 and September 24, 2022, the Company had outstanding fixed-rate notes with varying maturities for an aggregate carrying amount of \$109.4 billion and \$110.1 billion, respectively (collectively the "Notes"). As of December 31, 2022 and September 24, 2022, the fair value of the Company's Notes, based on Level 2 inputs, was \$98.0 billion and \$98.8 billion, respectively.

Note 6 – Shareholders' Equity

Share Repurchase Program

During the three months ended December 31, 2022, the Company repurchased 133 million shares of its common stock for \$19.0 billion under a share repurchase program authorized by the Board of Directors (the "Program"). The Program does not obligate the Company to acquire a minimum amount 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.

Note 7 – Benefit Plans

Restricted Stock Units

A summary of the Company's RSU activity and related information for the three months ended December 31, 2022 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 24, 2022 | 201,501 | \$ 109.48 | |
| RSUs granted | 82,123 | \$ 149.85 | |
| RSUs vested | (47,298) | \$ 84.46 | |
| RSUs canceled | (2,958) | \$ 120.26 | |
| Balance as of December 31, 2022 | 233,368 | \$ 128.62 | \$ 30,322 |

The fair value as of the respective vesting dates of RSUs was \$6.8 billion and \$8.5 billion for the three months ended December 31, 2022 and December 25, 2021, 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 months ended December 31, 2022 and December 25, 2021 (in millions):

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Share-based compensation expense | \$ 2,905 | \$ 2,265 |
| Income tax benefit related to share-based compensation expense | \$ (1,178) | \$ (1,536) |

As of December 31, 2022, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$25.5 billion, which the Company expects to recognize over a weighted-average period of 3.0 years.

Note 8 – Commitments and Contingencies

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 supplier arrangements, licensed content and distribution rights. Future payments under noncancelable unconditional purchase obligations with a remaining term in excess of one year as of December 31, 2022, are as follows (in millions):

| | | |
|------------------------------|----|--------|
| 2023 (remaining nine months) | \$ | 2,899 |
| 2024 | | 2,897 |
| 2025 | | 1,584 |
| 2026 | | 6,554 |
| 2027 | | 348 |
| Thereafter | | 444 |
| Total | \$ | 14,726 |

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. 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.

Note 9 – Segment Information and Geographic Data

The following table shows information by reportable segment for the three months ended December 31, 2022 and December 25, 2021 (in millions):

| | Three Months Ended | |
|-----------------------|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Americas: | | |
| Net sales | \$ 49,278 | \$ 51,496 |
| Operating income | \$ 17,864 | \$ 19,585 |
| Europe: | | |
| Net sales | \$ 27,681 | \$ 29,749 |
| Operating income | \$ 10,017 | \$ 11,545 |
| Greater China: | | |
| Net sales | \$ 23,905 | \$ 25,783 |
| Operating income | \$ 10,437 | \$ 11,183 |
| Japan: | | |
| Net sales | \$ 6,755 | \$ 7,107 |
| Operating income | \$ 3,236 | \$ 3,349 |
| Rest of Asia Pacific: | | |
| Net sales | \$ 9,535 | \$ 9,810 |
| Operating income | \$ 3,851 | \$ 3,995 |

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three months ended December 31, 2022 and December 25, 2021 is as follows (in millions):

| | Three Months Ended | |
|----------------------------------|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Segment operating income | \$ 45,405 | \$ 49,657 |
| Research and development expense | (7,709) | (6,306) |
| Other corporate expenses, net | (1,680) | (1,863) |
| Total operating income | \$ 36,016 | \$ 41,488 |

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 fiscal year ended September 24, 2022 (the "2022 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 2022 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 environmental, social and governance matters, 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.

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.

Fiscal Period

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, which occurred in the first quarter of 2023. The Company's fiscal years 2023 and 2022 span 53 and 52 weeks, respectively.

Quarterly Highlights

Total net sales decreased 5% or \$6.8 billion during the first quarter of 2023 compared to the same quarter in 2022 due to the weakness in foreign currencies relative to the U.S. dollar. The weakness in foreign currencies contributed to lower net sales of iPhone and Mac, which was partially offset by higher net sales of iPad.

During the first quarter of 2023, the Company announced a new iPad, a new iPad Pro[®] powered by the Apple M2 chip, and a new Apple TV 4K.

The Company repurchased \$19.0 billion of its common stock and paid dividends and dividend equivalents of \$3.8 billion during the first quarter of 2023.

COVID-19

The COVID-19 pandemic has had, and continues to have, a significant impact around the world, prompting governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of businesses, and quarantine and shelter-in-place orders. The COVID-19 pandemic has at times 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 and financial condition.

Certain of the Company's outsourcing partners, component suppliers and logistical service providers have experienced, and could in the future experience, disruptions related to the COVID-19 pandemic, resulting in supply shortages. During the first quarter of 2023, COVID-related impacts temporarily affected the Company's primary iPhone 14 Pro and iPhone 14 Pro Max assembly facility located in Zhengzhou, China. The facility operated at significantly reduced capacity, impacting iPhone 14 Pro and iPhone Pro Max shipments.

Macroeconomic Conditions

Macroeconomic conditions, including inflation, rising interest rates and currency fluctuations, have direct and indirect impacts on the Company's business. The Company believes these factors have impacted, and could in the future materially impact, the Company's results of operations and financial condition.

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 9, "Segment Information and Geographic Data."

The following table shows net sales by reportable segment for the three months ended December 31, 2022 and December 25, 2021 (dollars in millions):

| | Three Months Ended | | |
|----------------------------------|----------------------|----------------------|--------|
| | December 31, 2022 | December 25, 2021 | Change |
| Net sales by reportable segment: | | | |
| Americas | \$ 49,278 | \$ 51,496 | (4)% |
| Europe | 27,681 | 29,749 | (7)% |
| Greater China | 23,905 | 25,783 | (7)% |
| Japan | 6,755 | 7,107 | (5)% |
| Rest of Asia Pacific | 9,535 | 9,810 | (3)% |
| Total net sales | <u>\$ 117,154</u> | <u>\$ 123,945</u> | (5)% |

Americas

Americas net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to lower net sales of iPhone and Mac, partially offset by higher net sales of Services and iPad. The weakness of the Canadian dollar relative to the U.S. dollar had an unfavorable year-over-year impact on Americas net sales during the first quarter of 2023.

Europe

Europe net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due to the weakness in foreign currencies relative to the U.S. dollar, which contributed to lower net sales of iPhone and Mac.

Greater China

Greater China net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due to the weakness of the renminbi relative to the U.S. dollar. The weakness of the renminbi contributed to lower net sales of iPhone, which was partially offset by higher net sales of iPad.

Japan

Japan net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due to the weakness of the yen relative to the U.S. dollar, which contributed to lower net sales of Services and Mac.

Rest of Asia Pacific

Rest of Asia Pacific net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due to the weakness in foreign currencies relative to the U.S. dollar. The weakness in foreign currencies contributed to lower net sales of iPhone and Mac, which was partially offset by higher net sales of Services and iPad.

Products and Services Performance

The following table shows net sales by category for the three months ended December 31, 2022 and December 25, 2021 (dollars in millions):

| | Three Months Ended | | |
|---|----------------------|----------------------|--------|
| | December 31, 2022 | December 25, 2021 | Change |
| Net sales by category: | | | |
| iPhone ⁽¹⁾ | \$ 65,775 | \$ 71,628 | (8)% |
| Mac ⁽¹⁾ | 7,735 | 10,852 | (29)% |
| iPad ⁽¹⁾ | 9,396 | 7,248 | 30 % |
| Wearables, Home and Accessories ⁽¹⁾⁽²⁾ | 13,482 | 14,701 | (8)% |
| Services ⁽³⁾ | 20,766 | 19,516 | 6 % |
| Total net sales | <u>\$ 117,154</u> | <u>\$ 123,945</u> | (5)% |

(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 mini and accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare, cloud, digital content, payment and other services. Services net sales also include amortization of the deferred value of services bundled in the sales price of certain products.

iPhone

iPhone net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to lower net sales from the Company's new iPhone models launched in the fourth quarter of 2022.

Mac

Mac net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to lower net sales of MacBook Pro[®].

iPad

iPad net sales increased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to higher net sales of iPad and iPad Air[®].

Wearables, Home and Accessories

Wearables, Home and Accessories net sales decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to lower net sales of AirPods, partially offset by higher net sales of Watch.

Services

Services net sales increased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to higher net sales from cloud services, the App Store® and music.

Gross Margin

Products and Services gross margin and gross margin percentage for the three months ended December 31, 2022 and December 25, 2021 were as follows (dollars in millions):

| | Three Months Ended | |
|-------------------------------|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Gross margin: | | |
| Products | \$ 35,623 | \$ 40,120 |
| Services | 14,709 | 14,123 |
| Total gross margin | <u>\$ 50,332</u> | <u>\$ 54,243</u> |
| Gross margin percentage: | | |
| Products | 37.0 % | 38.4 % |
| Services | 70.8 % | 72.4 % |
| Total gross margin percentage | <u>43.0 %</u> | <u>43.8 %</u> |

Products Gross Margin

Products gross margin decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to the weakness in foreign currencies relative to the U.S. dollar and lower Products volume.

Products gross margin percentage decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to the weakness in foreign currencies relative to the U.S. dollar.

Services Gross Margin

Services gross margin increased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to higher Services net sales, partially offset by the weakness in foreign currencies relative to the U.S. dollar.

Services gross margin percentage decreased during the first quarter of 2023 compared to the same quarter in 2022 due primarily to the weakness in foreign currencies relative to the U.S. dollar and higher Services costs, partially offset by improved leverage.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of the 2022 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 months ended December 31, 2022 and December 25, 2021 were as follows (dollars in millions):

| | Three Months Ended | |
|-------------------------------------|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Research and development | \$ 7,709 | \$ 6,306 |
| Percentage of total net sales | 7 % | 5 % |
| Selling, general and administrative | \$ 6,607 | \$ 6,449 |
| Percentage of total net sales | 6 % | 5 % |
| Total operating expenses | \$ 14,316 | \$ 12,755 |
| Percentage of total net sales | 12 % | 10 % |

Research and Development

The growth in research and development ("R&D") expense during the first quarter of 2023 compared to the same quarter in 2022 was driven primarily by increases in headcount-related expenses.

Selling, General and Administrative

The growth in selling, general and administrative expense during the first quarter of 2023 compared to the same quarter in 2022 was driven primarily by increases in headcount-related expenses.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for the three months ended December 31, 2022 and December 25, 2021 were as follows (dollars in millions):

| | Three Months Ended | |
|-----------------------------------|----------------------|----------------------|
| | December 31, 2022 | December 25, 2021 |
| Provision for income taxes | \$ 5,625 | \$ 6,611 |
| Effective tax rate | 15.8 % | 16.0 % |
| Statutory federal income tax rate | 21 % | 21 % |

The Company's effective tax rate for the first quarter of 2023 was lower than the statutory federal income tax rate due primarily to a lower effective tax rate on foreign earnings, tax benefits from share-based compensation, and the U.S. federal R&D credit, partially offset by state income taxes.

The Company's effective tax rate for the first quarter of 2023 was lower compared to the same quarter in 2022 due primarily to a higher U.S. federal R&D credit, lower state income taxes and a lower effective tax rate on foreign earnings, largely offset by lower tax benefits from share-based compensation.

Liquidity and Capital Resources

The Company believes its balances of cash, cash equivalents and unrestricted marketable securities, along with cash generated by ongoing operations and continued access to debt markets, will be sufficient to satisfy its cash requirements and capital return program over the next 12 months and beyond.

The Company's contractual cash requirements have not changed materially since the 2022 Form 10-K, except for commercial paper and manufacturing purchase obligations.

Commercial Paper

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. As of December 31, 2022, the Company had \$1.7 billion of Commercial Paper outstanding, all of which was payable within 12 months.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture subassemblies for the Company's products and to perform final assembly and testing of finished products. The Company also obtains individual components for its products from a wide variety of individual suppliers. Outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. As of December 31, 2022, the Company had manufacturing purchase obligations of \$55.1 billion, with \$54.8 billion payable within 12 months. The Company's manufacturing purchase obligations are primarily noncancelable.

In addition to its contractual cash requirements, the Company has a capital return program authorized by the Board of Directors. The share repurchase program (the "Program") does not obligate the Company to acquire a minimum amount of shares. As of December 31, 2022, the Company's quarterly cash dividend was \$0.23 per share. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Critical Accounting 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. Note 1, "Summary of Significant Accounting Policies" of the Notes to condensed consolidated Financial Statements 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 2022 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 estimates since the 2022 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 three months of 2023. 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 2022 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective as of December 31, 2022 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 first quarter of 2023, 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

Epic Games

Epic Games, Inc. (“Epic”) filed a lawsuit in the U.S. District Court for the Northern District of California (the “Northern California District Court”) against the Company alleging violations of federal and state antitrust laws and California’s unfair competition law based upon the Company’s operation of its App Store. The Company filed a counterclaim for breach of contract. On September 10, 2021, the Northern California District Court ruled in favor of the Company with respect to nine out of the ten counts included in Epic’s claim, and in favor of the Company with respect to the Company’s claims for breach of contract. The Northern California District Court found that certain provisions of the Company’s App Store Review Guidelines violate California’s unfair competition law and issued an injunction. Epic appealed the decision. The Company filed a cross-appeal and has been granted a stay pending the appeal.

Other Legal Proceedings

The Company is subject to other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company settled certain matters during the first quarter of 2023 that did not individually or in the aggregate have a material impact on the Company’s financial condition or operating results. 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.

Item 1A. Risk Factors

The Company’s business, reputation, results of operations, financial condition and stock price can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of the 2022 Form 10-K under the heading “Risk Factors.” When any one or more of these risks materialize from time to time, the Company’s business, reputation, results of operations, financial condition and stock price can be materially and adversely affected. There have been no material changes to the Company’s risk factors since the 2022 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 December 31, 2022 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⁾ |
|--|----------------------------------|------------------------------|--|---|
| September 25, 2022 to October 29, 2022: | | | | |
| Open market and privately negotiated purchases | 69,169 | \$ 144.57 | 69,169 | |
| October 30, 2022 to November 26, 2022: | | | | |
| Open market and privately negotiated purchases | 23,113 | \$ 149.26 | 23,113 | |
| November 27, 2022 to December 31, 2022: | | | | |
| Open market and privately negotiated purchases | 40,557 | \$ 136.85 | 40,557 | |
| Total | <u>132,839</u> | | | <u>\$ 41,665</u> |

- (1) On April 28, 2022, the Board of Directors authorized the purchase of an additional \$90 billion of the Company’s common stock under the Program. As of December 31, 2022, total utilization under the April 2022 authorization was \$48.3 billion. The Program does not obligate the Company to acquire a minimum amount 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**Rule 10b5-1 Trading Plans**

During the three months ended December 31, 2022, Katherine L. Adams, Timothy D. Cook, Luca Maestri, Deirdre O'Brien and Jeffrey Williams, each an officer for purposes of Section 16 of the Exchange Act, 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 preestablishes 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 sales of shares acquired under the Company's employee and director equity plans.

Item 6. Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|----------------|--|---------------------------|---------|---------------------------------|
| | | Form | Exhibit | Filing Date/ Period End Date |
| 10.1* | Form of CEO Restricted Stock Unit Award Agreement under 2022 Employee Stock Plan effective as of September 25, 2022. | | | |
| 10.2* | Form of CEO Performance Award Agreement under 2022 Employee Stock Plan effective as of September 25, 2022. | | | |
| 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.

Date: February 2, 2023

Apple Inc.

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

**APPLE INC.
2022 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT**

NOTICE OF GRANT

Name: (the "Participant")

Employee ID:

Grant Number:

No. of Units Subject to Award:

Award Date: (the "Award Date")

Vesting Commencement Date: (the "Vesting Commencement Date")

Vesting Schedule:

This restricted stock unit award (the "Award") is granted under and governed by the terms and conditions of the Apple Inc. 2022 Employee Stock Plan and the Terms and Conditions of Restricted Stock Unit Award, which are incorporated herein by reference.

You do not have to accept the Award. If you wish to decline your Award, you should promptly notify Apple Inc.'s Stock Plan Group of your decision at peoplesupport@apple.com. If you do not provide such notification by the last day of the calendar month prior to the first Vesting Date, you will be deemed to have accepted your Award on the terms and conditions set forth herein.

APPLE INC.
2022 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

1. **General.** These Terms and Conditions of Restricted Stock Unit Award (these “**Terms**”) apply to a particular restricted stock unit award (the “**Award**”) granted by Apple Inc., a California corporation (the “**Company**”), and are incorporated by reference in the Notice of Grant (the “**Grant Notice**”) corresponding to that particular grant. The recipient of the Award identified in the Grant Notice is referred to as the “**Participant**.” The effective date of grant of the Award as set forth in the Grant Notice is referred to as the “**Award Date**.” The Award was granted under and is subject to the provisions of the Apple Inc. 2022 Employee Stock Plan, as amended from time to time (the “**Plan**”). Capitalized terms are defined in the Plan if not defined herein. The Award is discretionary and has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. The Grant Notice and these Terms are collectively referred to as the “**Award Agreement**” applicable to the Award.

2. **RSUs.** As used herein, the term “**RSU**” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding Share solely for purposes of the Plan and this Award Agreement. RSUs shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such RSUs vest pursuant to this Award Agreement. The RSUs shall not be treated as property or as a trust fund of any kind.

3. **Vesting.** Subject to Sections 4 and 8 below, the Award shall vest and become nonforfeitable as set forth in the Grant Notice. (Each vesting date set forth in the Grant Notice is referred to herein as a “**Vesting Date**.”) Unless and until the Company elects to issue fractional Shares in settlement of a vested RSU, any fractional RSUs that vest on a Vesting Date shall be carried forward and vest when such combined fractional RSUs result in a full RSU and any fractional RSU that is not carried forward as a result of a termination of the Award prior to the next subsequent Vesting Date shall be forfeited.

4. **Continuance of Employment.** Except as provided in this Section 4 and in Section 8 below, vesting of the Award requires continued active employment or service through each applicable Vesting Date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the period between the Vesting Commencement Date and the first Vesting Date or between subsequent Vesting Dates, even if a substantial portion, will not entitle the Participant to any proportionate vesting of the Award. For purposes of this Award Agreement, active service shall include (a) the duration of an approved leave of absence (other than a personal leave of absence) and (b) the first thirty (30) days of an approved personal leave of absence, in each case as approved by the Company, in its sole discretion. The vesting of the Award shall be tolled beginning on the thirty-first (31st) day of a personal leave of absence.

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Company, affects the Participant's status as an employee at will who is subject to termination with or without cause, confers upon the Participant any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or service, or affects the right of the Company or any Subsidiary to increase or decrease the Participant's other compensation or benefits. Nothing in this Section 4, however, is intended to adversely affect any independent contractual right of the Participant without the Participant's consent thereto.

5. Dividend and Voting Rights.

(a) **Limitations on Rights Associated with RSUs.** The Participant shall have no rights as a shareholder of the Company, no dividend rights (except as expressly provided in Section 5(b) with respect to Dividend Equivalent Rights) and no voting rights, with respect to the RSUs or any Shares underlying or issuable in respect of such RSUs until such Shares are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock as reflected in the book entry evidencing such Shares.

(b) **Dividend Equivalent Rights Distributions.** As of any date that the Company pays an ordinary cash dividend on its Shares, the Company shall credit the Participant with a dollar amount equal to (i) the per share cash dividend paid by the Company on its Shares on such date, multiplied by (ii) the total number of RSUs (with such total number adjusted pursuant to Section 11 of the Plan) subject to the Award that are outstanding immediately prior to the record date for that dividend (a “**Dividend Equivalent Right**”). Any Dividend Equivalent Rights credited pursuant to the foregoing provisions of this Section 5(b) shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original RSUs to which they relate, including the obligation to satisfy the Tax-Related Items; provided, however, that the amount of any vested Dividend Equivalent Rights shall be paid in cash. No crediting of Dividend Equivalent Rights shall be made pursuant to this Section 5(b) with respect to any RSUs which, immediately prior to the record date for that dividend, have either been paid pursuant to Section 7 or terminated pursuant to Section 8.

6. Restrictions on Transfer. Except as provided in Section 4(c) of the Plan, the Award, the Dividend Equivalent Rights and any interest therein or amount or Shares payable in respect thereof shall not be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily.

7. Timing and Manner of Payment of RSUs. On or as soon as administratively practical following each Vesting Date determined pursuant to Section 3 or Section 8 or following the Participant's death as specified in Section 8(d) (and in all events not later than two and one-half (2 ½) months after such Vesting Date or the date of the Participant's death, as applicable), the Company shall deliver to the Participant a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its discretion) equal to the number of RSUs subject to the Award that vest (or, in the case of the Participant's Retirement, death or Disability, are treated as vesting) on the applicable Vesting Date or the Participant's death, as applicable, less Tax-Related Items, unless such RSUs terminate prior to the given Vesting Date pursuant to Section 8. The Company's obligation to deliver Shares or otherwise make payment with respect to vested RSUs is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any Shares with respect to the vested RSUs deliver to the Company any representations or other documents or assurances required pursuant to Section 13(c) of the Plan. The Participant shall have no further rights with respect to any RSUs that are paid or that terminate pursuant to Section 8.

8. Effect of Termination of Service.

(a) Except as expressly provided in Section 4 or this Section 8, the Participant's RSUs (as well as the related Dividend Equivalent Rights) shall terminate to the extent such RSUs have not become vested prior to the Participant's Termination of Service, meaning the first date the Participant is no longer employed by or providing services to the Company or one of its Subsidiaries (the “**Severance Date**”), regardless of the reason for the Participant's Termination of Service, whether with or without cause, voluntarily or involuntarily, or whether the Participant was employed or provided services for a portion of the vesting period prior to a Vesting Date.

(b) Notwithstanding the foregoing, and except as otherwise provided by the Committee, in the event of the Participant's Termination of Service due to the Participant's Retirement (defined below) on or after the first anniversary of the Award Date, any unvested RSUs shall continue to be eligible to vest on a pro rata basis (in accordance with the schedule set forth in the Grant Notice and Section 8(d)) without regard to the Participant's Termination of Service, determined by multiplying (i) the number of RSUs eligible to vest on the applicable Vesting Date, by (ii) a fraction, the numerator of which shall be the number of days that have elapsed between the Award Date and the Participant's Retirement date, and the denominator of which shall be the total number of days contained in the period between the Award Date and the applicable Vesting Date. For purposes of this Award Agreement, "**Retirement**" means the Participant's Termination of Service on or after the Participant both has reached the age of sixty (60) and has completed ten (10) years of service with the Company, or any Subsidiary (including service with any entity acquired by the Company) as of the Severance Date, as determined in the sole discretion of the Committee. In the event the Participant's Termination of Service occurs prior to the first anniversary of the Award Date, this Section 8(b) shall not apply, unless the Committee shall otherwise determine. For purposes of this Section 8(b), a Termination of Service shall not include the Participant's Termination of Service resulting from the Participant's Disability or death (in which case Section 8(c) or 8(d), as applicable, will apply).

(c) In the event of the Participant's Termination of Service due to the Participant's Disability, any unvested RSUs shall continue to be eligible to vest in full (in accordance with the schedule set forth in the Grant Notice and Section 8(d)) without regard to the Participant's Termination of Service.

(d) In the event of the Participant's Termination of Service due to the Participant's death, all unvested RSUs eligible to vest on Vesting Date(s) subsequent to the Participant's death shall accelerate and vest immediately, and upon the Participant's death following the Participant's Termination of Service due to Disability or Retirement any RSUs that were eligible to vest in full, or pro rata in the case of Retirement, will be settled as soon as administratively practicable after the Participant's death in accordance with Section 7.

(e) If any unvested RSUs are terminated hereunder, such RSUs (as well as the related Dividend Equivalent Rights) shall automatically terminate and be cancelled as of the applicable Severance Date without payment of any consideration by the Company and without any other action by the Participant or the Participant's personal representative, as the case may be.

9. Recoupment. Notwithstanding any other provision herein, the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, shall be subject to any recoupment, "clawback" or similar provisions of applicable law. In addition, the Company may require the Participant to deliver or otherwise repay to the Company the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, if the Company reasonably determines that one or more of the following has occurred:

(a) during the period of the Participant's employment or service with the Company or any of its Subsidiaries (the "**Employment Period**"), the Participant has committed a felony (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction);

(b) during the Employment Period or at any time thereafter, the Participant has committed or engaged in a breach of confidentiality, or an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information of the Company or any of its Subsidiaries;

(c) during the Employment Period or at any time thereafter, the Participant has committed or engaged in an act of theft, embezzlement or fraud, or materially breached any agreement to which the Participant is a party with the Company or any of its Subsidiaries.

For purposes of the foregoing, the Participant expressly and explicitly authorizes the Company to issue instructions, on the Participant's behalf, to any brokerage firm or third party administrator holding the Participant's Shares and other amounts acquired under the Plan to re-convey, transfer, or otherwise return such Shares and other amounts to the Company. This Section 9 is not the Company's exclusive remedy with respect to such matters.

10. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Company's stock contemplated by Section 11 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in accordance with such section in the number of RSUs then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which Dividend Equivalent Rights are credited pursuant to Section 5(b).

11. Responsibility for Taxes. The Participant acknowledges that, regardless of any action the Company or the Participant's employer ("**Employer**") take with respect to any Tax-Related Items, the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the RSUs, the vesting of the RSUs, the delivery of Shares, the subsequent sale of any Shares acquired at vesting, and the receipt of any dividends or Dividend Equivalent Rights; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is or becomes subject to tax in more than one jurisdiction, the Participant acknowledges that the Company or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable or tax withholding event, as applicable, the Participant shall pay or make arrangements satisfactory to the Company or the Employer to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company or the Employer, or their respective agents, at their discretion and pursuant to such procedures as they may specify from time to time, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following:

(a) withholding from any wages or other cash compensation, including short-term cash incentives, payable to the Participant by the Company or the Employer;

(b) withholding otherwise deliverable Shares and from otherwise payable Dividend Equivalent Rights to be issued or paid upon vesting/settlement of the Award;

(c) arranging for the sale of Shares otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization), including selling Shares as part of a block trade with other Participants in the Plan;

(d) withholding from the proceeds of the sale of Shares acquired upon vesting/settlement of the Award; or

(e) any other method of withholding determined by the Company to be permitted under the Plan and, to the extent required by Applicable Law or under the Plan, approved by the Committee.

Notwithstanding the foregoing, if the Participant is an officer of the Company who is subject to Section 16 of the Exchange Act, then the Company must satisfy any withholding obligations arising upon the occurrence of a taxable or tax withholding event, as applicable, by withholding Shares otherwise deliverable or an amount otherwise payable upon settlement of Dividend Equivalent Rights pursuant to method (b), unless the Board or the Committee determines in its discretion to satisfy the obligation for Tax-Related Items by one or a combination of methods (a), (b), (c), and (d) above.

The Company may withhold or account for Tax-Related Items by considering statutory withholding amounts or other withholding rates, including maximum rates applicable in the Participant's jurisdiction(s). If the maximum rate is used, any over-withheld amount may be refunded to the Participant in cash by the Company or Employer (with no entitlement to the Share equivalent) or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay additional Tax-Related Items directly to the applicable tax authority or to the Company or Employer. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. The Company may refuse to issue or deliver to the Participant any Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

12. Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Award by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line or voice activated system established and maintained by the Company or a third party vendor designated by the Company.

13. Data Privacy. By participating in the Plan, the Participant acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 13. The Company, its related entities, and the Employer hold certain personal information about the Participant, including the Participant's name, home address and telephone number, email address, date of birth, social security number or other employee identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all RSUs or any other entitlement to Shares or equivalent benefits awarded, canceled, purchased, vested, unvested or outstanding in the Participant's favor, for the purpose of managing and administering the Plan ("**Data**"). The Company and its related entities may transfer Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Participant's participation in the Plan, and the Company and its related entities may each further transfer Data to any third parties assisting the Company or any such related entity in the implementation, administration, and management of the Plan. The Participant acknowledges that the transferors and transferees of such Data may be located anywhere in the world and hereby authorizes each of them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering, and managing the Participant's participation in the Plan, including any transfer of such Data as may be required for the administration of the Plan and the subsequent holding of Shares on the Participant's behalf to a broker or to other third party with whom the Participant may elect to deposit any Shares acquired under the Plan (whether pursuant to the Award or otherwise).

14. Notices. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Company's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Company, shall be deemed to have been duly given by the Company when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

15. Plan. The Award and all rights of the Participant under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Award Agreement. The Participant acknowledges having read and understood the Plan, the Prospectus for the Plan, and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

16. Entire Agreement. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 15 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

17. Limitation on the Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Award Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the RSUs, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to RSUs, as and when payable hereunder.

18. Section Headings. The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. Governing Law. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California and applicable U.S. federal laws without regard to conflict of law principles thereunder.

20. Choice of Venue. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or this Award Agreement, the parties hereby submit to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the Northern District of California, and no other courts, where this grant is made or to be performed.

21. Construction. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted with that intent.

22. Severability. The provisions of this Award Agreement are severable and if any one of more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

**APPLE INC.
2022 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT
PERFORMANCE AWARD**

NOTICE OF GRANT

Name: (the "Participant")

Employee ID:

Grant Number:

Target No. of Units

Subject to Award:

Award Date: (the "Award Date")

Vesting Date:

Performance Period:

This restricted stock unit award (the "Award") is granted under and governed by the terms and conditions of the Apple Inc. 2022 Employee Stock Plan and the Terms and Conditions of Restricted Stock Unit Award - Performance Award (including Exhibit A thereto), which are incorporated herein by reference.

You do not have to accept the Award. If you wish to decline your Award, you should promptly notify Apple Inc.'s Stock Plan Group of your decision at peoplesupport@apple.com. If you do not provide such notification by the last day of the calendar month prior to the Vesting Date, you will be deemed to have accepted your Award on the terms and conditions set forth herein.

APPLE INC.
2022 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

PERFORMANCE AWARD

1. **General.** These Terms and Conditions of Restricted Stock Unit Award - Performance Award (these “**Terms**”) apply to a particular restricted stock unit award (the “**Award**”) granted by Apple Inc., a California corporation (the “**Company**”), and are incorporated by reference in the Notice of Grant (the “**Grant Notice**”) corresponding to that particular grant. The recipient of the Award identified in the Grant Notice is referred to as the “**Participant**.” The effective date of grant of the Award as set forth in the Grant Notice is referred to as the “**Award Date**.” The Award was granted under and is subject to the provisions of the Apple Inc. 2022 Employee Stock Plan, as amended from time to time (the “**Plan**”). Capitalized terms are defined in the Plan if not defined herein. The Award is discretionary and has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. The Grant Notice and these Terms (including Exhibit A hereto, incorporated herein by this reference) are collectively referred to as the “**Award Agreement**” applicable to the Award.

2. **RSUs.** As used herein, the term “**RSU**” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding Share solely for purposes of the Plan and this Award Agreement. The RSUs shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such RSUs vest pursuant to this Award Agreement. The RSUs shall not be treated as property or as a trust fund of any kind.

3. **Vesting.** Subject to Sections 4 and 8 below, the Award shall vest and become nonforfeitable as set forth in the Grant Notice and Exhibit A hereto. (The vesting date set forth in the Grant Notice is referred to herein as a “**Vesting Date**”).

4. **Continuance of Employment.** Except as provided in this Section 4 and in Section 8 below, vesting of the Award requires continued active employment or service through the Vesting Date as a condition to the vesting of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting of the Award. For purposes of this Award Agreement, active service shall include (a) the duration of an approved leave of absence (other than a personal leave of absence) and (b) the first thirty (30) days of an approved personal leave of absence, in each case as approved by the Company, in its sole discretion. The vesting of the Award shall be tolled beginning on the thirty-first (31st) day of a personal leave of absence.

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Company, affects the Participant's status as an employee at will who is subject to termination with or without cause, confers upon the Participant any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or services, or affects the right of the Company or any Subsidiary to increase or decrease the Participant's other compensation or benefits. Nothing in this Section 4, however, is intended to adversely affect any independent contractual right of the Participant without the Participant's consent thereto.

5. Dividend and Voting Rights.

(a) **Limitations on Rights Associated with RSUs.** The Participant shall have no rights as a shareholder of the Company, no dividend rights (except as expressly provided in Section 5(b) with respect to Dividend Equivalent Rights) and no voting rights, with respect to the RSUs or any Shares underlying or issuable in respect of such RSUs until such Shares are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the book entry evidencing such Shares.

(b) **Dividend Equivalent Rights Distributions.** As of any date that the Company pays an ordinary cash dividend on its Shares, the Company shall credit the Participant with a dollar amount equal to (i) the per share cash dividend paid by the Company on its Shares on such date, multiplied by (ii) the total target number of RSUs (with such total number adjusted pursuant to Section 11 of the Plan) subject to the Award that are outstanding immediately prior to the record date for that dividend (a “**Dividend Equivalent Right**”). Any Dividend Equivalent Rights credited pursuant to the foregoing provisions of this Section 5(b) shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original RSUs to which they relate, including the obligation to satisfy the Tax-Related Items; provided, however, that the amount of any vested Dividend Equivalent Rights shall be paid in cash. For purposes of clarity, the percentage of the Dividend Equivalent Rights that are paid will correspond to the percentage of the total target number of RSUs that vest on the Vesting Date, after giving effect to Exhibit A. No crediting of Dividend Equivalent Rights shall be made pursuant to this Section 5(b) with respect to any RSUs which, immediately prior to the record date for that dividend, have either been paid pursuant to Section 7 or terminated pursuant to Section 8 or Exhibit A.

6. Restrictions on Transfer. Except as provided in Section 4(c) of the Plan, the Award, the Dividend Equivalent Rights and any interest therein or amount or Shares payable in respect thereof shall not be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily.

7. Timing and Manner of Payment of RSUs. On or as soon as administratively practical following the Vesting Date pursuant to Section 3 or Section 8 (and in all events not later than two and one-half (2 ½) months after such Vesting Date), the Company shall deliver to the Participant a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its discretion) equal to the number of RSUs subject to the Award that vest (or, in the case of the Participant's Retirement, death or Disability, are treated as vesting) on the Vesting Date, less Tax-Related Items, unless such RSUs terminate prior to the Vesting Date pursuant to Section 8. The Company's obligation to deliver Shares or otherwise make payment with respect to vested RSUs is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any Shares with respect to the vested RSUs deliver to the Company any representations or other documents or assurances required pursuant to Section 13(c) of the Plan. The Participant shall have no further rights with respect to any RSUs that are paid or that terminate pursuant to Section 8.

8. Effect of Termination of Service.

(a) Except as expressly provided in Section 4 or this Section 8, the Participant's RSUs (as well as the related Dividend Equivalent Rights) shall terminate to the extent such RSUs have not become vested prior to the Participant's Termination of Service, meaning the first date the Participant is no longer employed by or providing services to the Company or one of its Subsidiaries (the “**Severance Date**”), regardless of the reason for the Participant's Termination of Service, whether with or without cause, voluntarily or involuntarily or whether the Participant was employed or provided services for a portion of the vesting period prior to a Vesting Date.

(b) Notwithstanding the foregoing, and except as otherwise provided by the Committee, in the event of the Participant's Termination of Service due to the Participant's Retirement (defined below) on or after the first anniversary of the Award Date, death or Disability, any unvested RSUs shall continue to be eligible to vest on the Vesting Date without regard to the Participant's Termination of Service. For purposes of this Award Agreement, "**Retirement**" means the Participant's Termination of Service on or after the Participant both has reached the age of sixty (60) and has completed ten (10) years of service with the Company, or any Subsidiary (including service with any entity acquired by the Company), as of the Severance Date, as determined in the sole discretion of the Committee. In the event the Participant's Termination of Service occurs due to Retirement prior to the first anniversary of the Award Date, this Section 8(b) shall not apply, unless the Committee shall otherwise determine.

(c) If any unvested RSUs are terminated pursuant to this Award Agreement, such RSUs (as well as the related Dividend Equivalent Rights) shall automatically terminate and be cancelled as of the applicable Severance Date (or, to the extent that any RSUs remain outstanding following the Severance Date by reason of Section 8(b) but the applicable performance-based vesting conditions are not satisfied, such RSUs shall automatically terminate and be cancelled as of the Vesting Date, as provided in Exhibit A) without payment of any consideration by the Company and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

9. Recoupment. Notwithstanding any other provision herein, the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, shall be subject to any recoupment, "clawback" or similar provisions of applicable law. In addition, the Company may require the Participant to deliver or otherwise repay to the Company the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, if the Company reasonably determines that one or more of the following has occurred:

(a) during the period of the Participant's employment or service with the Company or any of its Subsidiaries (the "**Employment Period**"), the Participant has committed a felony (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction);

(b) during the Employment Period or at any time thereafter, the Participant has committed or engaged in a breach of confidentiality, or an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information of the Company or any of its Subsidiaries;

(c) during the Employment Period or at any time thereafter, the Participant has committed or engaged in an act of theft, embezzlement or fraud, or materially breached any agreement to which the Participant is a party with the Company or any of its Subsidiaries.

For purposes of the foregoing, the Participant expressly and explicitly authorizes the Company to issue instructions, on the Participant's behalf, to any brokerage firm and/or third party administrator engaged by the Company to hold the Participant's Shares and other amounts acquired under the Plan to re-convey, transfer or otherwise return such Shares and/or other amounts to the Company. This Section 9 is not the Company's exclusive remedy with respect to such matters.

10. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Company's stock contemplated by Section 11 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in accordance with such section in the number of RSUs then outstanding and the number and kind of securities that may be

issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which Dividend Equivalent Rights are credited pursuant to Section 5(b).

11. Responsibility for Taxes. The Participant acknowledges that, regardless of any action the Company and/or the Participant's employer ("**Employer**") take with respect to any Tax-Related Items, the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the RSUs, the vesting of the RSUs, the delivery of Shares, the subsequent sale of any Shares acquired at vesting and the receipt of any dividends and/or Dividend Equivalent Rights; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is or becomes subject to tax in more than one jurisdiction, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable or tax withholding event, as applicable, the Participant shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion and pursuant to such procedures as they may specify from time to time, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following:

- (a) withholding from any wages or other cash compensation, including short-term cash incentives, payable to the Participant by the Company and/or the Employer;
- (b) withholding otherwise deliverable Shares and/or from otherwise payable Dividend Equivalent Rights to be issued or paid upon vesting/settlement of the Award;
- (c) arranging for the sale of Shares otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization), including selling Shares as part of a block trade with other Participants in the Plan;
- (d) withholding from the proceeds of the sale of Shares acquired upon vesting/settlement of the Award; or
- (e) any other method of withholding determined by the Company to be permitted under the Plan and, to the extent required by Applicable Law or under the Plan, approved by the Committee.

Notwithstanding the foregoing, if the Participant is an officer of the Company who is subject to Section 16 of the Exchange Act, then the Company must satisfy any withholding obligations arising upon the occurrence of a taxable or tax withholding event, as applicable, by withholding Shares otherwise deliverable or an amount otherwise payable upon settlement of Dividend Equivalent Rights pursuant to method (b), unless the Board or the Committee determines in its discretion to satisfy the obligation for Tax-Related Items by one or a combination of methods (a), (b), (c), and (d) above.

The Company may withhold or account for Tax-Related Items by considering statutory withholding amounts or other withholding rates, including maximum rates applicable in the Participant's jurisdictions(s). If the maximum rate is used, any over-withheld amount may be refunded to the Participant in cash by the Company or Employer (with no entitlement to the Share equivalent) or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay additional Tax-Related Items directly to the applicable

tax authority or to the Company or Employer. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. The Company may refuse to issue or deliver to the Participant any Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

12. Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Award by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or a third party vendor designated by the Company.

13. Data Privacy. The Participant acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 13. The Company, its related entities, and the Employer hold certain personal information about the Participant, including the Participant's name, home address and telephone number, email address, date of birth, social security number or other employee identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all RSUs or any other entitlement to Shares or equivalent benefits awarded, canceled, purchased, vested, unvested or outstanding in the Participant's favor, for the purpose of managing and administering the Plan ("**Data**"). The Company and its related entities may transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Plan, and the Company and its related entities may each further transfer Data to any third parties assisting the Company or any such related entity in the implementation, administration and management of the Plan. The Participant acknowledges that the transferors and transferees of such Data may be located anywhere in the world and hereby authorizes each of them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Plan, including any transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on the Participant's behalf to a broker or to other third party with whom the Participant may elect to deposit any Shares acquired under the Plan (whether pursuant to the Award or otherwise).

14. Notices. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Company's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Company, shall be deemed to have been duly given by the Company when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

15. Plan. The Award and all rights of the Participant under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Award Agreement. The Participant acknowledges having read and understood the Plan, the Prospectus for the Plan, and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

16. Entire Agreement. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 15 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

17. Limitation on the Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Award Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the RSUs, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to RSUs, as and when payable hereunder.

18. Section Headings. The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. Governing Law. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California without regard to conflict of law principles thereunder.

20. Choice of Venue. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or this Award Agreement, the parties hereby submit to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

21. Construction. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

22. Severability. The provisions of this Award Agreement are severable and if any one of more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

* * * * *

PERFORMANCE AWARD

EXHIBIT A

PERFORMANCE VESTING REQUIREMENTS

The RSUs (and related Dividend Equivalent Rights) subject to the Award that will vest on the Vesting Date will be determined based on the Company's relative total shareholder return ("**TSR**") Percentile for the Performance Period.

The percentage of the RSUs (and related Dividend Equivalent Rights) that vest on the Vesting Date will be determined as follows:

- If the Company's TSR Percentile for the Performance Period is at the [] ([]) percentile or greater, [] ([]%) of the target RSUs will vest on the Vesting Date.
- If the Company's TSR Percentile for the Performance Period is at the [] ([]) percentile, [] ([]%) of the target RSUs will vest on the Vesting Date.
- If the Company's TSR Percentile for the Performance Period is at the [] ([]) percentile, [] ([]%) of the target RSUs will vest on the Vesting Date.
- If the Company's TSR Percentile for the Performance Period is below the [] ([]) percentile, [] ([]%) of the RSUs will vest on the Vesting Date.

For TSR Percentile performance for the Performance Period between the levels indicated above, the portion of the RSUs that will vest on the Vesting Date will be determined on a straight-line basis (*i.e.*, linearly interpolated) between the two nearest vesting percentages indicated above.

Notwithstanding the foregoing, if the Company's TSR for the Performance Period is negative, in no event shall more than one hundred percent (100%) of the target RSUs vest.

The number of RSUs that vest on the Vesting Date will be rounded to the nearest whole unit, and the balance of the RSUs will not vest and will terminate on that Vesting Date.

For purposes of the Award, the following definitions will apply:

- "**TSR Percentile**" means the percentile ranking of the Company's TSR among the TSRs for the Comparison Group members for the Performance Period. In determining the Company's TSR Percentile for the Performance Period, in the event that the Company's TSR for the Performance Period is equal to the TSR(s) of one or more other Comparison Group members for that same period, the Company's TSR Percentile ranking will be determined by ranking the Company's TSR for that period as being greater than such other Comparison Group members.
- "**Comparison Group**" means the Company and each other company included in the Standard & Poor's 500 index on the first day of the Performance Period and, except as provided below, the common stock (or similar equity security) of which continues to be listed or traded on a national securities exchange through the last trading day of the Performance Period. In the event a member of the Comparison Group files for bankruptcy or liquidates due to an insolvency, such company shall continue to be treated as a Comparison Group member, and such company's Ending Price will be treated as \$0 if the common stock (or similar equity security) of such company is no longer listed or

traded on a national securities exchange on the last trading day of the Performance Period. In the event of a formation of a new parent company by a Comparison Group member, substantially all of the assets and liabilities of which consist immediately after the transaction of the equity interests in the original Comparison Group member or the assets and liabilities of such Comparison Group member immediately prior to the transaction, such new parent company shall be substituted for the Comparison Group member to the extent (and for such period of time) as its common stock (or similar equity securities) are listed or traded on a national securities exchange but the common stock (or similar equity securities) of the original Comparison Group member are not. In the event of a merger or other business combination of two Comparison Group members (including, without limitation, the acquisition of one Comparison Group member, or all or substantially all of its assets, by another Comparison Group member), the surviving, resulting or successor entity, as the case may be, shall continue to be treated as a member of the Comparison Group, provided that the common stock (or similar equity security) of such entity is listed or traded on a national securities exchange through the last trading day of the Performance Period. With respect to the preceding two sentences, the applicable stock prices shall be equitably and proportionately adjusted to the extent (if any) necessary to preserve the intended incentives of the awards and mitigate the impact of the transaction.

- **“TSR”** shall be determined with respect to the Company and any other Comparison Group member by dividing: (a) the sum of (i) the difference obtained by subtracting the applicable Beginning Price from the applicable Ending Price plus (ii) all dividends and other distributions during the Performance Period by (b) the applicable Beginning Price. Any non-cash distributions shall be valued at fair market value. For the purpose of determining TSR, the value of dividends and other distributions shall be determined by treating them as reinvested in additional shares of stock at the closing market price on the date of distribution.
- **“Beginning Price”** means, with respect to the Company and any other Comparison Group member, the average of the closing market prices of such company’s common stock on the principal exchange on which such stock is traded for the twenty (20) consecutive trading days beginning with the first trading day of the Performance Period. For the purpose of determining Beginning Price, the value of dividends and other distributions shall be determined by treating them as reinvested in additional shares of stock at the closing market price on the date of distribution.
- **“Ending Price”** means, with respect to the Company and any other Comparison Group member, the average of the closing market prices of such company’s common stock on the principal exchange on which such stock is traded for the twenty (20) consecutive trading days ending on the last trading day of the Performance Period. For the purpose of determining Ending Price, the value of dividends and other distributions shall be determined by treating them as reinvested in additional shares of stock at the closing market price on the date of distribution.

With respect to the computation of TSR, Beginning Price, and Ending Price, there shall also be an equitable and proportionate adjustment to the extent (if any) necessary to preserve the intended incentives of the awards and mitigate the impact of any stock split, stock dividend or reverse stock split occurring during the Performance Period (or during the applicable 20-day period in determining Beginning Price or Ending Price, as the case may be).

In the event of any ambiguity or discrepancy, the determination of the Committee shall be final and binding.

CERTIFICATION

I, Timothy D. Cook, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 2, 2023

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

CERTIFICATION

I, Luca Maestri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 2, 2023

By: /s/ Luca Maestri
 Luca Maestri
 Senior Vice President,
 Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy D. Cook, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: February 2, 2023

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

I, Luca Maestri, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: February 2, 2023

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Apple Inc. and will be retained by Apple Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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 April 1, 2023

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

(State or other jurisdiction
of incorporation or organization)

One Apple Park Way
Cupertino, California

(Address of principal executive offices)

94-2404110

(I.R.S. Employer Identification No.)

95014

(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 |
| 1.375% 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



Non-accelerated filer



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 ☒

15,728,702,000 shares of common stock were issued and outstanding as of April 21, 2023.

Apple Inc.
Form 10-Q
For the Fiscal Quarter Ended April 1, 2023
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Net sales: | | | | |
| Products | \$ 73,929 | \$ 77,457 | \$ 170,317 | \$ 181,886 |
| Services | 20,907 | 19,821 | 41,673 | 39,337 |
| Total net sales | 94,836 | 97,278 | 211,990 | 221,223 |
| Cost of sales: | | | | |
| Products | 46,795 | 49,290 | 107,560 | 113,599 |
| Services | 6,065 | 5,429 | 12,122 | 10,822 |
| Total cost of sales | 52,860 | 54,719 | 119,682 | 124,421 |
| Gross margin | 41,976 | 42,559 | 92,308 | 96,802 |
| Operating expenses: | | | | |
| Research and development | 7,457 | 6,387 | 15,166 | 12,693 |
| Selling, general and administrative | 6,201 | 6,193 | 12,808 | 12,642 |
| Total operating expenses | 13,658 | 12,580 | 27,974 | 25,335 |
| Operating income | 28,318 | 29,979 | 64,334 | 71,467 |
| Other income/(expense), net | 64 | 160 | (329) | (87) |
| Income before provision for income taxes | 28,382 | 30,139 | 64,005 | 71,380 |
| Provision for income taxes | 4,222 | 5,129 | 9,847 | 11,740 |
| Net income | \$ 24,160 | \$ 25,010 | \$ 54,158 | \$ 59,640 |
| Earnings per share: | | | | |
| Basic | \$ 1.53 | \$ 1.54 | \$ 3.42 | \$ 3.65 |
| Diluted | \$ 1.52 | \$ 1.52 | \$ 3.41 | \$ 3.62 |
| Shares used in computing earnings per share: | | | | |
| Basic | 15,787,154 | 16,278,802 | 15,839,939 | 16,335,263 |
| Diluted | 15,847,050 | 16,403,316 | 15,901,384 | 16,461,304 |

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 | |
|--|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Net income | \$ 24,160 | \$ 25,010 | \$ 54,158 | \$ 59,640 |
| Other comprehensive income/(loss): | | | | |
| Change in foreign currency translation, net of tax | (95) | (21) | (109) | (381) |
| Change in unrealized gains/losses on derivative instruments, net of tax: | | | | |
| Change in fair value of derivative instruments | (13) | 334 | (1,001) | 696 |
| Adjustment for net (gains)/losses realized and included in net income | (191) | (301) | (1,957) | (208) |
| Total change in unrealized gains/losses on derivative instruments | (204) | 33 | (2,958) | 488 |
| Change in unrealized gains/losses on marketable debt securities, net of tax: | | | | |
| Change in fair value of marketable debt securities | 1,403 | (5,633) | 2,303 | (6,809) |
| Adjustment for net (gains)/losses realized and included in net income | 62 | 54 | 127 | 45 |
| Total change in unrealized gains/losses on marketable debt securities | 1,465 | (5,579) | 2,430 | (6,764) |
| Total other comprehensive income/(loss) | 1,166 | (5,567) | (637) | (6,657) |
| Total comprehensive income | \$ 25,326 | \$ 19,443 | \$ 53,521 | \$ 52,983 |

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)

| | April 1, 2023 | September 24, 2022 |
|---|------------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,687 | \$ 23,646 |
| Marketable securities | 31,185 | 24,658 |
| Accounts receivable, net | 17,936 | 28,184 |
| Inventories | 7,482 | 4,946 |
| Vendor non-trade receivables | 17,963 | 32,748 |
| Other current assets | 13,660 | 21,223 |
| Total current assets | 112,913 | 135,405 |
| Non-current assets: | | |
| Marketable securities | 110,461 | 120,805 |
| Property, plant and equipment, net | 43,398 | 42,117 |
| Other non-current assets | 65,388 | 54,428 |
| Total non-current assets | 219,247 | 217,350 |
| Total assets | \$ 332,160 | \$ 352,755 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 42,945 | \$ 64,115 |
| Other current liabilities | 56,425 | 60,845 |
| Deferred revenue | 8,131 | 7,912 |
| Commercial paper | 1,996 | 9,982 |
| Term debt | 10,578 | 11,128 |
| Total current liabilities | 120,075 | 153,982 |
| Non-current liabilities: | | |
| Term debt | 97,041 | 98,959 |
| Other non-current liabilities | 52,886 | 49,142 |
| Total non-current liabilities | 149,927 | 148,101 |
| Total liabilities | 270,002 | 302,083 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 15,723,406 and 15,943,425 shares issued and outstanding, respectively | 69,568 | 64,849 |
| Retained earnings/(Accumulated deficit) | 4,336 | (3,068) |
| Accumulated other comprehensive income/(loss) | (11,746) | (11,109) |
| Total shareholders' equity | 62,158 | 50,672 |
| Total liabilities and shareholders' equity | \$ 332,160 | \$ 352,755 |

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 | |
|--|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Total shareholders' equity, beginning balances | \$ 56,727 | \$ 71,932 | \$ 50,672 | \$ 63,090 |
| Common stock and additional paid-in capital: | | | | |
| Beginning balances | 66,399 | 58,424 | 64,849 | 57,365 |
| Common stock issued | 690 | 593 | 690 | 593 |
| Common stock withheld related to net share settlement of equity awards | (281) | (149) | (1,715) | (1,412) |
| Share-based compensation | 2,760 | 2,313 | 5,744 | 4,635 |
| Ending balances | 69,568 | 61,181 | 69,568 | 61,181 |
| Retained earnings/(Accumulated deficit): | | | | |
| Beginning balances | 3,240 | 14,435 | (3,068) | 5,562 |
| Net income | 24,160 | 25,010 | 54,158 | 59,640 |
| Dividends and dividend equivalents declared | (3,684) | (3,633) | (7,396) | (7,298) |
| Common stock withheld related to net share settlement of equity awards | (152) | (190) | (1,130) | (1,920) |
| Common stock repurchased | (19,228) | (22,910) | (38,228) | (43,272) |
| Ending balances | 4,336 | 12,712 | 4,336 | 12,712 |
| Accumulated other comprehensive income/(loss): | | | | |
| Beginning balances | (12,912) | (927) | (11,109) | 163 |
| Other comprehensive income/(loss) | 1,166 | (5,567) | (637) | (6,657) |
| Ending balances | (11,746) | (6,494) | (11,746) | (6,494) |
| Total shareholders' equity, ending balances | \$ 62,158 | \$ 67,399 | \$ 62,158 | \$ 67,399 |
| Dividends and dividend equivalents declared per share or RSU | \$ 0.23 | \$ 0.22 | \$ 0.46 | \$ 0.44 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

| | Six Months Ended | |
|--|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 |
| Cash, cash equivalents and restricted cash, beginning balances | \$ 24,977 | \$ 35,929 |
| Operating activities: | | |
| Net income | 54,158 | 59,640 |
| Adjustments to reconcile net income to cash generated by operating activities: | | |
| Depreciation and amortization | 5,814 | 5,434 |
| Share-based compensation expense | 5,591 | 4,517 |
| Other | (1,732) | 1,068 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 9,596 | 5,542 |
| Inventories | (2,548) | 1,065 |
| Vendor non-trade receivables | 14,785 | 643 |
| Other current and non-current assets | (4,092) | (3,542) |
| Accounts payable | (20,764) | (1,750) |
| Other current and non-current liabilities | 1,757 | 2,515 |
| Cash generated by operating activities | 62,565 | 75,132 |
| Investing activities: | | |
| Purchases of marketable securities | (11,197) | (61,987) |
| Proceeds from maturities of marketable securities | 17,124 | 18,000 |
| Proceeds from sales of marketable securities | 1,897 | 24,668 |
| Payments for acquisition of property, plant and equipment | (6,703) | (5,317) |
| Other | (247) | (735) |
| Cash generated by/(used in) investing activities | 874 | (25,371) |
| Financing activities: | | |
| Payments for taxes related to net share settlement of equity awards | (2,734) | (3,218) |
| Payments for dividends and dividend equivalents | (7,418) | (7,327) |
| Repurchases of common stock | (39,069) | (43,109) |
| Repayments of term debt | (3,651) | (3,750) |
| Proceeds from/(Repayments of) commercial paper, net | (7,960) | 999 |
| Other | (455) | (105) |
| Cash used in financing activities | (61,287) | (56,510) |
| Increase/(Decrease) in cash, cash equivalents and restricted cash | 2,152 | (6,749) |
| Cash, cash equivalents and restricted cash, ending balances | \$ 27,129 | \$ 29,180 |
| Supplemental cash flow disclosure: | | |
| Cash paid for income taxes, net | \$ 4,894 | \$ 9,301 |
| Cash paid for interest | \$ 1,873 | \$ 1,406 |

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 condensed 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 24, 2022.

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, which occurred in the first fiscal quarter of 2023. The Company’s fiscal years 2023 and 2022 span 53 and 52 weeks, respectively. 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.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three- and six-month periods ended April 1, 2023 and March 26, 2022 (net income in millions and shares in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Numerator: | | | | |
| Net income | \$ 24,160 | \$ 25,010 | \$ 54,158 | \$ 59,640 |
| Denominator: | | | | |
| Weighted-average basic shares outstanding | 15,787,154 | 16,278,802 | 15,839,939 | 16,335,263 |
| Effect of dilutive securities | 59,896 | 124,514 | 61,445 | 126,041 |
| Weighted-average diluted shares | <u>15,847,050</u> | <u>16,403,316</u> | <u>15,901,384</u> | <u>16,461,304</u> |
| Basic earnings per share | \$ 1.53 | \$ 1.54 | \$ 3.42 | \$ 3.65 |
| Diluted earnings per share | \$ 1.52 | \$ 1.52 | \$ 3.41 | \$ 3.62 |

Approximately 48 million restricted stock units (“RSUs”) were excluded from the computation of diluted earnings per share for the six months ended April 1, 2023 because their effect would have been antidilutive.

Note 2 – Revenue

Net sales disaggregated by significant products and services for the three- and six-month periods ended April 1, 2023 and March 26, 2022 were as follows (in millions):

| | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|-------------------|-------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| iPhone® | \$ 51,334 | \$ 50,570 | \$ 117,109 | \$ 122,198 |
| Mac® | 7,168 | 10,435 | 14,903 | 21,287 |
| iPad® | 6,670 | 7,646 | 16,066 | 14,894 |
| Wearables, Home and Accessories | 8,757 | 8,806 | 22,239 | 23,507 |
| Services | 20,907 | 19,821 | 41,673 | 39,337 |
| Total net sales | <u>\$ 94,836</u> | <u>\$ 97,278</u> | <u>\$ 211,990</u> | <u>\$ 221,223</u> |

Total net sales include \$3.5 billion of revenue recognized in the three months ended April 1, 2023 that was included in deferred revenue as of December 31, 2022, \$3.0 billion of revenue recognized in the three months ended March 26, 2022 that was included in deferred revenue as of December 25, 2021, \$5.5 billion of revenue recognized in the six months ended April 1, 2023 that was included in deferred revenue as of September 24, 2022, and \$4.8 billion of revenue recognized in the six months ended March 26, 2022 that was included in deferred revenue as of September 25, 2021.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 10, "Segment Information and Geographic Data" for the three- and six-month periods ended April 1, 2023 and March 26, 2022, except in Greater China, where iPhone revenue represented a moderately higher proportion of net sales.

As of April 1, 2023 and September 24, 2022, the Company had total deferred revenue of \$12.5 billion and \$12.4 billion, respectively. As of April 1, 2023, the Company expects 65% of total deferred revenue to be realized in less than a year, 26% within one-to-two years, 7% within two-to-three years and 2% in greater than three years.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash, cash equivalents and marketable securities by significant investment category as of April 1, 2023 and September 24, 2022 (in millions):

| | April 1, 2023 | | | | | | |
|---|-------------------|---------------------|----------------------|-------------------|---------------------------------|-------------------------------------|---|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 20,050 | \$ — | \$ — | \$ 20,050 | \$ 20,050 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 1,656 | — | — | 1,656 | 1,656 | — | — |
| Mutual funds | 345 | 5 | (26) | 324 | — | 324 | — |
| Subtotal | <u>2,001</u> | <u>5</u> | <u>(26)</u> | <u>1,980</u> | <u>1,656</u> | <u>324</u> | <u>—</u> |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 22,754 | 1 | (1,262) | 21,493 | 9 | 8,002 | 13,482 |
| U.S. agency securities | 5,743 | — | (538) | 5,205 | — | 199 | 5,006 |
| Non-U.S. government securities | 17,380 | 20 | (961) | 16,439 | — | 10,222 | 6,217 |
| Certificates of deposit and time deposits | 2,999 | — | — | 2,999 | 2,881 | 118 | — |
| Commercial paper | 271 | — | — | 271 | — | 271 | — |
| Corporate debt securities | 82,802 | 32 | (6,049) | 76,785 | 91 | 11,676 | 65,018 |
| Municipal securities | 790 | — | (20) | 770 | — | 257 | 513 |
| Mortgage- and asset-backed securities | 22,438 | 9 | (2,106) | 20,341 | — | 116 | 20,225 |
| Subtotal | <u>155,177</u> | <u>62</u> | <u>(10,936)</u> | <u>144,303</u> | <u>2,981</u> | <u>30,861</u> | <u>110,461</u> |
| Total ⁽³⁾ | <u>\$ 177,228</u> | <u>\$ 67</u> | <u>\$ (10,962)</u> | <u>\$ 166,333</u> | <u>\$ 24,687</u> | <u>\$ 31,185</u> | <u>\$ 110,461</u> |

| | September 24, 2022 | | | | | | |
|---|--------------------|------------------|-------------------|------------|---------------------------|-------------------------------|-----------------------------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 18,546 | \$ — | \$ — | \$ 18,546 | \$ 18,546 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 2,929 | — | — | 2,929 | 2,929 | — | — |
| Mutual funds | 274 | — | (47) | 227 | — | 227 | — |
| Subtotal | 3,203 | — | (47) | 3,156 | 2,929 | 227 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 25,134 | — | (1,725) | 23,409 | 338 | 5,091 | 17,980 |
| U.S. agency securities | 5,823 | — | (655) | 5,168 | — | 240 | 4,928 |
| Non-U.S. government securities | 16,948 | 2 | (1,201) | 15,749 | — | 8,806 | 6,943 |
| Certificates of deposit and time deposits | 2,067 | — | — | 2,067 | 1,805 | 262 | — |
| Commercial paper | 718 | — | — | 718 | 28 | 690 | — |
| Corporate debt securities | 87,148 | 9 | (7,707) | 79,450 | — | 9,023 | 70,427 |
| Municipal securities | 921 | — | (35) | 886 | — | 266 | 620 |
| Mortgage- and asset-backed securities | 22,553 | — | (2,593) | 19,960 | — | 53 | 19,907 |
| Subtotal | 161,312 | 11 | (13,916) | 147,407 | 2,171 | 24,431 | 120,805 |
| Total ⁽³⁾ | \$ 183,061 | \$ 11 | \$ (13,963) | \$ 169,109 | \$ 23,646 | \$ 24,658 | \$ 120,805 |

(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 April 1, 2023 and September 24, 2022, total marketable securities included \$13.1 billion and \$12.7 billion, respectively, that were restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes") and other agreements.

The following table shows the fair value of the Company's non-current marketable debt securities, by contractual maturity, as of April 1, 2023 (in millions):

| | |
|------------------------------------|------------|
| Due after 1 year through 5 years | \$ 81,352 |
| Due after 5 years through 10 years | 11,928 |
| Due after 10 years | 17,181 |
| Total fair value | \$ 110,461 |

Derivative Instruments and Hedging

The Company may use derivative instruments to partially offset its business exposure to foreign exchange and interest rate risk. However, the Company may choose not to hedge certain exposures for a variety of reasons, including 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 exchange or interest rates.

Foreign Exchange Risk

To protect gross margins from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, option contracts or other instruments, 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 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. The Company designates these instruments as either cash flow or fair value hedges. As of April 1, 2023, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for term debt-related foreign currency transactions is 19 years.

The Company may also enter into derivative instruments that are not designated as accounting hedges to protect gross margins from certain fluctuations in foreign currency exchange rates, as well as 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.

Interest Rate Risk

To protect the Company's term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. The Company designates these instruments as either cash flow or fair value hedges.

The notional amounts of the Company's outstanding derivative instruments as of April 1, 2023 and September 24, 2022 were as follows (in millions):

| | April 1, 2023 | September 24, 2022 |
|---|------------------|-----------------------|
| Derivative instruments designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 51,119 | \$ 102,670 |
| Interest rate contracts | \$ 19,375 | \$ 20,125 |
| Derivative instruments not designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 111,696 | \$ 185,381 |

The gross fair values of the Company's derivative assets and liabilities as of September 24, 2022 were as follows (in millions):

| | September 24, 2022 | | |
|---|---|---|---------------------|
| | Fair Value of Derivatives Designated as Accounting Hedges | Fair Value of Derivatives Not Designated as Accounting Hedges | Total Fair Value |
| Derivative assets ⁽¹⁾ : | | | |
| Foreign exchange contracts | \$ 4,317 | \$ 2,819 | \$ 7,136 |
| Derivative liabilities ⁽²⁾ : | | | |
| Foreign exchange contracts | \$ 2,205 | \$ 2,547 | \$ 4,752 |
| Interest rate contracts | \$ 1,367 | \$ — | \$ 1,367 |

(1) Derivative assets are measured using Level 2 fair value inputs and are included in other current assets and other non-current assets in the Condensed Consolidated Balance Sheet.

(2) Derivative liabilities are measured using Level 2 fair value inputs and are included in other current liabilities and other non-current liabilities in the Condensed Consolidated Balance Sheet.

The derivative assets above represent the Company's gross credit exposure if all counterparties failed to perform. To mitigate credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair values of certain derivatives fluctuate from contractually established thresholds. To further limit credit risk, the Company generally enters into master netting arrangements with the respective counterparties to the Company's derivative contracts, under which the Company is allowed to settle transactions with a single net amount payable by one party to the other. As of September 24, 2022, 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 \$7.8 billion, resulting in a net derivative asset of \$412 million.

The carrying amounts of the Company's hedged items in fair value hedges as of April 1, 2023 and September 24, 2022 were as follows (in millions):

| | April 1, 2023 | September 24, 2022 |
|---|------------------|-----------------------|
| Hedged assets/(liabilities): | | |
| Current and non-current marketable securities | \$ 14,651 | \$ 13,378 |
| Current and non-current term debt | \$ (18,249) | \$ (18,739) |

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 both April 1, 2023 and September 24, 2022, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 10%. The Company's cellular network carriers accounted for 32% and 44% of total trade receivables as of April 1, 2023 and September 24, 2022, respectively.

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 subassemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of April 1, 2023, the Company had three vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 43%, 19% and 13%. As of September 24, 2022, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 54% and 13%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of April 1, 2023 and September 24, 2022 (in millions):

Inventories

| | April 1, 2023 | September 24, 2022 |
|-------------------|------------------|-----------------------|
| Components | \$ 3,379 | \$ 1,637 |
| Finished goods | 4,103 | 3,309 |
| Total inventories | <u>\$ 7,482</u> | <u>\$ 4,946</u> |

Property, Plant and Equipment, Net

| | April 1, 2023 | September 24, 2022 |
|---|------------------|-----------------------|
| Gross property, plant and equipment | \$ 113,066 | \$ 114,457 |
| Accumulated depreciation and amortization | (69,668) | (72,340) |
| Total property, plant and equipment, net | <u>\$ 43,398</u> | <u>\$ 42,117</u> |

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for the three- and six-month periods ended April 1, 2023 and March 26, 2022 (in millions):

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Interest and dividend income | \$ 918 | \$ 700 | \$ 1,786 | \$ 1,350 |
| Interest expense | (930) | (691) | (1,933) | (1,385) |
| Other income/(expense), net | 76 | 151 | (182) | (52) |
| Total other income/(expense), net | <u>\$ 64</u> | <u>\$ 160</u> | <u>\$ (329)</u> | <u>\$ (87)</u> |

Note 5 – Income Taxes

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 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 and a hearing has been scheduled for May 23, 2023. The Company believes it would be eligible to claim a U.S. foreign tax credit for a portion of any incremental Irish corporate income taxes potentially due related to the State Aid Decision.

Note 6 – Debt

Commercial Paper

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 April 1, 2023 and September 24, 2022, the Company had \$2.0 billion and \$10.0 billion of Commercial Paper outstanding, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the six months ended April 1, 2023 and March 26, 2022 (in millions):

| | Six Months Ended | |
|---|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 |
| Maturities 90 days or less: | | |
| Proceeds from/(Repayments of) commercial paper, net | \$ (5,315) | \$ 4,952 |
| Maturities greater than 90 days: | | |
| Proceeds from commercial paper | — | 1,191 |
| Repayments of commercial paper | (2,645) | (5,144) |
| Repayments of commercial paper, net | (2,645) | (3,953) |
| Total proceeds from/(repayments of) commercial paper, net | \$ (7,960) | \$ 999 |

Term Debt

As of April 1, 2023 and September 24, 2022, the Company had outstanding fixed-rate notes with varying maturities for an aggregate carrying amount of \$107.6 billion and \$110.1 billion, respectively (collectively the “Notes”). As of April 1, 2023 and September 24, 2022, the fair value of the Company’s Notes, based on Level 2 inputs, was \$98.4 billion and \$98.8 billion, respectively.

Note 7 – Shareholders’ Equity

Share Repurchase Program

During the six months ended April 1, 2023, the Company repurchased 262 million shares of its common stock under an authorized share repurchase program for \$38.1 billion, excluding excise tax due under the Inflation Reduction Act of 2022. The program does not obligate the Company to acquire a minimum amount of shares. Under the program, shares may be repurchased in privately negotiated or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Note 8 – Benefit Plans

Restricted Stock Units

A summary of the Company's RSU activity and related information for the six months ended April 1, 2023 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 24, 2022 | 201,501 | \$ 109.48 | |
| RSUs granted | 84,902 | \$ 149.73 | |
| RSUs vested | (54,795) | \$ 86.72 | |
| RSUs canceled | (4,671) | \$ 122.79 | |
| Balance as of April 1, 2023 | 226,937 | \$ 129.76 | \$ 37,422 |

The fair value as of the respective vesting dates of RSUs was \$1.1 billion and \$8.0 billion for the three- and six-month periods ended April 1, 2023, respectively, and was \$1.0 billion and \$9.5 billion for the three- and six-month periods ended March 26, 2022, 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 April 1, 2023 and March 26, 2022 (in millions):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Share-based compensation expense | \$ 2,686 | \$ 2,252 | \$ 5,591 | \$ 4,517 |
| Income tax benefit related to share-based compensation expense | \$ (620) | \$ (649) | \$ (1,798) | \$ (2,185) |

As of April 1, 2023, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$23.2 billion, which the Company expects to recognize over a weighted-average period of 2.8 years.

Note 9 – Commitments and Contingencies

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 supplier arrangements, licensed content and distribution rights. Future payments under noncancelable unconditional purchase obligations with a remaining term in excess of one year as of April 1, 2023, are as follows (in millions):

| | |
|-----------------------------|-----------|
| 2023 (remaining six months) | \$ 2,263 |
| 2024 | 2,716 |
| 2025 | 2,028 |
| 2026 | 2,602 |
| 2027 | 571 |
| Thereafter | 5,897 |
| Total | \$ 16,077 |

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. 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.

Note 10 – Segment Information and Geographic Data

The following table shows information by reportable segment for the three- and six-month periods ended April 1, 2023 and March 26, 2022 (in millions):

| | Three Months Ended | | Six Months Ended | |
|-----------------------|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Americas: | | | | |
| Net sales | \$ 37,784 | \$ 40,882 | \$ 87,062 | \$ 92,378 |
| Operating income | \$ 13,927 | \$ 15,279 | \$ 31,791 | \$ 34,864 |
| Europe: | | | | |
| Net sales | \$ 23,945 | \$ 23,287 | \$ 51,626 | \$ 53,036 |
| Operating income | \$ 9,368 | \$ 8,505 | \$ 19,385 | \$ 20,050 |
| Greater China: | | | | |
| Net sales | \$ 17,812 | \$ 18,343 | \$ 41,717 | \$ 44,126 |
| Operating income | \$ 7,531 | \$ 8,112 | \$ 17,968 | \$ 19,295 |
| Japan: | | | | |
| Net sales | \$ 7,176 | \$ 7,724 | \$ 13,931 | \$ 14,831 |
| Operating income | \$ 3,394 | \$ 3,496 | \$ 6,630 | \$ 6,845 |
| Rest of Asia Pacific: | | | | |
| Net sales | \$ 8,119 | \$ 7,042 | \$ 17,654 | \$ 16,852 |
| Operating income | \$ 3,268 | \$ 2,823 | \$ 7,119 | \$ 6,818 |

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three- and six-month periods ended April 1, 2023 and March 26, 2022 is as follows (in millions):

| | Three Months Ended | | Six Months Ended | |
|----------------------------------|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Segment operating income | \$ 37,488 | \$ 38,215 | \$ 82,893 | \$ 87,872 |
| Research and development expense | (7,457) | (6,387) | (15,166) | (12,693) |
| Other corporate expenses, net | (1,713) | (1,849) | (3,393) | (3,712) |
| Total operating income | \$ 28,318 | \$ 29,979 | \$ 64,334 | \$ 71,467 |

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 macroeconomic conditions 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 fiscal year ended September 24, 2022 (the "2022 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 2022 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 environmental, social and governance matters, 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.

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.

Fiscal Period

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, which occurred in the first quarter of 2023. The Company's fiscal years 2023 and 2022 span 53 and 52 weeks, respectively.

Quarterly Highlights

Weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on the Company's total net sales, which decreased 3% or \$2.4 billion during the second quarter of 2023 compared to the same quarter in 2022. The year-over-year net sales decrease consisted primarily of lower net sales of Mac, partially offset by higher net sales of Services.

During the second quarter of 2023, the Company announced the following new products:

- MacBook Pro[®] 14" and MacBook Pro 16", powered by the Apple M2 Pro and M2 Max chip;
- Mac mini[®], powered by the Apple M2 and M2 Pro chip; and
- Second-generation HomePod[®].

The Company repurchased \$19.1 billion of its common stock and paid dividends and dividend equivalents of \$3.7 billion during the second quarter of 2023.

Macroeconomic Conditions

Macroeconomic conditions, including inflation, changes in interest rates, and currency fluctuations, have directly and indirectly impacted, and could in the future materially impact, the Company's results of operations and financial condition.

Segment Operating Performance

The following table shows net sales by reportable segment for the three- and six-month periods ended April 1, 2023 and March 26, 2022 (dollars in millions):

| | Three Months Ended | | | Six Months Ended | | |
|----------------------------------|--------------------|-------------------|-------------|-------------------|-------------------|-------------|
| | April 1, 2023 | March 26, 2022 | Change | April 1, 2023 | March 26, 2022 | Change |
| Net sales by reportable segment: | | | | | | |
| Americas | \$ 37,784 | \$ 40,882 | (8)% | \$ 87,062 | \$ 92,378 | (6)% |
| Europe | 23,945 | 23,287 | 3 % | 51,626 | 53,036 | (3)% |
| Greater China | 17,812 | 18,343 | (3)% | 41,717 | 44,126 | (5)% |
| Japan | 7,176 | 7,724 | (7)% | 13,931 | 14,831 | (6)% |
| Rest of Asia Pacific | 8,119 | 7,042 | 15 % | 17,654 | 16,852 | 5 % |
| Total net sales | <u>\$ 94,836</u> | <u>\$ 97,278</u> | <u>(3)%</u> | <u>\$ 211,990</u> | <u>\$ 221,223</u> | <u>(4)%</u> |

Americas

Americas net sales decreased during the second quarter and first six months of 2023 compared to the same periods in 2022 due primarily to lower net sales of iPhone and Mac, partially offset by higher net sales of Services.

Europe

The weakness in foreign currencies relative to the U.S. dollar had a net unfavorable year-over-year impact on Europe net sales during the second quarter and first six months of 2023. During the second quarter of 2023, the Europe net sales increase consisted primarily of higher net sales of iPhone, partially offset by lower net sales of Mac. During the first six months of 2023, the Europe net sales decrease consisted primarily of lower net sales of Mac, partially offset by higher net sales of iPhone.

Greater China

The weakness in the renminbi relative to the U.S. dollar had an unfavorable year-over-year impact on Greater China net sales during the second quarter and first six months of 2023. During the second quarter and first six months of 2023, the Greater China net sales decrease consisted primarily of lower net sales of iPhone and Mac.

Japan

The weakness in the yen relative to the U.S. dollar had an unfavorable year-over-year impact on Japan net sales during the second quarter and first six months of 2023. During the second quarter of 2023, the Japan net sales decrease consisted primarily of lower net sales of iPad, Services and iPhone. During the first six months of 2023, the Japan net sales decrease consisted primarily of lower net sales of Services, Wearables, Home and Accessories and Mac.

Rest of Asia Pacific

The weakness in foreign currencies relative to the U.S. dollar had an unfavorable year-over-year impact on Rest of Asia Pacific net sales during the second quarter and first six months of 2023. During the second quarter and first six months of 2023, the Rest of Asia Pacific net sales increase consisted primarily of higher net sales of iPhone, partially offset by lower net sales of Mac.

Products and Services Performance

The following table shows net sales by category for the three- and six-month periods ended April 1, 2023 and March 26, 2022 (dollars in millions):

| | Three Months Ended | | | Six Months Ended | | |
|---------------------------------|--------------------|-------------------|-------------|-------------------|-------------------|-------------|
| | April 1, 2023 | March 26, 2022 | Change | April 1, 2023 | March 26, 2022 | Change |
| Net sales by category: | | | | | | |
| iPhone | \$ 51,334 | \$ 50,570 | 2 % | \$ 117,109 | \$ 122,198 | (4)% |
| Mac | 7,168 | 10,435 | (31)% | 14,903 | 21,287 | (30)% |
| iPad | 6,670 | 7,646 | (13)% | 16,066 | 14,894 | 8 % |
| Wearables, Home and Accessories | 8,757 | 8,806 | (1)% | 22,239 | 23,507 | (5)% |
| Services | 20,907 | 19,821 | 5 % | 41,673 | 39,337 | 6 % |
| Total net sales | <u>\$ 94,836</u> | <u>\$ 97,278</u> | <u>(3)%</u> | <u>\$ 211,990</u> | <u>\$ 221,223</u> | <u>(4)%</u> |

iPhone

iPhone net sales were relatively flat during the second quarter of 2023 compared to the second quarter of 2022. Year-over-year iPhone net sales decreased during the first six months of 2023 due primarily to lower net sales from the Company's new iPhone models launched in the fourth quarter of 2022.

Mac

Mac net sales decreased during the second quarter and first six months of 2023 compared to the same periods in 2022 due primarily to lower net sales of MacBook Pro.

iPad

iPad net sales decreased during the second quarter of 2023 compared to the second quarter of 2022 due primarily to lower net sales of iPad Pro® and iPad Air®. Year-over-year iPad net sales increased during the first six months of 2023 due primarily to higher net sales of iPad, partially offset by lower net sales of iPad mini®.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales were relatively flat during the second quarter of 2023 compared to the second quarter of 2022. Year-over-year Wearables, Home and Accessories net sales decreased during the first six months of 2023 due primarily to lower net sales of AirPods®.

Services

Services net sales increased during the second quarter and first six months of 2023 compared to the same periods in 2022 due primarily to higher net sales from cloud services, music and advertising.

Gross Margin

Products and Services gross margin and gross margin percentage for the three- and six-month periods ended April 1, 2023 and March 26, 2022 were as follows (dollars in millions):

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|-------------------|------------------|-------------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Gross margin: | | | | |
| Products | \$ 27,134 | \$ 28,167 | \$ 62,757 | \$ 68,287 |
| Services | 14,842 | 14,392 | 29,551 | 28,515 |
| Total gross margin | <u>\$ 41,976</u> | <u>\$ 42,559</u> | <u>\$ 92,308</u> | <u>\$ 96,802</u> |
| Gross margin percentage: | | | | |
| Products | 36.7 % | 36.4 % | 36.8 % | 37.5 % |
| Services | 71.0 % | 72.6 % | 70.9 % | 72.5 % |
| Total gross margin percentage | 44.3 % | 43.7 % | 43.5 % | 43.8 % |

Products Gross Margin

Products gross margin decreased during the second quarter and first six months of 2023 compared to the same periods in 2022 due primarily to lower Products volume and the weakness in foreign currencies relative to the U.S. dollar, partially offset by a different Products mix.

Products gross margin percentage increased during the second quarter of 2023 compared to the second quarter of 2022 due primarily to a different Products mix, partially offset by the weakness in foreign currencies relative to the U.S. dollar. Year-over-year Products gross margin percentage decreased during the first six months of 2023 due primarily to the weakness in foreign currencies relative to the U.S. dollar, partially offset by a different Products mix.

Services Gross Margin

Services gross margin increased during the second quarter and first six months of 2023 compared to the same periods in 2022 due primarily to higher Services net sales, partially offset by the weakness in foreign currencies relative to the U.S. dollar and higher Services costs.

Services gross margin percentage decreased during the second quarter and first six months of 2023 compared to the same periods in 2022 due primarily to the weakness in foreign currencies relative to the U.S. dollar and higher Services costs, partially offset by improved leverage.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of the 2022 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 April 1, 2023 and March 26, 2022 were as follows (dollars in millions):

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|----------------|------------------|----------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Research and development | \$ 7,457 | \$ 6,387 | \$ 15,166 | \$ 12,693 |
| Percentage of total net sales | 8 % | 7 % | 7 % | 6 % |
| Selling, general and administrative | \$ 6,201 | \$ 6,193 | \$ 12,808 | \$ 12,642 |
| Percentage of total net sales | 7 % | 6 % | 6 % | 6 % |
| Total operating expenses | \$ 13,658 | \$ 12,580 | \$ 27,974 | \$ 25,335 |
| Percentage of total net sales | 14 % | 13 % | 13 % | 11 % |

Research and Development

The growth in research and development (“R&D”) expense during the second quarter and first six months of 2023 compared to the same periods in 2022 was driven primarily by increases in headcount-related expenses.

Selling, General and Administrative

Selling, general and administrative expense was relatively flat during the second quarter and first six months of 2023 compared to the same periods in 2022.

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 April 1, 2023 and March 26, 2022 were as follows (dollars in millions):

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|----------------|------------------|----------------|
| | April 1, 2023 | March 26, 2022 | April 1, 2023 | March 26, 2022 |
| Provision for income taxes | \$ 4,222 | \$ 5,129 | \$ 9,847 | \$ 11,740 |
| Effective tax rate | 14.9 % | 17.0 % | 15.4 % | 16.4 % |
| Statutory federal income tax rate | 21 % | 21 % | 21 % | 21 % |

The Company's effective tax rate for the second quarter of 2023 was lower than the statutory federal income tax rate due primarily to a lower effective tax rate on foreign earnings and the U.S. federal R&D credit, partially offset by state income taxes. The Company's effective tax rate for the first six months of 2023 was lower than the statutory federal income tax rate due primarily to a lower effective tax rate on foreign earnings, the U.S. federal R&D credit and tax benefits from share-based compensation, partially offset by state income taxes.

The Company's effective tax rate for the second quarter of 2023 was lower compared to the second quarter of 2022 due primarily to the impact of U.S. foreign tax credit regulations issued by the U.S. Department of the Treasury in 2022 and a higher U.S. federal R&D credit. The Company's effective tax rate for the first six months of 2023 was lower compared to the same period in 2022 due primarily to the impact of U.S. foreign tax credit regulations issued by the U.S. Department of the Treasury in 2022 and a higher U.S. federal R&D credit, partially offset by lower tax benefits from share-based compensation.

Liquidity and Capital Resources

The Company believes its balances of cash, cash equivalents and unrestricted marketable securities, along with cash generated by ongoing operations and continued access to debt markets, will be sufficient to satisfy its cash requirements and capital return program over the next 12 months and beyond.

The Company's contractual cash requirements have not changed materially since the 2022 Form 10-K, except for commercial paper and manufacturing purchase obligations.

Commercial Paper

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. As of April 1, 2023, the Company had \$2.0 billion of Commercial Paper outstanding, all of which was payable within 12 months.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture subassemblies for the Company's products and to perform final assembly and testing of finished products. The Company also obtains individual components for its products from a wide variety of individual suppliers. Outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. As of April 1, 2023, the Company had manufacturing purchase obligations of \$40.5 billion, with \$40.1 billion payable within 12 months. The Company's manufacturing purchase obligations are primarily noncancelable.

Capital Return Program

In addition to its contractual cash requirements, the Company has an authorized share repurchase program, under which the remaining availability was \$22.6 billion as of April 1, 2023. On May 4, 2023, the Company announced the Board of Directors had authorized an additional program to repurchase up to \$90 billion of the Company's common stock. The programs do not obligate the Company to acquire a minimum amount of shares.

On May 4, 2023, the Company also announced the Board of Directors raised the Company's quarterly cash dividend from \$0.23 to \$0.24 per share, beginning with the dividend to be paid during the third quarter of 2023. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Critical Accounting 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. Note 1, "Summary of Significant Accounting Policies" of the Notes to condensed consolidated Financial Statements 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 2022 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 estimates since the 2022 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 2023. 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 2022 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective as of April 1, 2023 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 2023, 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

Epic Games

Epic Games, Inc. ("Epic") filed a lawsuit in the U.S. District Court for the Northern District of California (the "Northern California District Court") against the Company alleging violations of federal and state antitrust laws and California's unfair competition law based upon the Company's operation of its App Store®. The Company filed a counterclaim for breach of contract. On September 10, 2021, the Northern California District Court ruled in favor of the Company with respect to nine out of the ten counts included in Epic's claim, and in favor of the Company with respect to the Company's claims for breach of contract. The Northern California District Court found that certain provisions of the Company's App Store Review Guidelines violate California's unfair competition law and issued an injunction. On April 24, 2023, the U.S. Court of Appeals for the Ninth Circuit affirmed the Northern California District Court's ruling. The Company is considering further review of the decision.

Other Legal Proceedings

The Company is subject to other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company settled certain matters during the second quarter of 2023 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results. 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.

Item 1A. Risk Factors

The Company's business, reputation, results of operations, financial condition and stock price can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of the 2022 Form 10-K under the heading "Risk Factors." When any one or more of these risks materialize from time to time, the Company's business, reputation, results of operations, financial condition and stock price can be materially and adversely affected. There have been no material changes to the Company's risk factors since the 2022 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 April 1, 2023 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⁾ |
|--|----------------------------------|------------------------------|--|---|
| January 1, 2023 to February 4, 2023: | | | | |
| Open market and privately negotiated purchases | 36,980 | \$ 135.21 | 36,980 | |
| February 5, 2023 to March 4, 2023: | | | | |
| Open market and privately negotiated purchases | 49,168 | \$ 150.33 | 49,168 | |
| March 5, 2023 to April 1, 2023: | | | | |
| Open market and privately negotiated purchases | 43,164 | \$ 155.32 | 43,164 | |
| Total | <u>129,312</u> | | | <u>\$ 22,570</u> |

- (1) On April 28, 2022, the Board of Directors authorized the purchase of an additional \$90 billion of the Company's common stock under a share repurchase program. As of April 1, 2023, total utilization under the April 2022 authorization was \$67.4 billion. On May 4, 2023, the Company announced the Board of Directors had authorized an additional program to repurchase up to \$90 billion of the Company's common stock. The programs do not obligate the Company to acquire a minimum amount of shares. Under the programs, shares may be repurchased in privately negotiated 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**Rule 10b5-1 Trading Plans**

During the three months ended April 1, 2023, Katherine L. Adams, Timothy D. Cook, Luca Maestri, Deirdre O'Brien and Jeffrey Williams, each an officer for purposes of Section 16 of the Exchange Act, 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 preestablishes 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 sales of shares acquired under the Company's employee and director equity plans.

Item 6. Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|----------------|--|---------------------------|---------|------------------------------------|
| | | Form | Exhibit | Filing Date/ Period End Date |
| 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.

Date: May 4, 2023

Apple Inc.

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

CERTIFICATION

I, Timothy D. Cook, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 4, 2023

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

CERTIFICATION

I, Luca Maestri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 4, 2023

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy D. Cook, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended April 1, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: May 4, 2023

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

I, Luca Maestri, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended April 1, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: May 4, 2023

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Apple Inc. and will be retained by Apple Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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 July 1, 2023

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

(State or other jurisdiction
of incorporation or organization)

One Apple Park Way
Cupertino, California

(Address of principal executive offices)

94-2404110

(I.R.S. Employer Identification No.)

95014

(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 |
| 1.375% 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



Non-accelerated filer



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 ☒

15,634,232,000 shares of common stock were issued and outstanding as of July 21, 2023.

Apple Inc.
Form 10-Q
For the Fiscal Quarter Ended July 1, 2023
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Net sales: | | | | |
| Products | \$ 60,584 | \$ 63,355 | \$ 230,901 | \$ 245,241 |
| Services | 21,213 | 19,604 | 62,886 | 58,941 |
| Total net sales | 81,797 | 82,959 | 293,787 | 304,182 |
| Cost of sales: | | | | |
| Products | 39,136 | 41,485 | 146,696 | 155,084 |
| Services | 6,248 | 5,589 | 18,370 | 16,411 |
| Total cost of sales | 45,384 | 47,074 | 165,066 | 171,495 |
| Gross margin | 36,413 | 35,885 | 128,721 | 132,687 |
| Operating expenses: | | | | |
| Research and development | 7,442 | 6,797 | 22,608 | 19,490 |
| Selling, general and administrative | 5,973 | 6,012 | 18,781 | 18,654 |
| Total operating expenses | 13,415 | 12,809 | 41,389 | 38,144 |
| Operating income | 22,998 | 23,076 | 87,332 | 94,543 |
| Other income/(expense), net | (265) | (10) | (594) | (97) |
| Income before provision for income taxes | 22,733 | 23,066 | 86,738 | 94,446 |
| Provision for income taxes | 2,852 | 3,624 | 12,699 | 15,364 |
| Net income | \$ 19,881 | \$ 19,442 | \$ 74,039 | \$ 79,082 |
| Earnings per share: | | | | |
| Basic | \$ 1.27 | \$ 1.20 | \$ 4.69 | \$ 4.86 |
| Diluted | \$ 1.26 | \$ 1.20 | \$ 4.67 | \$ 4.82 |
| Shares used in computing earnings per share: | | | | |
| Basic | 15,697,614 | 16,162,945 | 15,792,497 | 16,277,824 |
| Diluted | 15,775,021 | 16,262,203 | 15,859,263 | 16,394,937 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Net income | \$ 19,881 | \$ 19,442 | \$ 74,039 | \$ 79,082 |
| Other comprehensive income/(loss): | | | | |
| Change in foreign currency translation, net of tax | (385) | (721) | (494) | (1,102) |
| Change in unrealized gains/losses on derivative instruments, net of tax: | | | | |
| Change in fair value of derivative instruments | 509 | 852 | (492) | 1,548 |
| Adjustment for net (gains)/losses realized and included in net income | 103 | 121 | (1,854) | (87) |
| Total change in unrealized gains/losses on derivative instruments | 612 | 973 | (2,346) | 1,461 |
| Change in unrealized gains/losses on marketable debt securities, net of tax: | | | | |
| Change in fair value of marketable debt securities | (340) | (3,150) | 1,963 | (9,959) |
| Adjustment for net (gains)/losses realized and included in net income | 58 | 95 | 185 | 140 |
| Total change in unrealized gains/losses on marketable debt securities | (282) | (3,055) | 2,148 | (9,819) |
| Total other comprehensive income/(loss) | (55) | (2,803) | (692) | (9,460) |
| Total comprehensive income | \$ 19,826 | \$ 16,639 | \$ 73,347 | \$ 69,622 |

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)

| | July 1, 2023 | September 24, 2022 |
|---|-----------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 28,408 | \$ 23,646 |
| Marketable securities | 34,074 | 24,658 |
| Accounts receivable, net | 19,549 | 28,184 |
| Inventories | 7,351 | 4,946 |
| Vendor non-trade receivables | 19,637 | 32,748 |
| Other current assets | 13,640 | 21,223 |
| Total current assets | 122,659 | 135,405 |
| Non-current assets: | | |
| Marketable securities | 104,061 | 120,805 |
| Property, plant and equipment, net | 43,550 | 42,117 |
| Other non-current assets | 64,768 | 54,428 |
| Total non-current assets | 212,379 | 217,350 |
| Total assets | \$ 335,038 | \$ 352,755 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 46,699 | \$ 64,115 |
| Other current liabilities | 58,897 | 60,845 |
| Deferred revenue | 8,158 | 7,912 |
| Commercial paper | 3,993 | 9,982 |
| Term debt | 7,216 | 11,128 |
| Total current liabilities | 124,963 | 153,982 |
| Non-current liabilities: | | |
| Term debt | 98,071 | 98,959 |
| Other non-current liabilities | 51,730 | 49,142 |
| Total non-current liabilities | 149,801 | 148,101 |
| Total liabilities | 274,764 | 302,083 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 15,647,868 and 15,943,425 shares issued and outstanding, respectively | 70,667 | 64,849 |
| Retained earnings/(Accumulated deficit) | 1,408 | (3,068) |
| Accumulated other comprehensive income/(loss) | (11,801) | (11,109) |
| Total shareholders' equity | 60,274 | 50,672 |
| Total liabilities and shareholders' equity | \$ 335,038 | \$ 352,755 |

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 | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Total shareholders' equity, beginning balances | \$ 62,158 | \$ 67,399 | \$ 50,672 | \$ 63,090 |
| Common stock and additional paid-in capital: | | | | |
| Beginning balances | 69,568 | 61,181 | 64,849 | 57,365 |
| Common stock issued | — | — | 690 | 593 |
| Common stock withheld related to net share settlement of equity awards | (1,595) | (1,371) | (3,310) | (2,783) |
| Share-based compensation | 2,694 | 2,305 | 8,438 | 6,940 |
| Ending balances | 70,667 | 62,115 | 70,667 | 62,115 |
| Retained earnings/(Accumulated deficit): | | | | |
| Beginning balances | 4,336 | 12,712 | (3,068) | 5,562 |
| Net income | 19,881 | 19,442 | 74,039 | 79,082 |
| Dividends and dividend equivalents declared | (3,811) | (3,760) | (11,207) | (11,058) |
| Common stock withheld related to net share settlement of equity awards | (858) | (1,403) | (1,988) | (3,323) |
| Common stock repurchased | (18,140) | (21,702) | (56,368) | (64,974) |
| Ending balances | 1,408 | 5,289 | 1,408 | 5,289 |
| Accumulated other comprehensive income/(loss): | | | | |
| Beginning balances | (11,746) | (6,494) | (11,109) | 163 |
| Other comprehensive income/(loss) | (55) | (2,803) | (692) | (9,460) |
| Ending balances | (11,801) | (9,297) | (11,801) | (9,297) |
| Total shareholders' equity, ending balances | \$ 60,274 | \$ 58,107 | \$ 60,274 | \$ 58,107 |
| Dividends and dividend equivalents declared per share or RSU | \$ 0.24 | \$ 0.23 | \$ 0.70 | \$ 0.67 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

| | Nine Months Ended | |
|--|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 |
| Cash, cash equivalents and restricted cash, beginning balances | \$ 24,977 | \$ 35,929 |
| Operating activities: | | |
| Net income | 74,039 | 79,082 |
| Adjustments to reconcile net income to cash generated by operating activities: | | |
| Depreciation and amortization | 8,866 | 8,239 |
| Share-based compensation expense | 8,208 | 6,760 |
| Other | (1,651) | 2,695 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 7,609 | 4,561 |
| Inventories | (2,570) | 1,049 |
| Vendor non-trade receivables | 13,111 | 4,789 |
| Other current and non-current assets | (4,863) | (3,289) |
| Accounts payable | (16,790) | (6,108) |
| Other current and non-current liabilities | 2,986 | 246 |
| Cash generated by operating activities | 88,945 | 98,024 |
| Investing activities: | | |
| Purchases of marketable securities | (20,956) | (70,178) |
| Proceeds from maturities of marketable securities | 27,857 | 24,203 |
| Proceeds from sales of marketable securities | 3,959 | 33,609 |
| Payments for acquisition of property, plant and equipment | (8,796) | (7,419) |
| Other | (753) | (1,352) |
| Cash generated by/(used in) investing activities | 1,311 | (21,137) |
| Financing activities: | | |
| Payments for taxes related to net share settlement of equity awards | (5,119) | (5,915) |
| Payments for dividends and dividend equivalents | (11,267) | (11,138) |
| Repurchases of common stock | (56,547) | (64,974) |
| Proceeds from issuance of term debt, net | 5,228 | — |
| Repayments of term debt | (11,151) | (6,750) |
| Proceeds from/(Repayments of) commercial paper, net | (5,971) | 4,970 |
| Other | (508) | (148) |
| Cash used in financing activities | (85,335) | (83,955) |
| Increase/(Decrease) in cash, cash equivalents and restricted cash | 4,921 | (7,068) |
| Cash, cash equivalents and restricted cash, ending balances | \$ 29,898 | \$ 28,861 |
| Supplemental cash flow disclosure: | | |
| Cash paid for income taxes, net | \$ 7,020 | \$ 12,251 |
| Cash paid for interest | \$ 2,590 | \$ 1,910 |

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 condensed 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 24, 2022.

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, which occurred in the first fiscal quarter of 2023. The Company’s fiscal years 2023 and 2022 span 53 and 52 weeks, respectively. 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.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 (net income in millions and shares in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Numerator: | | | | |
| Net income | \$ 19,881 | \$ 19,442 | \$ 74,039 | \$ 79,082 |
| Denominator: | | | | |
| Weighted-average basic shares outstanding | 15,697,614 | 16,162,945 | 15,792,497 | 16,277,824 |
| Effect of dilutive securities | 77,407 | 99,258 | 66,766 | 117,113 |
| Weighted-average diluted shares | <u>15,775,021</u> | <u>16,262,203</u> | <u>15,859,263</u> | <u>16,394,937</u> |
| Basic earnings per share | \$ 1.27 | \$ 1.20 | \$ 4.69 | \$ 4.86 |
| Diluted earnings per share | \$ 1.26 | \$ 1.20 | \$ 4.67 | \$ 4.82 |

Approximately 32 million restricted stock units (“RSUs”) were excluded from the computation of diluted earnings per share for the nine months ended July 1, 2023 because their effect would have been antidilutive.

Note 2 – Revenue

Net sales disaggregated by significant products and services for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 were as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|--------------------|------------------|-------------------|-------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| iPhone® | \$ 39,669 | \$ 40,665 | \$ 156,778 | \$ 162,863 |
| Mac® | 6,840 | 7,382 | 21,743 | 28,669 |
| iPad® | 5,791 | 7,224 | 21,857 | 22,118 |
| Wearables, Home and Accessories | 8,284 | 8,084 | 30,523 | 31,591 |
| Services | 21,213 | 19,604 | 62,886 | 58,941 |
| Total net sales | <u>\$ 81,797</u> | <u>\$ 82,959</u> | <u>\$ 293,787</u> | <u>\$ 304,182</u> |

Total net sales include \$3.3 billion of revenue recognized in the three months ended July 1, 2023 that was included in deferred revenue as of April 1, 2023, \$3.1 billion of revenue recognized in the three months ended June 25, 2022 that was included in deferred revenue as of March 26, 2022, \$7.0 billion of revenue recognized in the nine months ended July 1, 2023 that was included in deferred revenue as of September 24, 2022, and \$6.3 billion of revenue recognized in the nine months ended June 25, 2022 that was included in deferred revenue as of September 25, 2021.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 10, "Segment Information and Geographic Data" for the three- and nine-month periods ended July 1, 2023 and June 25, 2022, except in Greater China, where iPhone revenue represented a moderately higher proportion of net sales.

As of July 1, 2023 and September 24, 2022, the Company had total deferred revenue of \$12.2 billion and \$12.4 billion, respectively. As of July 1, 2023, the Company expects 67% of total deferred revenue to be realized in less than a year, 26% within one-to-two years, 6% within two-to-three years and 1% in greater than three years.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash, cash equivalents and marketable securities by significant investment category as of July 1, 2023 and September 24, 2022 (in millions):

| | July 1, 2023 | | | | | | |
|---|-------------------|------------------|--------------------|-------------------|---------------------------|-------------------------------|-----------------------------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 25,337 | \$ — | \$ — | \$ 25,337 | \$ 25,337 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 1,108 | — | — | 1,108 | 1,108 | — | — |
| Mutual funds | 366 | 15 | (19) | 362 | — | 362 | — |
| Subtotal | 1,474 | 15 | (19) | 1,470 | 1,108 | 362 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 22,274 | — | (1,354) | 20,920 | — | 8,076 | 12,844 |
| U.S. agency securities | 5,709 | — | (594) | 5,115 | 3 | 272 | 4,840 |
| Non-U.S. government securities | 17,588 | 19 | (927) | 16,680 | — | 11,262 | 5,418 |
| Certificates of deposit and time deposits | 2,315 | — | — | 2,315 | 1,960 | 355 | — |
| Commercial paper | 364 | — | — | 364 | — | 364 | — |
| Corporate debt securities | 79,621 | 22 | (6,079) | 73,564 | — | 13,005 | 60,559 |
| Municipal securities | 713 | — | (23) | 690 | — | 213 | 477 |
| Mortgage- and asset-backed securities | 22,383 | 4 | (2,299) | 20,088 | — | 165 | 19,923 |
| Subtotal | 150,967 | 45 | (11,276) | 139,736 | 1,963 | 33,712 | 104,061 |
| Total ⁽³⁾ | <u>\$ 177,778</u> | <u>\$ 60</u> | <u>\$ (11,295)</u> | <u>\$ 166,543</u> | <u>\$ 28,408</u> | <u>\$ 34,074</u> | <u>\$ 104,061</u> |

| | September 24, 2022 | | | | | | |
|---|--------------------|------------------|-------------------|------------|---------------------------|-------------------------------|-----------------------------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash | \$ 18,546 | \$ — | \$ — | \$ 18,546 | \$ 18,546 | \$ — | \$ — |
| Level 1 ⁽¹⁾ : | | | | | | | |
| Money market funds | 2,929 | — | — | 2,929 | 2,929 | — | — |
| Mutual funds | 274 | — | (47) | 227 | — | 227 | — |
| Subtotal | 3,203 | — | (47) | 3,156 | 2,929 | 227 | — |
| Level 2 ⁽²⁾ : | | | | | | | |
| U.S. Treasury securities | 25,134 | — | (1,725) | 23,409 | 338 | 5,091 | 17,980 |
| U.S. agency securities | 5,823 | — | (655) | 5,168 | — | 240 | 4,928 |
| Non-U.S. government securities | 16,948 | 2 | (1,201) | 15,749 | — | 8,806 | 6,943 |
| Certificates of deposit and time deposits | 2,067 | — | — | 2,067 | 1,805 | 262 | — |
| Commercial paper | 718 | — | — | 718 | 28 | 690 | — |
| Corporate debt securities | 87,148 | 9 | (7,707) | 79,450 | — | 9,023 | 70,427 |
| Municipal securities | 921 | — | (35) | 886 | — | 266 | 620 |
| Mortgage- and asset-backed securities | 22,553 | — | (2,593) | 19,960 | — | 53 | 19,907 |
| Subtotal | 161,312 | 11 | (13,916) | 147,407 | 2,171 | 24,431 | 120,805 |
| Total ⁽³⁾ | \$ 183,061 | \$ 11 | \$ (13,963) | \$ 169,109 | \$ 23,646 | \$ 24,658 | \$ 120,805 |

(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 July 1, 2023 and September 24, 2022, total marketable securities included \$14.1 billion and \$12.7 billion, respectively, that were restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes") and other agreements.

The following table shows the fair value of the Company's non-current marketable debt securities, by contractual maturity, as of July 1, 2023 (in millions):

| | |
|------------------------------------|-------------------|
| Due after 1 year through 5 years | \$ 76,267 |
| Due after 5 years through 10 years | 11,148 |
| Due after 10 years | 16,646 |
| Total fair value | <u>\$ 104,061</u> |

Derivative Instruments and Hedging

The Company may use derivative instruments to partially offset its business exposure to foreign exchange and interest rate risk. However, the Company may choose not to hedge certain exposures for a variety of reasons, including 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 exchange or interest rates.

Foreign Exchange Risk

To protect gross margins from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, option contracts or other instruments, 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 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. The Company designates these instruments as either cash flow or fair value hedges. As of July 1, 2023, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for term debt-related foreign currency transactions is 19 years.

The Company may also enter into derivative instruments that are not designated as accounting hedges to protect gross margins from certain fluctuations in foreign currency exchange rates, as well as 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.

Interest Rate Risk

To protect the Company's term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. The Company designates these instruments as either cash flow or fair value hedges.

The notional amounts of the Company's outstanding derivative instruments as of July 1, 2023 and September 24, 2022 were as follows (in millions):

| | July 1, 2023 | September 24, 2022 |
|---|-----------------|-----------------------|
| Derivative instruments designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 45,425 | \$ 102,670 |
| Interest rate contracts | \$ 19,375 | \$ 20,125 |
| Derivative instruments not designated as accounting hedges: | | |
| Foreign exchange contracts | \$ 90,977 | \$ 185,381 |

The gross fair values of the Company's derivative assets and liabilities as of September 24, 2022 were as follows (in millions):

| | September 24, 2022 | | |
|---|---|---|---------------------|
| | Fair Value of Derivatives Designated as Accounting Hedges | Fair Value of Derivatives Not Designated as Accounting Hedges | Total Fair Value |
| Derivative assets ⁽¹⁾ : | | | |
| Foreign exchange contracts | \$ 4,317 | \$ 2,819 | \$ 7,136 |
| Derivative liabilities ⁽²⁾ : | | | |
| Foreign exchange contracts | \$ 2,205 | \$ 2,547 | \$ 4,752 |
| Interest rate contracts | \$ 1,367 | \$ — | \$ 1,367 |

(1) Derivative assets are measured using Level 2 fair value inputs and are included in other current assets and other non-current assets in the Condensed Consolidated Balance Sheet.

(2) Derivative liabilities are measured using Level 2 fair value inputs and are included in other current liabilities and other non-current liabilities in the Condensed Consolidated Balance Sheet.

The derivative assets above represent the Company's gross credit exposure if all counterparties failed to perform. To mitigate credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair values of certain derivatives fluctuate from contractually established thresholds. To further limit credit risk, the Company generally enters into master netting arrangements with the respective counterparties to the Company's derivative contracts, under which the Company is allowed to settle transactions with a single net amount payable by one party to the other. As of September 24, 2022, 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 \$7.8 billion, resulting in a net derivative asset of \$412 million.

The carrying amounts of the Company's hedged items in fair value hedges as of July 1, 2023 and September 24, 2022 were as follows (in millions):

| | July 1, 2023 | September 24, 2022 |
|---|-----------------|-----------------------|
| Hedged assets/(liabilities): | | |
| Current and non-current marketable securities | \$ 14,863 | \$ 13,378 |
| Current and non-current term debt | \$ (17,986) | \$ (18,739) |

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 September 24, 2022, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 10%. The Company's cellular network carriers accounted for 44% of total trade receivables as of September 24, 2022.

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 subassemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of July 1, 2023, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 54% and 14%. As of September 24, 2022, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 54% and 13%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of July 1, 2023 and September 24, 2022 (in millions):

Inventories

| | July 1, 2023 | September 24, 2022 |
|-------------------|-----------------|-----------------------|
| Components | \$ 3,788 | \$ 1,637 |
| Finished goods | 3,563 | 3,309 |
| Total inventories | <u>\$ 7,351</u> | <u>\$ 4,946</u> |

Property, Plant and Equipment, Net

| | July 1, 2023 | September 24, 2022 |
|---|------------------|-----------------------|
| Gross property, plant and equipment | \$ 114,337 | \$ 114,457 |
| Accumulated depreciation and amortization | (70,787) | (72,340) |
| Total property, plant and equipment, net | <u>\$ 43,550</u> | <u>\$ 42,117</u> |

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Interest and dividend income | \$ 980 | \$ 722 | \$ 2,766 | \$ 2,072 |
| Interest expense | (998) | (719) | (2,931) | (2,104) |
| Other expense, net | (247) | (13) | (429) | (65) |
| Total other income/(expense), net | <u>\$ (265)</u> | <u>\$ (10)</u> | <u>\$ (594)</u> | <u>\$ (97)</u> |

Note 5 – Income Taxes

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 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 “ECJ”) and a hearing was held on May 23, 2023. A decision from the ECJ is expected in calendar year 2024. The Company believes it would be eligible to claim a U.S. foreign tax credit for a portion of any incremental Irish corporate income taxes potentially due related to the State Aid Decision.

Note 6 – Debt

Commercial Paper

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 July 1, 2023 and September 24, 2022, the Company had \$4.0 billion and \$10.0 billion of Commercial Paper outstanding, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the nine months ended July 1, 2023 and June 25, 2022 (in millions):

| | Nine Months Ended | |
|---|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 |
| Maturities 90 days or less: | | |
| Proceeds from/(Repayments of) commercial paper, net | \$ (3,326) | \$ 4,383 |
| Maturities greater than 90 days: | | |
| Proceeds from commercial paper | — | 5,731 |
| Repayments of commercial paper | (2,645) | (5,144) |
| Proceeds from/(Repayments of) commercial paper, net | (2,645) | 587 |
| Total proceeds from/(repayments of) commercial paper, net | <u>\$ (5,971)</u> | <u>\$ 4,970</u> |

Term Debt

As of July 1, 2023 and September 24, 2022, the Company had outstanding fixed-rate notes with varying maturities for an aggregate carrying amount of \$105.3 billion and \$110.1 billion, respectively (collectively the “Notes”). As of July 1, 2023 and September 24, 2022, the fair value of the Company’s Notes, based on Level 2 inputs, was \$95.3 billion and \$98.8 billion, respectively.

Note 7 – Shareholders’ Equity

Share Repurchase Program

During the nine months ended July 1, 2023, the Company repurchased 365 million shares of its common stock for \$56.1 billion, excluding excise tax due under the Inflation Reduction Act of 2022. The Company’s share repurchase programs do not obligate the Company to acquire a minimum amount of shares. Under the programs, shares may be repurchased in privately negotiated or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Note 8 – Benefit Plans

Restricted Stock Units

A summary of the Company's RSU activity and related information for the nine months ended July 1, 2023 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 24, 2022 | 201,501 | \$ 109.48 | |
| RSUs granted | 86,896 | \$ 150.23 | |
| RSUs vested | (96,681) | \$ 95.97 | |
| RSUs canceled | (7,000) | \$ 126.48 | |
| Balance as of July 1, 2023 | 184,716 | \$ 135.08 | \$ 35,829 |

The fair value as of the respective vesting dates of RSUs was \$7.0 billion and \$14.9 billion for the three- and nine-month periods ended July 1, 2023, respectively, and was \$7.8 billion and \$17.3 billion for the three- and nine-month periods ended June 25, 2022, 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 nine-month periods ended July 1, 2023 and June 25, 2022 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Share-based compensation expense | \$ 2,617 | \$ 2,243 | \$ 8,208 | \$ 6,760 |
| Income tax benefit related to share-based compensation expense | \$ (993) | \$ (1,231) | \$ (2,791) | \$ (3,416) |

As of July 1, 2023, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$20.9 billion, which the Company expects to recognize over a weighted-average period of 2.7 years.

Note 9 – Commitments and Contingencies

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 supplier arrangements, licensed intellectual property and content, and distribution rights. Future payments under noncancelable unconditional purchase obligations with a remaining term in excess of one year as of July 1, 2023, are as follows (in millions):

| | |
|-------------------------------|-----------|
| 2023 (remaining three months) | \$ 1,260 |
| 2024 | 3,417 |
| 2025 | 1,990 |
| 2026 | 3,079 |
| 2027 | 1,013 |
| Thereafter | 8,198 |
| Total | \$ 18,957 |

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. 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.

Note 10 – Segment Information and Geographic Data

The following table shows information by reportable segment for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Americas: | | | | |
| Net sales | \$ 35,383 | \$ 37,472 | \$ 122,445 | \$ 129,850 |
| Operating income | \$ 13,117 | \$ 13,914 | \$ 44,908 | \$ 48,778 |
| Europe: | | | | |
| Net sales | \$ 20,205 | \$ 19,287 | \$ 71,831 | \$ 72,323 |
| Operating income | \$ 7,995 | \$ 7,124 | \$ 27,380 | \$ 27,174 |
| Greater China: | | | | |
| Net sales | \$ 15,758 | \$ 14,604 | \$ 57,475 | \$ 58,730 |
| Operating income | \$ 6,207 | \$ 5,760 | \$ 24,175 | \$ 25,055 |
| Japan: | | | | |
| Net sales | \$ 4,821 | \$ 5,446 | \$ 18,752 | \$ 20,277 |
| Operating income | \$ 2,443 | \$ 2,418 | \$ 9,073 | \$ 9,263 |
| Rest of Asia Pacific: | | | | |
| Net sales | \$ 5,630 | \$ 6,150 | \$ 23,284 | \$ 23,002 |
| Operating income | \$ 2,328 | \$ 2,367 | \$ 9,447 | \$ 9,185 |

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 is as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Segment operating income | \$ 32,090 | \$ 31,583 | \$ 114,983 | \$ 119,455 |
| Research and development expense | (7,442) | (6,797) | (22,608) | (19,490) |
| Other corporate expenses, net | (1,650) | (1,710) | (5,043) | (5,422) |
| Total operating income | \$ 22,998 | \$ 23,076 | \$ 87,332 | \$ 94,543 |

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 macroeconomic conditions 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 fiscal year ended September 24, 2022 (the "2022 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 2022 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 environmental, social and governance matters, 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.

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.

Fiscal Period

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, which occurred in the first quarter of 2023. The Company's fiscal years 2023 and 2022 span 53 and 52 weeks, respectively.

Quarterly Highlights

Weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on the Company's total net sales, which decreased 1% or \$1.2 billion during the third quarter of 2023 compared to the same quarter in 2022. The year-over-year net sales decrease consisted primarily of lower net sales of iPad and iPhone, partially offset by higher net sales of Services.

During the third quarter of 2023, the Company announced the following new products:

- 15-inch MacBook Air[®], powered by the M2 chip;
- Mac Studio[™], powered by the M2 Max chip and the new M2 Ultra chip;
- Mac Pro[®], powered by the new M2 Ultra chip; and
- Apple Vision Pro[™], the Company's first spatial computer featuring its new visionOS[™], expected to be available in early calendar year 2024.

The Company also announced iOS 17, macOS[®] Sonoma, iPadOS[®] 17, tvOS[®] 17 and watchOS[®] 10, updates to its operating systems that are expected to be available in the fall of 2023.

The Company repurchased \$18.0 billion of its common stock and paid dividends and dividend equivalents of \$3.8 billion during the third quarter of 2023.

Macroeconomic Conditions

Macroeconomic conditions, including inflation, changes in interest rates, and currency fluctuations, have directly and indirectly impacted, and could in the future materially impact, the Company's results of operations and financial condition.

Segment Operating Performance

The following table shows net sales by reportable segment for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 (dollars in millions):

| | Three Months Ended | | | Nine Months Ended | | |
|----------------------------------|--------------------|------------------|-------------|-------------------|-------------------|-------------|
| | July 1, 2023 | June 25, 2022 | Change | July 1, 2023 | June 25, 2022 | Change |
| Net sales by reportable segment: | | | | | | |
| Americas | \$ 35,383 | \$ 37,472 | (6)% | \$ 122,445 | \$ 129,850 | (6)% |
| Europe | 20,205 | 19,287 | 5 % | 71,831 | 72,323 | (1)% |
| Greater China | 15,758 | 14,604 | 8 % | 57,475 | 58,730 | (2)% |
| Japan | 4,821 | 5,446 | (11)% | 18,752 | 20,277 | (8)% |
| Rest of Asia Pacific | 5,630 | 6,150 | (8)% | 23,284 | 23,002 | 1 % |
| Total net sales | <u>\$ 81,797</u> | <u>\$ 82,959</u> | <u>(1)%</u> | <u>\$ 293,787</u> | <u>\$ 304,182</u> | <u>(3)%</u> |

Americas

Americas net sales decreased during the third quarter and first nine months of 2023 compared to the same periods in 2022 due primarily to lower net sales of iPhone and Mac, partially offset by higher net sales of Services.

Europe

The weakness in foreign currencies relative to the U.S. dollar had a net unfavorable year-over-year impact on Europe net sales during the third quarter and first nine months of 2023. During the third quarter of 2023, the Europe net sales increase consisted primarily of higher net sales of iPhone. During the first nine months of 2023, the Europe net sales decrease consisted primarily of lower net sales of Mac, partially offset by higher net sales of iPhone.

Greater China

The weakness in the renminbi relative to the U.S. dollar had an unfavorable year-over-year impact on Greater China net sales during the third quarter and first nine months of 2023. During the third quarter of 2023, the Greater China net sales increase consisted primarily of higher net sales of iPhone. During the first nine months of 2023, the Greater China net sales decrease consisted primarily of lower net sales of iPhone.

Japan

The weakness in the yen relative to the U.S. dollar had an unfavorable year-over-year impact on Japan net sales during the third quarter and first nine months of 2023. During the third quarter of 2023, the Japan net sales decrease consisted primarily of lower net sales of iPhone. During the first nine months of 2023, the Japan net sales decrease consisted primarily of lower net sales of iPhone, Services and Wearables, Home and Accessories.

Rest of Asia Pacific

The weakness in foreign currencies relative to the U.S. dollar had a net unfavorable year-over-year impact on Rest of Asia Pacific net sales during the third quarter and first nine months of 2023. During the third quarter of 2023, the Rest of Asia Pacific net sales decrease consisted primarily of lower net sales of iPhone and iPad. During the first nine months of 2023, the Rest of Asia Pacific net sales increase consisted primarily of higher net sales of iPhone, partially offset by lower net sales of Mac.

Products and Services Performance

The following table shows net sales by category for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 (dollars in millions):

| | Three Months Ended | | | Nine Months Ended | | |
|---------------------------------|--------------------|------------------|--------|-------------------|-------------------|--------|
| | July 1, 2023 | June 25, 2022 | Change | July 1, 2023 | June 25, 2022 | Change |
| Net sales by category: | | | | | | |
| iPhone | \$ 39,669 | \$ 40,665 | (2)% | \$ 156,778 | \$ 162,863 | (4)% |
| Mac | 6,840 | 7,382 | (7)% | 21,743 | 28,669 | (24)% |
| iPad | 5,791 | 7,224 | (20)% | 21,857 | 22,118 | (1)% |
| Wearables, Home and Accessories | 8,284 | 8,084 | 2 % | 30,523 | 31,591 | (3)% |
| Services | 21,213 | 19,604 | 8 % | 62,886 | 58,941 | 7 % |
| Total net sales | <u>\$ 81,797</u> | <u>\$ 82,959</u> | (1)% | <u>\$ 293,787</u> | <u>\$ 304,182</u> | (3)% |

iPhone

iPhone net sales decreased during the third quarter and first nine months of 2023 compared to the same periods in 2022 due primarily to lower net sales from certain iPhone models, partially offset by higher net sales of iPhone 14 Pro models.

Mac

Mac net sales decreased during the third quarter and first nine months of 2023 compared to the same periods in 2022 due primarily to lower net sales of laptops.

iPad

iPad net sales decreased during the third quarter of 2023 compared to the third quarter of 2022 due primarily to lower net sales across most iPad models. Year-over-year iPad net sales were relatively flat during the first nine months of 2023.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales increased during the third quarter of 2023 compared to the third quarter of 2022 due primarily to higher net sales of Wearables, which includes AirPods®, Apple Watch® and Beats® products, partially offset by lower net sales of accessories. Year-over-year Wearables, Home and Accessories net sales decreased during the first nine months of 2023 due primarily to lower net sales of Wearables and accessories.

Services

Services net sales increased during the third quarter of 2023 compared to the third quarter of 2022 due primarily to higher net sales from advertising, cloud services and the App Store®. Year-over-year Services net sales increased during the first nine months of 2023 due primarily to higher net sales from cloud services, advertising and music.

Gross Margin

Products and Services gross margin and gross margin percentage for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--------------------|------------------|-------------------|-------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Gross margin: | | | | |
| Products | \$ 21,448 | \$ 21,870 | \$ 84,205 | \$ 90,157 |
| Services | 14,965 | 14,015 | 44,516 | 42,530 |
| Total gross margin | <u>\$ 36,413</u> | <u>\$ 35,885</u> | <u>\$ 128,721</u> | <u>\$ 132,687</u> |
| Gross margin percentage: | | | | |
| Products | 35.4 % | 34.5 % | 36.5 % | 36.8 % |
| Services | 70.5 % | 71.5 % | 70.8 % | 72.2 % |
| Total gross margin percentage | 44.5 % | 43.3 % | 43.8 % | 43.6 % |

Products Gross Margin

Products gross margin decreased during the third quarter and first nine months of 2023 compared to the same periods in 2022 due primarily to the weakness in foreign currencies relative to the U.S. dollar and lower Products volume, partially offset by cost savings and a different Products mix.

Products gross margin percentage increased during the third quarter of 2023 compared to the third quarter of 2022 due primarily to cost savings and a different Products mix, partially offset by the weakness in foreign currencies relative to the U.S. dollar and decreased leverage. Year-over-year Products gross margin percentage decreased during the first nine months of 2023 due primarily to the weakness in foreign currencies relative to the U.S. dollar and decreased leverage, partially offset by cost savings and a different Products mix.

Services Gross Margin

Services gross margin increased during the third quarter and first nine months of 2023 compared to the same periods in 2022 due primarily to higher Services net sales, partially offset by the weakness in foreign currencies relative to the U.S. dollar and higher Services costs.

Services gross margin percentage decreased during the third quarter of 2023 compared to the third quarter of 2022 due primarily to higher Services costs, partially offset by improved leverage. Year-over-year Services gross margin percentage decreased during the first nine months of 2023 due primarily to higher Services costs and the weakness in foreign currencies relative to the U.S. dollar, partially offset by improved leverage.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of the 2022 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 nine-month periods ended July 1, 2023 and June 25, 2022 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Research and development | \$ 7,442 | \$ 6,797 | \$ 22,608 | \$ 19,490 |
| Percentage of total net sales | 9 % | 8 % | 8 % | 6 % |
| Selling, general and administrative | \$ 5,973 | \$ 6,012 | \$ 18,781 | \$ 18,654 |
| Percentage of total net sales | 7 % | 7 % | 6 % | 6 % |
| Total operating expenses | \$ 13,415 | \$ 12,809 | \$ 41,389 | \$ 38,144 |
| Percentage of total net sales | 16 % | 15 % | 14 % | 13 % |

Research and Development

The growth in research and development ("R&D") expense during the third quarter and first nine months of 2023 compared to the same periods in 2022 was driven primarily by increases in headcount-related expenses.

Selling, General and Administrative

Selling, general and administrative expense was relatively flat during the third quarter and first nine months of 2023 compared to the same periods in 2022.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for the three- and nine-month periods ended July 1, 2023 and June 25, 2022 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|
| | July 1, 2023 | June 25, 2022 | July 1, 2023 | June 25, 2022 |
| Provision for income taxes | \$ 2,852 | \$ 3,624 | \$ 12,699 | \$ 15,364 |
| Effective tax rate | 12.5 % | 15.7 % | 14.6 % | 16.3 % |
| Statutory federal income tax rate | 21 % | 21 % | 21 % | 21 % |

The Company's effective tax rate for the third quarter and first nine months of 2023 was lower than the statutory federal income tax rate due primarily to a lower effective tax rate on foreign earnings, including the favorable impact of changes in unrecognized tax benefits, tax benefits from share-based compensation, and the U.S. federal R&D credit, partially offset by state income taxes.

The Company's effective tax rate for the third quarter of 2023 was lower compared to the third quarter of 2022 due primarily to a lower effective tax rate on foreign earnings, including the favorable impact of changes in unrecognized tax benefits, partially offset by lower tax benefits from share-based compensation. The Company's effective tax rate for the first nine months of 2023 was lower compared to the same period in 2022 due primarily to a lower effective tax rate on foreign earnings and the impact of U.S. foreign tax credit regulations issued by the U.S. Department of the Treasury in 2022, partially offset by lower tax benefits from share-based compensation.

Liquidity and Capital Resources

The Company believes its balances of cash, cash equivalents and unrestricted marketable securities, along with cash generated by ongoing operations and continued access to debt markets, will be sufficient to satisfy its cash requirements and capital return program over the next 12 months and beyond.

The Company's contractual cash requirements have not changed materially since the 2022 Form 10-K, except for manufacturing purchase obligations.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture subassemblies for the Company's products and to perform final assembly and testing of finished products. The Company also obtains individual components for its products from a wide variety of individual suppliers. Outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. As of July 1, 2023, the Company had manufacturing purchase obligations of \$38.4 billion, with \$38.1 billion payable within 12 months. The Company's manufacturing purchase obligations are primarily noncancelable.

Capital Return Program

In addition to its contractual cash requirements, the Company had authorized share repurchase programs as of July 1, 2023. The programs do not obligate the Company to acquire a minimum amount of shares. As of July 1, 2023, the Company's quarterly cash dividend was \$0.24 per share. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Critical Accounting 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. Note 1, "Summary of Significant Accounting Policies" of the Notes to condensed consolidated Financial Statements 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 2022 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 estimates since the 2022 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 nine months of 2023. 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 2022 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective as of July 1, 2023 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 third quarter of 2023, 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

Epic Games

Epic Games, Inc. (“Epic”) filed a lawsuit in the U.S. District Court for the Northern District of California (the “District Court”) against the Company alleging violations of federal and state antitrust laws and California’s unfair competition law based upon the Company’s operation of its App Store. On September 10, 2021, the District Court ruled in favor of the Company with respect to nine out of the ten counts included in Epic’s claim. The District Court found that certain provisions of the Company’s App Store Review Guidelines violate California’s unfair competition law and issued an injunction enjoining the Company from prohibiting developers from including in their apps external links that direct customers to purchasing mechanisms other than Apple in-app purchasing. The injunction applies to apps on the U.S. storefront of the iOS and iPadOS App Store. On April 24, 2023, the U.S. Court of Appeals for the Ninth Circuit (the “Circuit Court”) affirmed the District Court’s ruling. On June 7, 2023, the Company and Epic filed petitions with the Circuit Court requesting further review of the decision. On June 30, 2023, the Circuit Court denied both petitions. On July 17, 2023, the Circuit Court granted Apple’s motion to stay enforcement of the injunction pending appeal to the U.S. Supreme Court. Epic has appealed the Circuit Court’s stay of the injunction. If the U.S. Supreme Court reverses the Circuit Court’s stay of the injunction or declines Apple’s petition, the injunction will take effect.

Other Legal Proceedings

The Company is subject to other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company settled certain matters during the third quarter of 2023 that did not individually or in the aggregate have a material impact on the Company’s financial condition or operating results. 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.

Item 1A. Risk Factors

The Company’s business, reputation, results of operations, financial condition and stock price can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of the 2022 Form 10-K under the heading “Risk Factors.” When any one or more of these risks materialize from time to time, the Company’s business, reputation, results of operations, financial condition and stock price can be materially and adversely affected. There have been no material changes to the Company’s risk factors since the 2022 Form 10-K.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Share repurchase activity during the three months ended July 1, 2023 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⁾ |
|--|----------------------------------|------------------------------|--|---|
| April 2, 2023 to May 6, 2023: | | | | |
| Open market and privately negotiated purchases | 38,121 | \$ 165.46 | 38,121 | |
| May 7, 2023 to June 3, 2023: | | | | |
| Open market and privately negotiated purchases | 21,876 | \$ 174.91 | 21,876 | |
| June 4, 2023 to July 1, 2023: | | | | |
| Open market and privately negotiated purchases | 42,676 | \$ 184.34 | 42,676 | |
| Total | <u>102,673</u> | | | <u>\$ 94,569</u> |

- (1) On April 28, 2022, the Board of Directors authorized the purchase of an additional \$90 billion of the Company's common stock under a share repurchase program. As of July 1, 2023, remaining availability under the April 2022 authorization was \$4.6 billion. On May 4, 2023, the Board of Directors authorized an additional program to repurchase up to \$90 billion of the Company's common stock. The programs do not obligate the Company to acquire a minimum amount of shares. Under the programs, shares may be repurchased in privately negotiated 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

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|----------------|---|---------------------------|---------|------------------------------------|
| | | Form | Exhibit | Filing Date/ Period End Date |
| 4.1 | Officer's Certificate of the Registrant, dated as of May 10, 2023, including forms of global notes representing the 4.421% Notes due 2026, 4.000% Notes due 2028, 4.150% Notes due 2030, 4.300% Notes due 2033 and 4.850% Notes due 2053. | 8-K | 4.1 | 5/10/23 |
| 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.

Date: August 3, 2023

Apple Inc.

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

CERTIFICATION

I, Timothy D. Cook, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 3, 2023

By: /s/ Timothy D. Cook
 Timothy D. Cook
 Chief Executive Officer

CERTIFICATION

I, Luca Maestri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 3, 2023

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy D. Cook, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended July 1, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: August 3, 2023

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

I, Luca Maestri, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended July 1, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: August 3, 2023

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Apple Inc. and will be retained by Apple Inc. and furnished to the Securities and Exchange Commission or its staff upon request.