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Financial Policy at Apple, 2013 (A)

On April 12th 2013, Tim Cook, the CEO of Apple, and Peter Oppenheimer, the company's CFO, came together for a meeting in their Cupertino, California office. They had been confronting shareholder concerns over the level of cash Apple was holding and Apple's second-quarter press conference was less than two weeks away. Steve Jobs, the co-founder of Apple and its CEO from 1997 until 2011, had passed away only a year and a half prior and the pressure from stockholders to continue innovating was very high. They were particularly concerned about the amount of cash that Apple held, which amounted to $137 billion at Apple's first quarter filing, especially as Apple's stock price plummeted from a high of just over $700 in September to around $420 in April (see **Exhibit 1** for Apple's recent stock price.)[1,2]

David Einhorn, the president of Greenlight Capital, was fomenting the discontent of shareholders by voicing his belief that Apple should return most of its $137 billion in cash to the shareholders rather than let it sit unused. In particular, Einhorn had been pushing for a new class of preferred stock, which he dubbed "iPref," that awarded holders $2 a year, or 50 cents per quarter.[3] Einhorn's frustration with the matter had led him to sue Apple a few months prior for bundling a shareholder vote that included a proposition to remove the company's ability to issue preferred stock (see **Exhibit 2** for excerpts of Einhorn's letter to the shareholders.)[4] This suit was ultimately dropped in March after Greenlight won an injunction and Apple withdrew the proposal.

Cook and Oppenheimer had to make a decision about how to react to these concerns. Should they begin to return more cash to the shareholders? If so, how much and through what method? They could issue a dividend, but were uncertain whether to issue a large special dividend or commit to one over time. They could authorize a share repurchase using some or all of their cash. They could also listen to Einhorn's suggestion and issue preferred stock to each current stockholder. On the other hand, they could choose to keep their cash given the need to continue to invest in new technologies and the uncertainties of their product markets. To further complicate this situation, they also had to consider the fact that most of their cash was held overseas and could face a repatriation tax of up to 35% depending on the choice they made.[5]

Professor Mihir A. Desai and Research Associate Elizabeth A. Meyer prepared this case. This case was developed from published sources. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

A History of Apple[6]

Apple Computer was founded on April 1st, 1976 by Steve Jobs and Steve Wozniak in the garage of the former's parents. Wozniak, an affable, soft-spoken man, would be the engineer and Jobs, the visionary and businessman. While Wozniak was content to give away for free the design for what would become the Apple I, Jobs had the idea to sell it to a local computer store. Within 30 days, Apple Computers was nearly profitable. After seeing how plain and uninteresting the Apple I looked in comparison to other computers at the Personal Computer Festival in 1976, Wozniak began to design the Apple II. Over sixteen years with several different versions, nearly six million Apple II computers were sold (see **Exhibit 4** for a timeline of Apple releases.) Steve Jobs was restless, however, as the computer was always seen as Wozniak's creation, not his. Tempers began to flare, especially as another man, Mike Markkula, had been chosen to become the next CEO of Apple in 1981 after Michael Scott, Apple's first CEO, was moved to vice chairman.

Over the next several years, Apple began to struggle financially. Two new projects, the Apple III and the Lisa, were losing money. While the Lisa was being developed, Steve Jobs was kicked off of the team. Furious, he discovered a team developing a low-cost computer and decided to place himself there. This computer would later become the Macintosh. In 1984, the Macintosh was announced during the Super Bowl with a memorable commercial depicting a woman defying a "Big Brother-esque" regime. By that evening, the commercial had gone viral, appearing on news segments on all three networks and fifty local stations. While sales for the Macintosh started off strong, they slowed significantly in the latter part of 1984. Tensions grew high between Jobs and the current CEO, John Sculley. Eventually, Jobs attempted to overthrow Sculley but was instead removed from his position. Jobs left Apple in 1985.

From the time Steve Jobs left Apple in 1985 until he returned in 1997, Apple produced many new computers, most of which were derivations of the Macintosh. These were mostly unsuccessful. Jobs, on the other hand, was enjoying the recent success of Pixar, which he had purchased in 1986 from Lucasfilm. When Jobs stepped up as interim CEO in 1997, Apple was "less than ninety days from being insolvent."[7] The previous CEO, Gil Amelio, had been fired after Apple's stock had plummeted to a twelve-year low. As interim CEO, Jobs' first goal was to prune the projects Apple was working on as well as the teams working on them. Jobs ended up cutting 70% of the products and models Apple had been working on at the time. He settled on having only four products: a consumer desktop, consumer laptop, professional desktop and professional laptop. Apple lost $1.04 billion in 1997, the year before Jobs became interim CEO. A year later, they made a profit of $309 million. That same year, the iMac, known for its colorful plastic casing, was released along with its professional counterpart, the PowerMac G3. The iMac sold 800,000 units from August 1998, when it was released, to the end of the year. Around 32% of these sales went to people who had never bought a computer before. Later that year, Jobs hired Tim Cook (who would later become CEO) as the new chief operating officer. Cook was able to bring Apple's inventory down from one month's worth to just six days' worth. He also cut production time in half. At this time, the board was starting to pressure Jobs into becoming the CEO rather than just the interim (or as he called it, the iCEO.) In January 2000, it was announced that Jobs would officially become the CEO of Apple.

The next decade brought many changes to both the personal computer industry and the world. In 2001, Apple unveiled the iPod, and while it certainly wasn't the first MP3 player on the market, it was the most user-friendly. Along with the iPod, Apple introduced iTunes, which was the only program able to sync music between a computer and the iPod. At first, iTunes was only available on the Mac, giving Apple a boost in sales. In 2003, Jobs announced iTunes for Windows, declaring it as "probably the best Windows app ever written."[8] That same year, Apple unveiled the iTunes store where, for the first time, consumers could purchase digital versions of many of their favorite songs or albums in one place. These songs could be immediately synced to their iPods. Over the next several years, various versions of the iPod were released, some with huge storage capabilities, some designed without screens. Around this time, Steve Jobs was diagnosed with pancreatic cancer. He kept this news secret for quite some time, but underwent surgery in July 2004, appointing Tim Cook as his temporary replacement while he was on medical leave. When he returned, he immediately brought his attention to the success of the iPod. Since it accounted for 45% of Apple's revenue in 2005, it was important that they stay at the cutting edge. "The device that can eat our lunch is the cell phone," he remarked.[9] While at first they tried to just modify the iPod, the scroll wheel was too difficult to use to make calls. Instead, they developed their well-known touch screen, which uses a technology called multi-touch. The iPhone was a huge success, with 270,000 units sold in the first thirty hours alone.[a,10]

In 2008, Jobs' cancer returned; when he attended the launch of the iPhone 3G in June, his physical appearance overshadowed the new product. Journalists and investors began to demand answers regarding his health. The company issued a response that he was just suffering from a common bug. Apple's stock price began to sink (see **Exhibit 3** for Apple's long-run stock price.) In January 2009, Jobs took yet another medical leave. The cancer had spread to his liver and his health was deteriorating quickly. In March 2009, Jobs received a liver transplant, although the cancer had spread beyond his liver at this point and the doctors were pessimistic about his health. Jobs recovered, however, and returned to Apple in May. During the period Jobs was away, Apple's stock price recovered, and this made Jobs wonder exactly how important he was to the company now. Still, Jobs threw himself back into his work and was there to launch the iPad in January 2010.[b] Apple's stock price began to soar. Revenues were up over 65% that fiscal year compared to the previous (see **Exhibits 5-7** for financial data). One year later, the cancer returned. Jobs was forced to take his third medical leave in January 2011, leaving Tim Cook in charge again. This time, he would not return. On October 5th 2011, Steve Jobs passed away, leaving Tim Cook in charge as the new CEO of Apple.

Apple since 2012

> "How does one follow in the footsteps of a genius?"
>
> — Sam Gustin, regarding Steve Jobs[11]

By late 2012, Apple shareholders and fanatics were growing restless, as no new groundbreaking devices had been launched since the iPad in 2010. The stock price had continued to decline from its high point in September 2012. Apple's market share in both the phone and tablet industries was steadily decreasing, mostly due to Android-powered devices. While Apple's cash had grown for the past decade, shareholders were starting to become concerned that Apple was not using it or returning it to the stockholders. But how did Apple get so much cash in the first place? Some attribute Apple's cash accumulation as "a living memorial to Steve Job's paranoia" but in reality the fact that Apple was able to amass so much so quickly is due to their high profitability, the reduction of product costs, and efficient management of Apple's capital structure.[12]

[a] The gross margin for the iPhone was between 49% and 58% between October 2010 and March 2012.

[b] The gross margin for the iPad was between 23% and 32% between October 2010 and March 2012. The gross margin for the iPad mini was 43% as of November 2012.

Apple's reluctance to return cash, Tim Cook claimed, was not because they were concerned that shareholders would see it as a bad sign. He reassured shareholders that returning cash would not be "waving a white flag on innovation."[13] As Steve Jobs put it in Apple's Q4 2010 earnings call:

> We strongly believe that one or more very strategic opportunities may come along that we can take advantage – that we're in a unique position to take advantage of because of our strong cash position. I think, we've demonstrated a really strong track record of being very disciplined with the use of cash. We don't let it burn a hole in our pocket and we don't allow it to motivate us to do stupid acquisitions. So, I think that we'd like to continue to keep our powder dry because we do feel that there are one or more strategic opportunities in the future. That's the biggest reason. There is other reasons as well that we could go into but that's the biggest one.[14]

Some shareholders became frustrated by Apple's tight-lipped approach to managing its excess cash, as evidenced by their quarterly earnings calls:

> **Operator:** Toni Sacconaghi, Sanford Bernstein.
>
> **Toni Sacconaghi - Sanford Bernstein:** Peter or Tim, I'd like to follow-up on your comment that you are actively discussing uses of cash. Is that any different, quite frankly, than what you've been doing historically or is that statement meant to suggest that you are thinking more constructively about cash than you have historically?
>
> **Peter Oppenheimer - SVP and CFO:** Toni, it's Peter. We have always discussed internally as a management team and with our Board our cash. We recognize that the cash is growing for all the right reasons and I would characterize our discussions today as active about what makes the most sense to do with the cash balance. We don't have anything to announce specifically today.
>
> **Toni Sacconaghi - Sanford Bernstein:** Is there a timeframe or will you actually tell us that you've finished those discussions or is there a process for which there is an ending and you will inform us about that?
>
> **Peter Oppenheimer - SVP and CFO:** When we something to announce Tony, we will announce it, but I want to say again that we are actively discussing the best uses of our cash balance.
>
> […]
>
> **Operator:** Keith Bachman, Bank of Montreal.
>
> **Keith Bachman - Bank of Montreal:** Peter, to start with you, when you talked about the cash balances that you'll announce – something when you'll announce it, but could you give us a little perspective on how at least you're framing the differences, opportunities in terms of dividends and buybacks?
>
> **Peter Oppenheimer - SVP and CFO:** Keith, we're examining all uses of our cash balance, what we might do in a supply chain, what we can do from an acquisition perspective and otherwise. But I don't have any perspective to share with you today, specifically on dividends or buybacks other than again, we are actively discussing the cash balance and in the meantime, we're not letting it burn a hole in our pocket.[15]

The United States government was also interested in Apple's cash management practices; they saw these cash levels as an example of a company abusing corporate tax law. The Senate Permanent Subcommittee on Investigations called Apple to testify in the second part of its hearing on Offshore Profit Shifting and the U.S. Tax Code. As Senator Carl Levin, the chairman of the hearing, commented: "Apple wasn't satisfied with shifting its profits to a low-tax offshore tax haven. Apple sought the Holy Grail of avoidance. It has created offshore entities holding tens of billions of dollars, while claiming to be tax resident nowhere."[16]

Offshore Cash

Apple's global operations made their organizational structure multi-tiered (see **Exhibit 8** for a diagram of Apple's offshore organization.) The majority of their cash was held in Ireland, which had a low corporate tax rate. In the United States, profits earned by American companies abroad are taxed but not until the money is repatriated to the United States. When it is repatriated, it is subject to a repatriation tax of the difference between the U.S. rate and local, foreign tax rates. If the foreign income was not taxed at all, this rate could be as high as 35%. Many American companies keep foreign profits abroad in response to these incentives. Considering that approximately 69% of Apple's cash is held abroad, a 35% repatriation tax on all of their foreign reserves would amount to just under one-quarter of their total cash reserves.

In the United States, a company's tax residence is determined by where the company is based. This means that profits from Apple's foreign subsidiaries are not taxed by the United States government, nor are profits transferred from these subsidiaries to Apple's Irish subsidiaries. On the other hand, Ireland determines a company's tax residence based on where it is controlled. Since the Irish subsidiaries are run by executives in California, their profits are not taxed by the Irish government either. This means that three of Apple's subsidiaries: AOI, AOE, and ASI do not have any tax residence.[17] Apple executives maintained that these overseas divisions were a necessity due to Apple's vast overseas operations: 61% of Apple's revenues came from foreign earnings in 2012, while approximately 69% of all cash was held overseas.[18] Despite complaints from the U.S. government, Apple maintained that it "complies fully with both the laws and the spirit of the laws" and "pays all its required taxes, both in this country and abroad."[19] In fact, Apple fully supported changes to the corporate tax code, even if it meant they'd end up paying more:

> Apple has always believed in the simple, not the complex. You can see it in our products and the way we conduct ourselves. It is in this spirit that we recommend a dramatic simplification of the corporate tax code. This reform should be revenue neutral, eliminate all corporate tax expenditures, lower corporate income tax rates and implement a reasonable tax on foreign earnings that allows the free flow of capital back to the U.S. We make this recommendation with our eyes wide open, realizing this would likely increase Apple's U.S. taxes. But we strongly believe such comprehensive reform would be fair to all taxpayers, would keep America globally competitive and would promote U.S. economic growth.[20]

According to Apple's testimony before the Senate, they were likely the largest corporate tax payer in the United States, paying $16 million per day. In other words, approximately $1 of every $40 of corporate income taxes collected by the U.S. Treasury in 2012 was paid by Apple.

2012 Share Repurchase Program

In March 2012, Apple announced a quarterly dividend of $2.65 per share (a dividend yield of approximately 0.4% on the date the dividend was paid) along with a 3-year share repurchase plan of

$10 billion. Peter Oppenheimer expected that the share repurchase program along with the dividends would cost Apple $45 billion in domestic cash for the first three years. This was the first time Apple had authorized a dividend since 1995.[21] Despite their efforts to boost shareholder confidence, Apple's stock price continued to fall from its high in September 2012, especially in relation to the NASDAQ index. Even with this program, several large and vocal stockholders were still unhappy. At the same time, Cook was aware of the volatile fortunes of predecessors to Apple, including Palm and Blackberry (see **Exhibit 9** for a graph of indexed technology stocks).

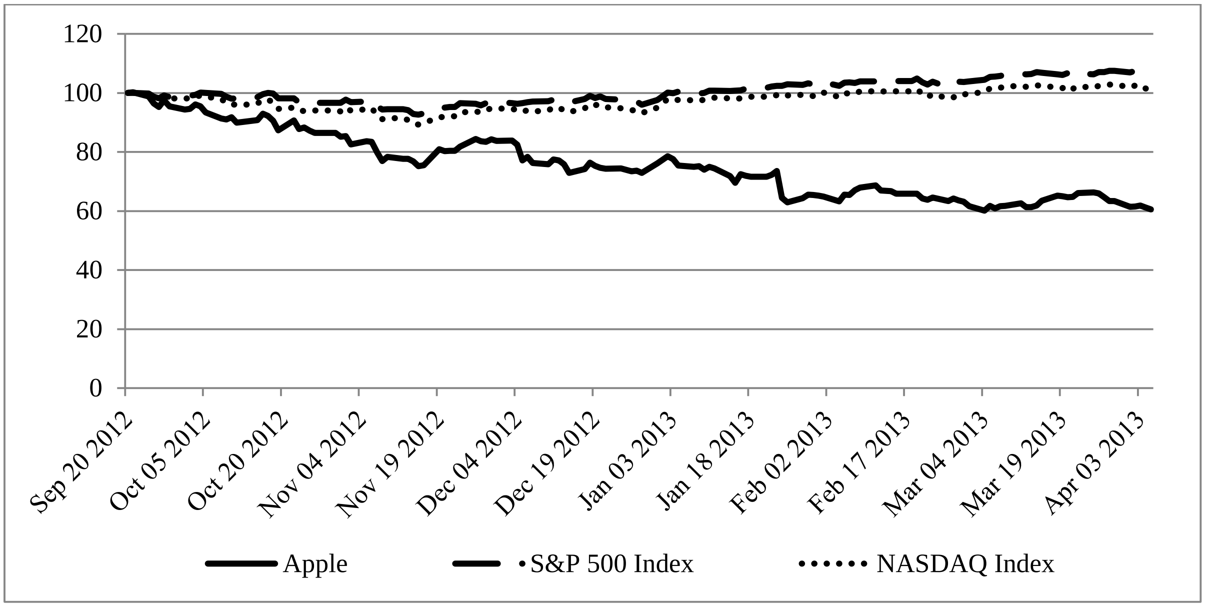
iPref

In February 2013, David Einhorn, president of Greenlight Capital, wrote an open letter to Apple shareholders demanding that Apple finally do something to "unlock shareholder value" and stop Apple's cash hoard from growing at such a high rate.[22] Einhorn had suggested a type of perpetual preferred stock, which Apple was trying to ban through a proxy provision. A few weeks later, he gave a presentation on behalf of Greenlight Capital on this perpetual preferred stock, which he dubbed "iPref." With Einhorn's method, Apple would issue five preferred shares per common share to all current shareholders. These preferred shares would each have a face value of $50 and would pay a 50 cent quarterly dividend. Einhorn was well aware of Apple's corporate tax conundrum and made sure that the cost of these dividends would be covered by free cash flow. Apple could issue five iPrefs per common share without having to spend any of their cash reserves. Einhorn estimated that this iPref distribution of five iPrefs per share would unlock $150 of value for each share, or approximately 33% of the Q1 2013 stock price of $450.50. Einhorn claimed that this was higher than the value unlocked from either a share repurchase program or a special dividend, even when all excess cash was used in either program. Unlike a share repurchase or dividend, the iPref would solve the repatriation problem since only free cash flows would be used. With approximately 939.1 million shares outstanding in Q1 2013, the program would cost approximately $9.4 billion dollars for the first year. The proxy proposal, Proposal 2, which would limit Apple's ability to issue preferred stock, was blocked by a judge due to a separate issue, meaning that Einhorn's suggestion was still a possible solution to Apple's problem.[23]

Conclusion

Apple held the largest cash reserves of any non-financial institution. The next largest cash reserve held by a non-financial institution was Microsoft, which had just over half the amount Apple did.[24] Cook and Oppenheimer had to find a solution that would please shareholders but would also leave the company room to innovate. Cook and Oppenheimer first had to decide whether to return any money to shareholders, and if so, how much. In order to do so, Cook and Oppenheimer began by creating a financial forecast to see how much cash Apple would accumulate in five years if they had returned it all in 2012 (see **Exhibit 10** for the financial forecast spreadsheet). They were a little weary about Einhorn's calculations regarding dividends, repurchases, and iPref and decided to try the calculations themselves. With such a large amount of cash and the pressure it was generating, Cook and Oppenheimer were reminded that high-class problems were still problems.

Exhibit 1 Stock Price of Apple Compared to S&P 500 and NASDAQ Indices, Sept. 2012 – Apr. 2013



Source: Capital IQ.

Note: Values are indexed to Sept. 20, 2012 = 100.

Exhibit 2 Excerpt from Letter to Shareholders from Greenlight Capital

February 7, 2013

VOTE AGAINST PROPOSAL 2 AT THE FEBRUARY 27 ANNUAL MEETING

TO PROTECT YOUR INVESTMENT IN APPLE

Oppose Apple's Effort To Restrict the Company's Ability to Unlock Substantial Shareholder Value

Dear Fellow Apple Shareholder,

Greenlight Capital, Inc. (and affiliates, "Greenlight") has been a significant shareholder of Apple Inc. ("Apple" or the "Company") since 2010. We believe Apple is a phenomenal company filled with talented people creating iconic products that consumers around the world love. We are long-term shareholders of Apple.

However, like many other shareholders, Greenlight is dissatisfied with Apple's capital allocation strategy. The combination of Apple's low (and shrinking) price to earnings multiple and $137 billion (and growing) hoard of cash on the balance sheet supports Greenlight's contention that Apple has an obligation to examine all options to create and unlock additional value.

We understand that many of our fellow shareholders share our frustration with Apple's capital allocation policies. Apple has $145 per share of cash on its balance sheet. As a shareholder, this is your money. Though Apple recently commenced paying a common dividend and initiated a nominal share repurchase program, we believe that there is much more that the Board should do for shareholders. We believe that it is important for shareholders to send Apple's Board the message that the current capital allocation policy is not satisfactory, and that after considering all options, Apple's Board should act to unlock the latent value of Apple's balance sheet and franchise. If you share our frustration, please join us in blocking the Company's effort to restrict its value creation options by voting AGAINST Apple's plan to amend its corporate charter in Proposal 2 to eliminate preferred stock.

Send Apple And Its Board A Message That We Want Apple to Change Its Capital Allocation Policy To Unlock Value For Shareholders – VOTE AGAINST PROPOSAL 2

At a May 2012 investment conference, Greenlight introduced the idea that Apple could unlock several hundred billion dollars of shareholder value by distributing to existing shareholders a perpetual preferred stock.

Since then, Greenlight has had discussions with Apple encouraging the Company to distribute perpetual preferred stock as an innovative method of rewarding all shareholders for the Company's strong balance sheet and substantial cash flows. Put plainly, Greenlight is encouraging Apple to distribute a perpetual, high-yielding preferred stock directly to shareholders at no cost. This would enable shareholders to own and separately trade the new preferred shares and Apple's existing common shares. Importantly, Greenlight believes these preferred shares represent a simple, low-risk way to reward shareholders without compromising the financial and strategic flexibility of the Company, or forcing the company to incur tax on repatriating its offshore cash balances.

Greenlight suggested an initial preferred share distribution, whereby dividends could be funded on an ongoing basis by a relatively small percentage of the Company's operating cash flow. Apple rejected the idea outright in September 2012. Yesterday, after Greenlight notified Apple of its intention to vote against Proposal 2, Apple said it would reconsider the idea, but refused to withdraw the proxy provision where Apple seeks to eliminate preferred stock from its charter.

The recent, severe under-performance of Apple's shares, which are down approximately 35% from their peak valuation, underscores the need for the Company to apply the same level of creativity used to develop revolutionary technology for its consumers to unlock the value of its strong balance sheet for its shareholders.

We believe our suggestion of distributing perpetual preferred stock, while innovative, is also quite simple. Apple could distribute high-yielding, tax efficient preferred stock to existing shareholders at no cost. This new type of easily tradable preferred security would allow Apple to take advantage of the market's appetite for yield while preserving future operating and strategic flexibility. Importantly, we believe this strategy would require no immediate use of cash other than the ongoing dividend, and would not pose any maturity, re-financing, balance sheet, or default risk.

For example, Apple could initially distribute to existing shareholders $50 billion of perpetual preferred stock, with a 4% annual cash dividend paid quarterly at preferential tax rates. Once a trading market is established and the market recognizes the attractiveness of a highly liquid, steady yielding instrument from an issuer backed by Apple's unmatched balance sheet and valuable franchise, the Board could evaluate unlocking additional value by distributing additional perpetual preferred stock to existing shareholders. With this conservative action, Greenlight believes the Board could unlock hundreds of billions of dollars of latent shareholder value.

Assuming Apple retains its price to earnings multiple of 10x and the preferred stock yields 4%, our calculation shows that every $50 billion of perpetual preferred stock that Apple distributes would unlock about $30 billion, or $32 per share in value. Greenlight believes that Apple has the capacity to ultimately distribute several hundred billion dollars of preferred, which would unlock hundreds of dollars of value per share. Further, Greenlight believes additional value may be realized when Apple's price to earnings multiple expands, as the market appreciates a more shareholder friendly capital allocation policy.

[…]

Thank you for your consideration and support.

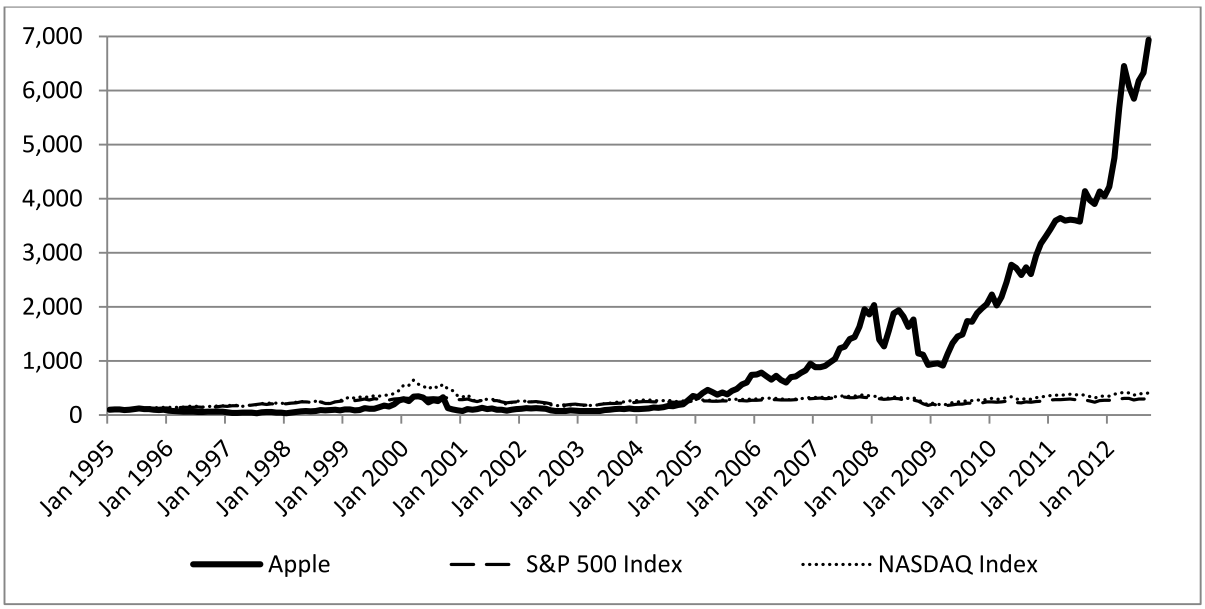
Sincerely,

David Einhorn

Greenlight Capital

Source: Greenlight Capital, "Greenlight Capital Urges Apple Shareholders to Oppose Company's Proposal that would Impede Apple's Ability to Unlock Shareholder Value", Feb 7 2014 https://www.greenlightcapital.com/904950.pdf.

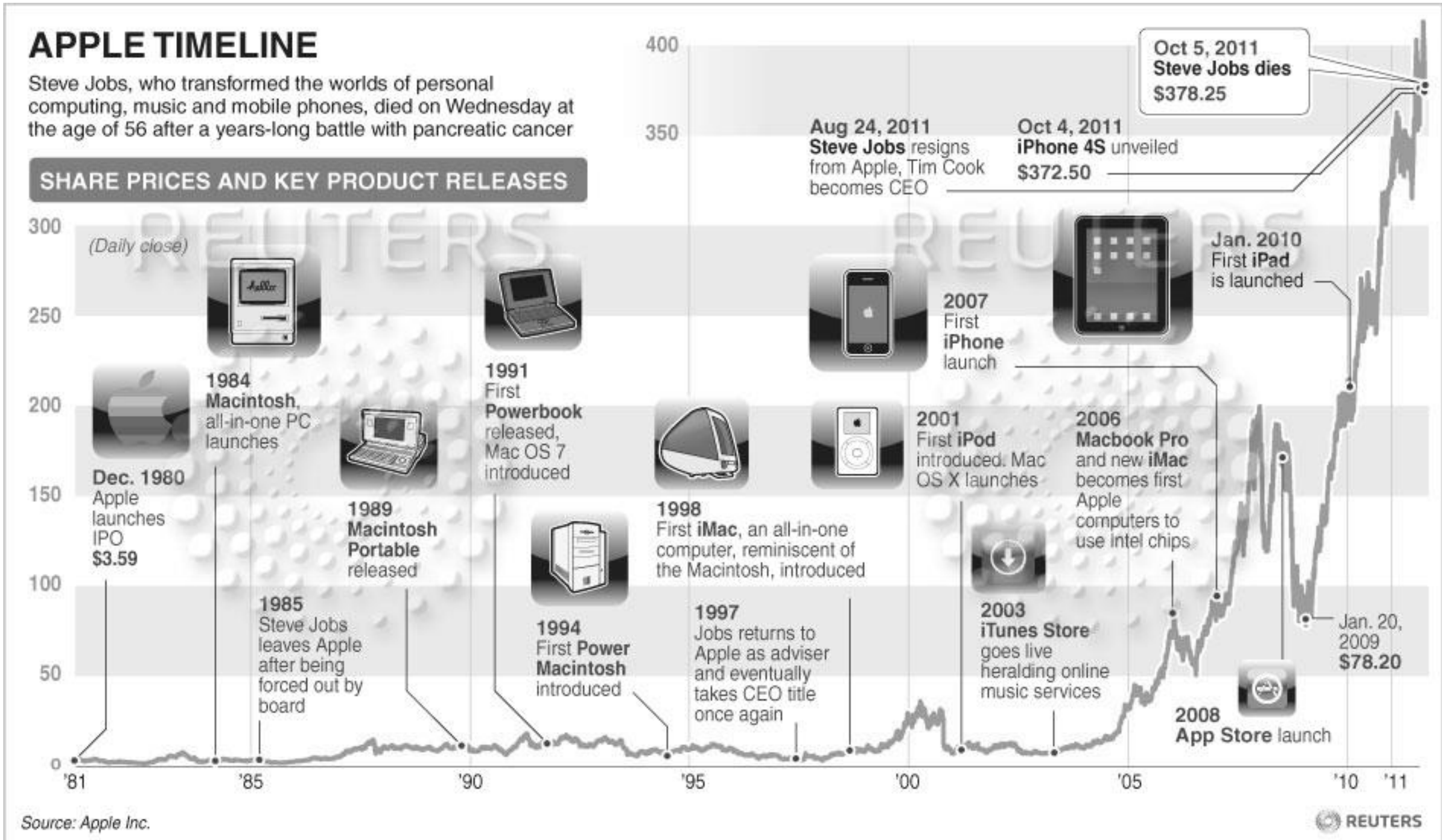
Exhibit 3 Stock Price of Apple Compared to S&P 500 and NASDAQ Indices, Jan. 1995 – Sept. 2012



Source: Capital IQ.

Note: Values are indexed to Jan 2, 1995 = 100.

Exhibit 4 Apple Product Milestones Timeline



Source: Reuters and Apple Inc.

Exhibit 5 Annual Summary Financials from 2000-2012

For the Fiscal Year Ending	9/30/2000	9/29/2001	9/28/2002	9/27/2003	9/25/2004	9/24/2005	9/30/2006	9/29/2007	9/27/2008	9/26/2009	9/25/2010	9/24/2011	9/29/2012
Total Revenue	7,983	5,363	5,742	6,207	8,279	13,931	19,315	24,578	37,491	42,905	65,225	108,249	156,508
Cost of Goods Sold	5,817	4,128	4,139	4,499	6,022	9,889	13,717	16,426	24,294	25,683	39,541	64,431	87,846
Sales, General, and Admin.	1,256	1,138	1,109	1,212	1,430	1,864	2,433	2,963	3,761	4,149	5,517	7,599	10,040
Gross Profit	2,166	1,235	1,603	1,708	2,257	4,042	5,598	8,152	13,197	17,222	25,684	43,818	68,662
EBIT	530	(333)	48	25	336	1,643	2,453	4,407	8,327	11,740	18,385	33,790	55,241
Net Income	786	(25)	65	69	266	1,328	1,989	3,495	6,119	8,235	14,013	25,922	41,733
Cash Flow	868	185	89	289	934	2,535	2,220	5,470	9,596	10,159	18,595	37,529	50,856
Cash and Marketable Securities[a]	4,027	4,336	4,337	4,566	5,464	8,261	10,110	15,386	24,490	33,992	51,011	81,570	121,251
Accounts Receivable	953	466	565	766	774	895	1,252	1,637	2,422	3,361	5,510	5,369	10,930
Inventory	33	11	45	56	101	165	270	346	509	455	1,051	776	791
Total Assets	6,803	6,021	6,298	6,815	8,050	11,516	17,205	25,347	36,171	47,501	75,183	116,371	176,064
Accounts Payable	1,157	801	911	1,154	1,451	1,779	3,390	4,970	5,520	5,601	12,015	14,632	21,175
Long-term Debt	300	317	316	0	0	0	0	0	0	0	0	0	0
Total Shareholders' Equity	4,107	3,920	4,095	4,223	5,076	7,428	9,984	14,532	22,297	31,640	47,791	76,615	118,210

Source: Capital IQ and Company Annual Reports.
In millions of USD.

[a]Marketable securities includes both short- and long-term.

Exhibit 6 Quarterly Summary Financials from Q3 2011- Q1 2013

For the Fiscal Quarter Ending	6/25/2011	9/24/2011	12/31/2011	3/31/2012	6/30/2012	9/29/2012	12/29/2012
Total Revenue	28,571	28,270	46,333	39,186	35,023	35,966	54,512
Cost of Goods Sold	16,649	16,890	25,630	20,622	20,029	21,565	33,452
Gross Profit	11,922	11,380	20,703	18,564	14,994	14,401	21,060
Sales, General, and Admin.	1,915	2,025	2,605	2,339	2,545	2,551	2,840
EBIT	9,379	8,710	17,340	15,384	11,573	10,944	17,210
Net Income	7,308	6,623	13,064	11,622	8,824	8,223	13,078
Cash Flow	11,108	10,429	17,554	13,977	10,189	9,136	23,426
Cash and Marketable Securities[a]	76,156	81,570	97,601	110,176	117,221	121,251	137,112
Accounts Receivable	6,102	5,369	8,930	7,042	7,657	10,930	11,598
Inventory	889	776	1,236	1,102	1,122	791	1,455
Total Assets	106,758	116,371	138,681	150,934	162,896	176,064	196,088
Accounts Payable	15,270	14,632	18,221	17,011	16,808	21,175	26,398
Long-term Debt	0	0	0	0	0	0	0
Total Shareholders' Equity	69,343	76,615	90,054	102,498	111,746	118,210	127,346

Source: Capital IQ and Company Annual Reports.
In millions of USD.

[a]Marketable securities includes both short- and long-term.

Exhibit 7a Income Statements from 2010-2012

For the Fiscal Year Ending	Sept. 25, 2010	Sept. 24, 2011	Sept. 29, 2012
Revenue	**65,225.0**	**108,249.0**	**156,508.0**
Cost of Revenue	**39,541.0**	**64,431.0**	**87,846.0**
Gross Profit	**25,684.0**	**43,818.0**	**68,662.0**
Sales, General, and Administration Expenses	5,517.0	7,599.0	10,040.0
Research and Development Expenses	1,782.0	2,429.0	3,381.0
Total Operating Expenses	**7,299.0**	**10,028.0**	**13,421.0**
Operating Income	**18,385.0**	**33,790.0**	**55,241.0**
Interest Expense	-	-	-
Interest and Investment Income	311.0	519.0	1,088.0
Net Interest Expense	**311.0**	**519.0**	**1,088.0**
Income Tax Expense	4,527.0	8,283.0	14,030.0
Earnings from Cont. Ops.	**14,013.0**	**25,922.0**	**41,733.0**
Net Income to Company	**14,013.0**	**25,922.0**	**41,733.0**
Minority Interest in Earnings	-	-	-
Net Income	**14,013.0**	**25,922.0**	**41,733.0**
Net income available to Common Shareholders	**14,013.0**	**25,922.0**	**41,733.0**
Earnings per Share			
Basic	15.41	28.05	44.64
Diluted	15.15	27.68	44.15
Weighted Average Shares Outstanding			
Basic	909.5	924.3	934.8
Diluted	924.7	936.6	945.4
Dividends per Share	NA	NA	$2.65
Payout Ratio %	NA	NA	6.0%
Shares Outstanding	916.0	929.4	939.2
Share Price	307.83	400.60	595.32
EBITDA	**19,412.0**	**35,604.0**	**58,518.0**

Source: Capital IQ.
In millions of USD, except per share items.
NA = Not Applicable.

Exhibit 7b Balance Sheets from 2010-2012

Balance Sheet as of:	Sept. 25, 2010	Sept. 24, 2011	Sept. 29, 2012
ASSETS			
Cash And Equivalents	11,261.0	9,815.0	10,746.0
Short Term Investments	14,359.0	16,137.0	18,383.0
Trading Asset Securities	-	-	-
Total Cash & ST Investments	**25,620.0**	**25,952.0**	**29,129.0**
Accounts Receivable	5,510.0	5,369.0	10,930.0
Other Receivables	4,414.0	6,348.0	7,762.0
Total Receivables	**9,924.0**	**11,717.0**	**18,692.0**
Inventory	1,051.0	776.0	791.0
Deferred Tax Assets, Current	1,636.0	2,014.0	2,583.0
Restricted Cash	445.0	-	278.0
Other Current Assets	3,002.0	4,529.0	6,180.0
Total Current Assets	**41,678.0**	**44,988.0**	**57,653.0**
Net Property, Plant & Equipment	**4,768.0**	**7,777.0**	**15,452.0**
Long-term Investments[a]	25,391.0	55,618.0	92,122.0
Goodwill	741.0	896.0	1,135.0
Other Intangibles	342.0	3,536.0	4,224.0
Other Long-Term Assets	2,263.0	3,556.0	5,478.0
Total Assets	**75,183.0**	**116,371.0**	**176,064.0**
LIABILITIES			
Accounts Payable	12,015.0	14,632.0	21,175.0
Accrued Expenses	3,641.0	4,829.0	6,749.0
Current Income Taxes Payable	658.0	1,140.0	1,535.0
Unearned Revenue, Current	3,647.0	6,129.0	7,445.0
Other Current Liabilities	761.0	1,240.0	1,638.0
Total Current Liabilities	**20,722.0**	**27,970.0**	**38,542.0**
Long-Term Debt	-	-	-
Unearned Revenue, Non-Current	1,139.0	1,686.0	2,648.0
Deferred Tax Liability, Non-Current	4,300.0	8,159.0	13,847.0
Other Non-Current Liabilities	1,231.0	1,941.0	2,817.0
Total Liabilities	**27,392.0**	**39,756.0**	**57,854.0**
Common Stock	10,668.0	13,331.0	16,422.0
Retained Earnings	37,169.0	62,841.0	101,289.0
Comprehensive Income and Other	(46.0)	443.0	499.0
Total Shareholders' Equity	**47,791.0**	**76,615.0**	**118,210.0**
Total Liabilities And Shareholders' Equity	**75,183.0**	**116,371.0**	**176,064.0**

Source: Capital IQ.

In millions of USD.

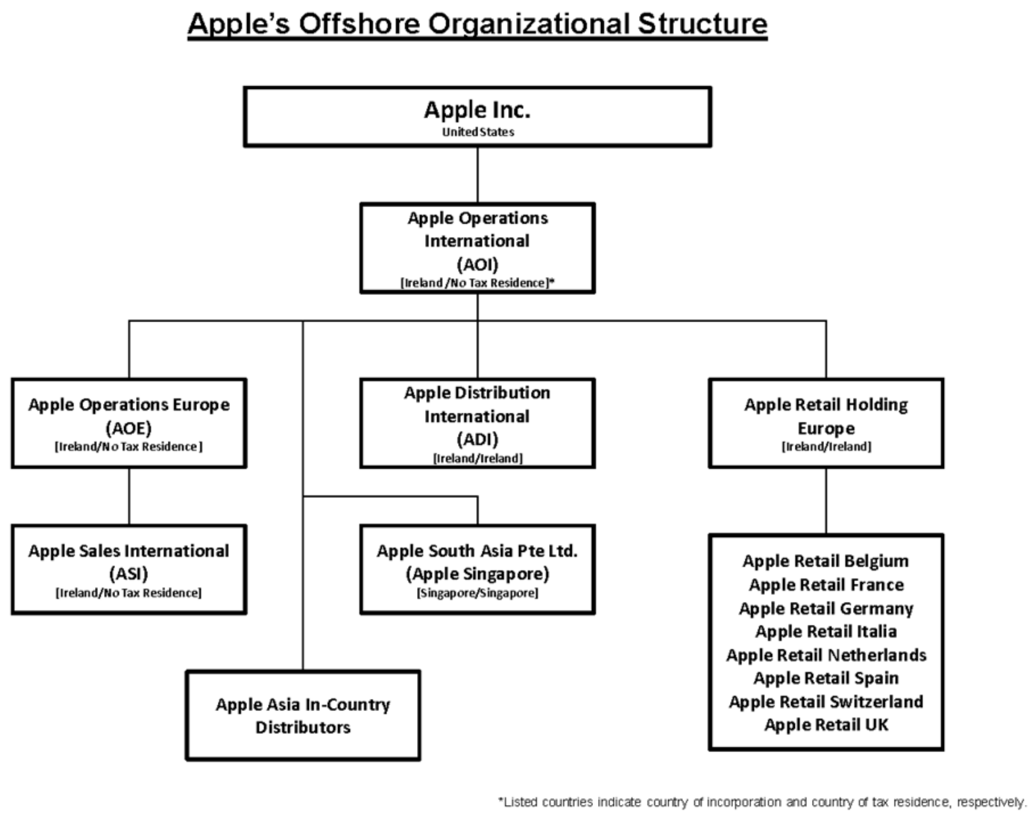
[a]Long-term marketable securities, which are counted later in "Cash and Marketable Securities"

Exhibit 7c Cash Flows from 2010-2012

For the Fiscal Year Ending	Sept. 25, 2010	Sept. 24, 2011	Sept. 29, 2012
Net Income	**14,013.0**	**25,922.0**	**41,733.0**
Depreciation & Amortization	958.0	1,622.0	2,672.0
Amortization of Goodwill and Intangibles	69.0	192.0	605.0
Total Depreciation & Amortization	**1,027.0**	**1,814 .0**	**3,277.0**
Stock-Based Compensation	879.0	1,168.0	1,740.0
Other Operating Activities	1,440.0	2,868.0	4,405.0
Change in Accounts Receivable	(2,142.0)	143.0	(5,551.0)
Change In Inventories	(596.0)	275.0	(15.0)
Change in Accounts Payable	6,307.0	2,515.0	4,467.0
Change in Unearned Revenue	1,217.0	1,654.0	2,824.0
Change in Other Net Operating Assets	(3,550.0)	1,170.0	(2,024.0)
Cash from Operations	**18,595.0**	**37,529.0**	**50,856.0**
Capital Expenditure	(2,005.0)	(4,260.0)	(8,295.0)
Cash Acquisitions	(638.0)	(244.0)	(350.0)
Divestitures	-	-	-
Sale (Purchase) of Intangible assets	(116.0)	(3,192.0)	(1,107.0)
Investment in Marketable & Equity Securt.	(11,075.0)	(32,464.0)	(38,427.0)
Net (Inc.) Dec. in Loans Originated/Sold	-	-	-
Other Investing Activities	(20.0)	(259.0)	(48.0)
Cash from Investing	**(13,854.0)**	**(40,419.0)**	**(48,227.0)**
Short Term Debt Issued	-	-	-
Long-Term Debt Issued	-	-	-
Total Debt Issued	**-**	**-**	**-**
Short Term Debt Repaid	-	-	-
Long-Term Debt Repaid	-	-	-
Total Debt Repaid	**-**	**-**	**-**
Issuance of Common Stock	912.0	831.0	665.0
Repurchase of Common Stock	-	-	-
Dividends Paid	-	-	(2,488.0)
Other Financing Activities	345.0	613.0	125.0
Cash from Financing	**1,257.0**	**1,444.0**	**(1,698.0)**
Net Change in Cash	**5,998.0**	**(1,446.0)**	**931.0**
Cash Interest Paid	NA	NA	NA
Cash Taxes Paid	2,697.0	3,338.0	7,682.0
Levered Free Cash Flow	12,524.6	20,918.8	31,224.6
Unlevered Free Cash Flow	12,524.6	20,918.8	31,224.6
Change in Net Working Capital	(1,249.0)	(4,270.0)	(1,084.0)
Net Debt Issued	NA	NA	NA

Source: Capital IQ.
In millions of USD.
NA = Not Applicable.

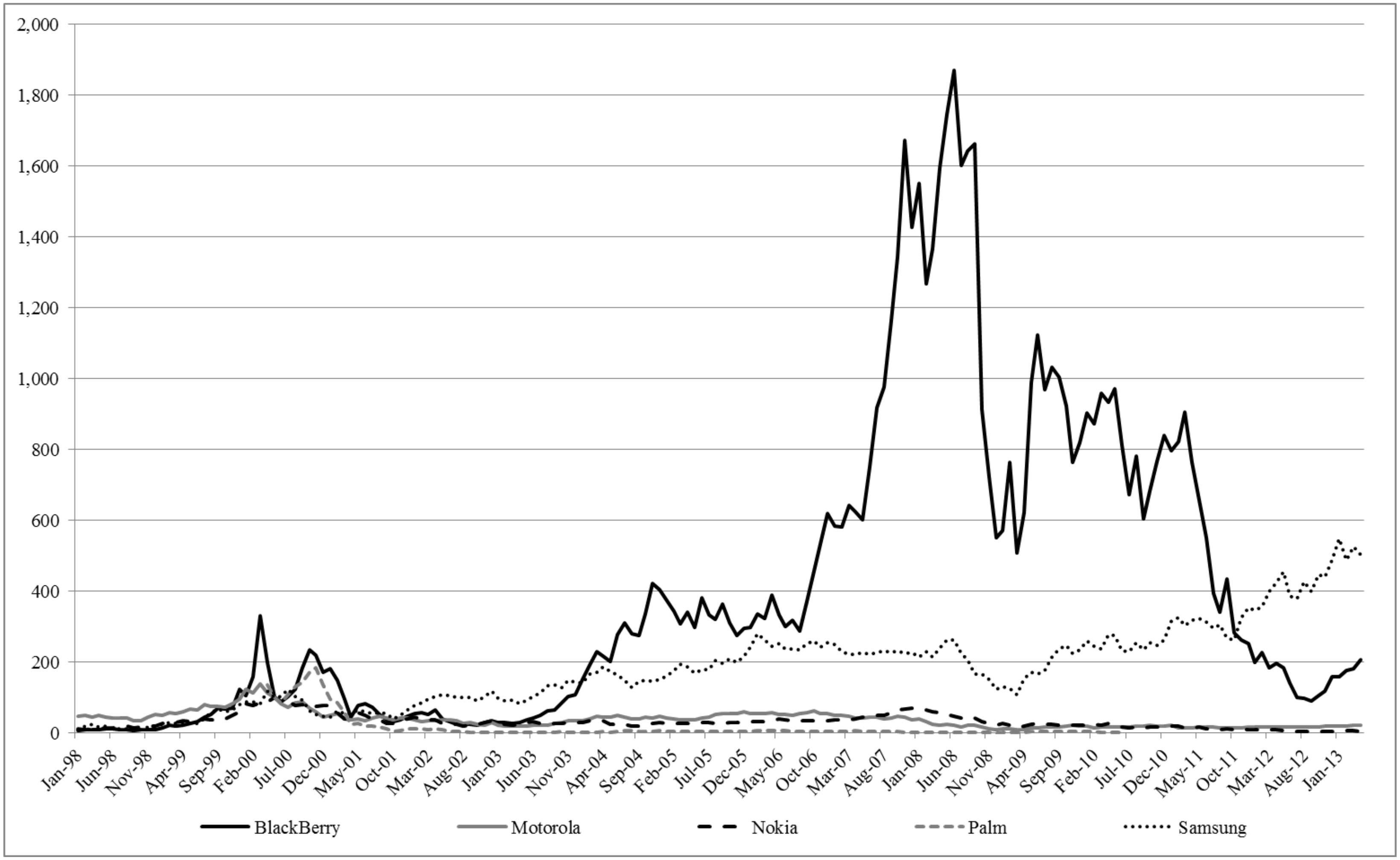
Exhibit 8 Diagram of Apple's Offshore Structure



Prepared by the Permanent Subcommittee on Investigations, May 2013. Source: Materials received from Apple Inc.

Source: Apple Inc., Senate Permanent Subcommittee on Investigations.

Exhibit 9 Stock Performance of Various Technology Companies from 1998-2013



Source: Capital IQ.

Values are indexed to May 1, 2000 = 100.

Exhibit 10 Financial Forecast Spreadsheet

Key assumptions in Apple Forecast

Annual growth rate of sales: 10% **Interest Rate:** 5.6%

	2012 Actual	2012*	2013	2014	2015	2016	2017
Accounts receivable as % of sales:	**11.9%**						
Inventory as % cost of goods:	**0.9%**						
Cost of goods as % of sales:	**56.1%**						
R&D as % of sales:	**2.2%**						
Sell, gen'l, admin as% of sales:	**6.4%**						
Effective Tax Rate	**22.9%**						
Net PPEN as % of COG	**17.6%**						
Income Statement							
Net sales	$156,508						
Cost of goods	$87,846						
Research & development	$3,381						
Sell, gen'l, admin	$10,040						
EBIT	$55,241						
Interest expense	$1,088						
Profit before tax	$54,153						
Tax at Effective Rate of 23%	$12,420						
Net income	$41,733						
Times interest earned	50.8						
Balance Sheet							
Total Cash	$121,251						
Required Cash							
Excess Cash (plug)							
Accounts receivable	$18,692						
Inventories	$791						
Other Current Assets (10.3% of COGS)	$9,041						
Net PPEN	$15,452						
Other (12.3% of COGS)	$10,837						
Total assets	$176,064						
Liabilities and Net Worth							
Accounts payable (24.1% of COGS)	$21,175						
Accrued expenses (7.7% of COGS)	$6,749						
Other current liabilities (12.1% of COGS)	$10,618						
Other non-current liabilities (22% of COGS)	$19,312						
Total liabilities	$57,854						
Equity	$118,210						
Total	$176,064						
Selected Ratios:							
Return on equity	35.3%						
Sales/total assets	88.9%						
Assets/Equity	148.9%						
Net income/Revenue	26.7%						

*All excess cash paid out

Source: Casewriter.

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