

This Annual Report on Form 10-K ("Form 10-K") contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Many of the forward-looking statements are located in Part II, Item 7 of this Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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. 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 this Form 10-K under the heading "Risk Factors," which are incorporated herein by reference. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, 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 Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

PART I

Item 1. Business

Company Background

The Company designs, manufactures and markets mobile communication and media devices and personal computers, and sells a variety of related software, services, accessories and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, Apple Watch®, AirPods®, Apple TV®, HomePod™, a portfolio of consumer and professional software applications, iOS, macOS®, watchOS® and tvOS™ operating systems, iCloud®, Apple Pay® and a variety of other accessory, service and support offerings. The Company sells and delivers digital content and applications through the iTunes Store®, App Store®, Mac App Store, TV App Store, Book Store and Apple Music® (collectively "Digital Content and Services"). The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and resellers. In addition, the Company sells a variety of third-party Apple-compatible products, including application software and various accessories, through its retail and online stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers. The Company's fiscal year is the 52- or 53-week period that ends on the last Saturday of September. The Company is a California corporation established in 1977.

Business Strategy

The Company is committed to bringing the best user experience to its customers through its innovative hardware, software and services. The Company's business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software and services to provide its customers products and solutions with innovative design, superior ease-of-use and seamless integration. As part of its strategy, the Company continues to expand its platform for the discovery and delivery of digital content and applications through its Digital Content and Services, which allows customers to discover and download or stream digital content, iOS, Mac, Apple Watch and Apple TV applications, and books through either a Mac or Windows personal computer or through iPhone, iPad and iPod touch® devices ("iOS devices"), Apple TV, Apple Watch and HomePod. The Company also supports a community for the development of third-party software and hardware products and digital content that complement the Company's offerings. The Company believes a high-quality buying experience with knowledgeable salespersons who can convey the value of the Company's products and services greatly enhances its ability to attract and retain customers. Therefore, the Company's strategy also includes building and expanding its own retail and online stores and its third-party distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience. The Company believes ongoing investment in research and development ("R&D"), marketing and advertising is critical to the development and sale of innovative products, services and technologies.

Products

iPhone

iPhone is the Company's line of smartphones based on its iOS operating system. iPhone includes Siri®, an intelligent assistant, and Apple Pay, Touch ID® and Face ID® on qualifying devices. In September 2018, the Company introduced three new iPhones. iPhone Xs and Xs Max feature a Super Retina™ OLED display, an all-screen stainless steel and glass design, faster processors and enhanced cameras, and were available beginning in September 2018. iPhone XR features a Liquid Retina™ LCD display in an all-screen aluminum and glass design, and was available beginning in October 2018. The Company's line of smartphones also includes iPhone 8, 8 Plus, 7 and 7 Plus models. iPhone works with the iTunes Store, App Store, Book Store and Apple Music for purchasing, organizing and playing digital content and apps.

iPad

iPad is the Company's line of multi-purpose tablets based on its iOS operating system, which includes iPad Pro®, iPad and iPad mini®. iPad includes Siri, Apple Pay and Touch ID. In March 2018, the Company released a new 9.7-inch iPad with Apple Pencil® compatibility. In October 2018, the Company introduced a new version of iPad Pro as well as a new Apple Pencil and Smart Keyboard Folio™. The new 11-inch and 12.9-inch iPad Pro models feature a Liquid Retina LCD display in an all-screen aluminum and glass design and integrate Face ID. iPad works with the iTunes Store, App Store, Book Store and Apple Music for purchasing, organizing and playing digital content and apps.

Mac

Mac is the Company's line of desktop and portable personal computers based on its macOS operating system. Mac includes Siri and supports Apple Pay, and also includes Touch ID on qualifying devices. The Company's desktop computers include iMac® 21.5-inch, iMac 21.5-inch with Retina® 4K display, iMac 27-inch with Retina 5K display, iMac Pro®, Mac Pro® and Mac mini®. The Company's portable computers include MacBook®, MacBook Air®, MacBook Pro® and MacBook Pro with Touch Bar™. In October 2018, the Company introduced a new MacBook Air featuring a Retina display and Touch ID, and a new Mac mini with upgraded performance.

Operating Systems

iOS

iOS is the Company's mobile operating system that serves as the foundation for iOS devices. Devices running iOS are compatible with both Mac and Windows personal computers and Apple's iCloud services. In September 2018, the Company released iOS 12, which includes improved performance and responsiveness, new augmented reality capabilities and expressive communication features, and introduces Siri Shortcuts, enabling Siri to intelligently pair with third-party apps.

macOS

macOS is the Company's desktop operating system and is built on an open-source UNIX-based foundation and provides an intuitive and integrated computer experience. Support for iCloud is built into macOS so users can access content and information from Mac, iOS devices and other supported devices and access downloaded content and apps from the iTunes Store. macOS Mojave, released in September 2018, is the 15th major release of macOS and makes apps such as News, Stocks, Voice Memos and Home available on the Mac for the first time. macOS Mojave also adds desktop and Finder® enhancements, such as Dark Mode, and introduces a full redesign of the Mac App Store.

watchOS

watchOS is the Company's operating system for Apple Watch. In September 2018, the Company released watchOS 5, which helps users stay healthy and connected with new features including Activity Sharing competitions, auto-workout detection, advanced running features, Walkie-Talkie, Apple Podcasts and third-party apps on the Siri watch face.

tvOS

tvOS is the Company's operating system for Apple TV. The tvOS operating system is based on the Company's iOS platform and enables developers to create new apps and games specifically for Apple TV and deliver them to customers through the Apple TV App Store. tvOS incorporates Siri capabilities that allow searching across apps and services. In September 2018, the Company released tvOS 12, which supports enhanced sound quality and provides additional 4K high dynamic range ("HDR") content.

Services

Digital Content and Services

The iTunes Store, available for iOS devices, Mac and Windows personal computers and Apple TV, allows customers to purchase and download or stream music and TV shows, rent or purchase movies and download free podcasts. The App Store, available for iOS devices, allows customers to discover and download apps and purchase in-app content. The Mac App Store, available for Mac computers, allows customers to discover, download and install Mac applications. The TV App Store allows customers access to apps and games specifically for Apple TV. The Book Store, available for iOS devices and Mac computers, features e-books from major and independent publishers. Apple Music offers users a curated listening experience with on-demand radio stations that evolve based on a user's play or download activity and a subscription-based internet streaming service that also provides unlimited access to the Apple Music library.

iCloud

iCloud is the Company's cloud service which stores music, photos, contacts, calendars, mail, documents and more, keeping them up-to-date and available across multiple iOS devices, Mac and Windows personal computers and Apple TV. iCloud services include iCloud Drive®, iCloud Photos, Family Sharing, Find My iPhone, iPad or Mac, Find My Friends, Notes, iCloud Keychain® and iCloud Backup for iOS devices.

AppleCare

The Company offers a range of support options for its customers. These include assistance that is built into software products, electronic product manuals, online support including comprehensive product information as well as technical assistance, AppleCare+ ("AC+") and the AppleCare® Protection Plan ("APP"). AC+ and APP are fee-based services that extend the coverage of phone support eligibility and hardware repairs. AC+ offers additional coverage for instances of accidental damage and is available in certain countries for certain products. Additionally, AC+ with theft and loss protection is available for iPhone in the U.S.

Apple Pay

Apple Pay is the Company's cashless payment service available in certain countries that offers an easy, secure and private way to pay. Apple Pay allows users to pay for purchases in participating stores accepting contactless payments and to pay for purchases within participating apps on qualifying devices. Apple Pay accepts credit and debit cards across major card networks and also supports reward programs and store-issued credit and debit cards. In December 2017, the Company released an update to iOS 11 and watchOS 4 introducing Apple Pay Cash in the U.S., allowing peer-to-peer payments using Apple Pay.

Other Products

Apple TV

Apple TV connects to consumers' TVs and enables them to access digital content directly for streaming video, playing music and games, and viewing photos. Content from Apple Music and other media services is also available on Apple TV. Apple TV allows streaming digital content from Mac and Windows personal computers through Home Sharing and from compatible Mac and iOS devices through AirPlay®. Apple TV runs on the Company's tvOS operating system and is based on apps built for the television. Additionally, the Apple TV remote features Siri, allowing users to search and access content with their voice. The Company offers Apple TV and Apple TV 4K®, which supports 4K and HDR content.

Apple Watch

Apple Watch is a personal electronic device that combines the watchOS user interface and technologies created specifically for a smaller device, including the Digital Crown®, a unique navigation tool that allows users to seamlessly scroll, zoom and navigate, and Force Touch, a technology that senses the difference between a tap and a press and allows users to access controls within apps. Apple Watch enables users to communicate from their wrist, track their health and fitness through activity and workout apps, and includes Siri and Apple Pay. In September 2018, the Company introduced Apple Watch Series 4, with a new design including a larger display and thinner case, and featuring new health monitoring capabilities.

Other

The Company also sells AirPods, Beats® products, HomePod, iPod touch and other Apple-branded and third-party accessories. AirPods are the Company's wireless headphones that interact with Siri. In February 2018, the Company released HomePod, a high-fidelity wireless smart speaker that interacts with Siri and Apple Music.

Developer Programs

The Company's developer programs support app developers with building, testing and distributing apps for iOS, macOS, watchOS and tvOS. Developer program membership provides access to beta software and advanced app capabilities (e.g., CloudKit®, HealthKit™ and Apple Pay), the ability to test apps using TestFlight®, distribution on the App Store, access to App Analytics and code-level technical support. Developer programs also exist for businesses creating apps for internal use (the Apple Developer Enterprise Program) and developers creating accessories for Apple devices (the MFi Program). All developers, even those who are not developer program members, can sign in with their Apple ID to post on the Apple Developer Forums and use Xcode®, the Company's integrated development environment for creating apps for Apple platforms. Xcode includes project management tools; analysis tools to collect, display and compare app performance data; simulation tools to locally run, test and debug apps; and tools to simplify the design and development of user interfaces. All developers also have access to extensive technical documentation and sample code.

Markets and Distribution

The Company's customers are primarily in the consumer, small and mid-sized business, education, enterprise and government markets. The Company sells its products and resells third-party products in most of its major markets directly to consumers and small and mid-sized businesses through its retail and online stores and its direct sales force. The Company also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and resellers. During 2018, the Company's net sales through its direct and indirect distribution channels accounted for 29% and 71%, respectively, of total net sales.

The Company believes that sales of its innovative and differentiated products and services are enhanced by knowledgeable salespersons who can convey the value of the hardware and software integration and demonstrate the unique solutions that are available on its products. The Company further believes providing direct contact with its targeted customers is an effective way to demonstrate the advantages of its products over those of its competitors and providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers.

To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to build and improve its distribution capabilities by expanding the number of its own retail stores worldwide. The Company's retail stores are typically located at high-traffic locations in quality shopping malls and urban shopping districts. By operating its own stores and locating them in desirable high-traffic locations the Company is better positioned to ensure a high-quality customer buying experience and attract new customers. The stores are designed to simplify and enhance the presentation and marketing of the Company's products and related solutions. The retail stores employ experienced and knowledgeable personnel who provide product advice, service and training, and offer a wide selection of third-party hardware, software and other accessories that complement the Company's products.

The Company has also invested in programs to enhance reseller sales by placing high-quality Apple fixtures, merchandising materials and other resources within selected third-party reseller locations. Through the Apple Premium Reseller Program, certain third-party resellers focus on the Apple platform by providing a high level of product expertise, integration and support services.

The Company is committed to delivering solutions to help educators teach and students learn. The Company believes effective integration of technology into classroom instruction can result in higher levels of student achievement and has designed a range of products, services and programs to address the needs of education customers. The Company also supports mobile learning and real-time distribution of, and access to, education-related materials through iTunes U®, a platform that allows students and teachers to share and distribute educational media online. The Company sells its products to the education market through its direct sales force, select third-party resellers and its retail and online stores.

The Company also sells its hardware and software products to enterprise and government customers in each of its reportable segments. The Company's products are deployed in these markets because of their performance, productivity, ease-of-use and seamless integration into information technology environments. The Company's products are compatible with thousands of third-party business applications and services, and its tools enable the development and secure deployment of custom applications as well as remote device administration.

No single customer accounted for more than 10% of net sales in 2018, 2017 and 2016.

Competition

The markets for the Company's products and services are highly competitive and the Company is confronted by aggressive competition in all areas of its business. These markets are characterized by frequent product introductions and rapid technological advances that have substantially increased the capabilities and use of mobile communication and media devices, personal computers and other digital electronic devices. Many of the Company's competitors that sell mobile devices and personal computers based on other operating systems seek to compete primarily through aggressive pricing and very low cost structures. The Company's financial condition and operating results can be adversely affected by these and other industry-wide downward pressures on gross margins. Principal competitive factors important to the Company include price, product and service features (including security features), relative price and performance, product and service quality and reliability, design innovation, a strong third-party software and accessories ecosystem, marketing and distribution capability, service and support and corporate reputation.

The Company is focused on expanding its market opportunities related to personal computers and mobile communication and media devices. These markets are highly competitive and include many large, well-funded and experienced participants. The Company expects competition in these markets to intensify significantly as competitors attempt to imitate some of the features of the Company's products and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. These markets are characterized by aggressive price competition, frequent product introductions, evolving design approaches and technologies, rapid adoption of technological advancements by competitors and price sensitivity on the part of consumers and businesses.

The Company's services also face substantial competition, including from companies that have significant resources and experience and have established service offerings with large customer bases. The Company competes with business models that provide content to users for free. The Company also competes with illegitimate means to obtain third-party digital content and applications.

The Company's future financial condition and operating results depend on the Company's ability to continue to develop and offer new innovative products and services in each of the markets in which it competes. The Company believes it offers superior innovation and integration of the entire solution including the hardware (iOS devices, Mac, Apple Watch and Apple TV), software (iOS, macOS, watchOS and tvOS), online services and distribution of digital content and applications (Digital Content and Services). Some of the Company's current and potential competitors have substantial resources and may be able to provide such products and services at little or no profit or even at a loss to compete with the Company's offerings.

Supply of Components

Although most components essential to the Company's business are generally available from multiple sources, certain components are currently obtained from single or limited sources. In addition, the Company competes for various components with other participants in the markets for mobile communication and media devices and personal computers. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant commodity pricing fluctuations that could materially adversely affect the Company's financial condition and operating results.

The Company uses some custom components that are not commonly used by its competitors, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements.

The Company has entered into agreements for the supply of many components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia, with some Mac computers manufactured in the U.S. and Ireland. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are single-sourced suppliers of components and manufacturers for many of the Company's products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's financial condition and operating results could be materially adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's manufacturing purchase obligations typically cover its requirements for periods up to 150 days.

Research and Development

Because the industries in which the Company competes are characterized by rapid technological advances, the Company's ability to compete successfully depends heavily upon its ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. The Company continues to develop new technologies to enhance existing products and services, and to expand the range of its offerings through R&D, licensing of intellectual property and acquisition of third-party businesses and technology.

Intellectual Property

The Company currently holds a broad collection of intellectual property rights relating to certain aspects of its hardware devices, accessories, software and services. This includes patents, copyrights, trademarks, service marks, trade dress and other forms of intellectual property rights in the U.S. and a number of foreign countries. Although the Company believes the ownership of such intellectual property rights is an important factor in its business and that its success does depend in part on such ownership, the Company relies primarily on the innovative skills, technical competence and marketing abilities of its personnel.

The Company regularly files patent applications to protect innovations arising from its research, development and design, and is currently pursuing thousands of patent applications around the world. Over time, the Company has accumulated a large portfolio of issued patents, including utility patents, design patents and others. The Company also holds copyrights relating to certain aspects of its products and services. No single intellectual property right is solely responsible for protecting the Company's products. The Company believes the duration of its intellectual property rights is adequate relative to the expected lives of its products.

Many of the Company's products are designed to include intellectual property obtained from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of the Company's products, processes and services. While the Company has generally been able to obtain such licenses on commercially reasonable terms in the past, there is no guarantee that such licenses could be obtained in the future on reasonable terms or at all. Because of technological changes in the industries in which the Company competes, current extensive patent coverage and the rapid rate of issuance of new patents, it is possible that certain components of the Company's products, processes and services may unknowingly infringe existing patents or intellectual property rights of others. From time to time, the Company has been notified that it may be infringing certain patents or other intellectual property rights of third parties.

Foreign and Domestic Operations and Geographic Data

During 2018, the Company's domestic and international net sales accounted for 37% and 63%, respectively, of total net sales. Gross margins on the Company's products in foreign countries and on products that include components obtained from foreign suppliers, can be adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including duties, tariffs and antidumping penalties.

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 introductions can significantly impact net sales, product costs and operating expenses. Product introductions can also impact the Company's net sales to its indirect distribution channels as these channels are filled with new product inventory following a product introduction, and channel inventory of a particular product often declines as the next related major product launch approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction. However, neither historical seasonal patterns nor historical patterns of product introductions should be considered reliable indicators of the Company's future pattern of product introductions, future net sales or financial performance.

Warranty

The Company offers a limited parts and labor warranty on its hardware products. The basic warranty period is typically one year from the date of purchase by the original end user. The Company also offers a 90-day limited warranty on the service parts used to repair the Company's hardware products. In certain jurisdictions, local law requires that manufacturers guarantee their products for a period prescribed by statute, typically at least two years. In addition, where available, consumers may purchase APP or AC+, which extends service coverage on many of the Company's hardware products.

Backlog

In the Company's experience, the actual amount of product backlog at any particular time is not a meaningful indication of its future business prospects. In particular, backlog often increases immediately following new product introductions as customers anticipate shortages. Backlog is often reduced once customers believe they can obtain sufficient supply. Because of the foregoing, backlog should not be considered a reliable indicator of the Company's ability to achieve any particular level of revenue or financial performance.

Employees

As of September 29, 2018, the Company had approximately 132,000 full-time equivalent employees.

Available Information

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities and Exchange Commission (the "SEC"). The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge at investor.apple.com/investor-relations/sec-filings/default.aspx when such reports are available on the SEC's website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Company periodically provides other information for investors on its corporate website, www.apple.com, and its investor relations website, investor.apple.com. This includes press releases and other information about financial performance, information on corporate governance and details related to the Company's annual meeting of shareholders. The information contained on the websites referenced in this Form 10-K is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.