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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 26, 2016

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**

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**Apple Inc.**

(Exact name of Registrant as specified in its charter)

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**California**

(State or other jurisdiction  
of incorporation or organization)

**94-2404110**

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

**1 Infinite Loop**

**Cupertino, California**

(Address of principal executive offices)

**95014**

(Zip Code)

**(408) 996-1010**

(Registrant's telephone number, including area code)

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☐

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

Yes ☐ No ☒

5,477,425,000 shares of common stock, par value \$0.00001 per share, issued and outstanding as of April 8, 2016

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Apple Inc.  
Form 10-Q  
For the Fiscal Quarter Ended March 26, 2016  
TABLE OF CONTENTS

		<u>Page</u>
	<b><u>Part I</u></b>	
Item 1.	<a href="#">Financial Statements</a>	3
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	23
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	34
Item 4.	<a href="#">Controls and Procedures</a>	34
	<b><u>Part II</u></b>	
Item 1.	<a href="#">Legal Proceedings</a>	34
Item 1A.	<a href="#">Risk Factors</a>	35
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	44
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	44
Item 4.	<a href="#">Mine Safety Disclosures</a>	44
Item 5.	<a href="#">Other Information</a>	44
Item 6.	<a href="#">Exhibits</a>	45

**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)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 26, 2016</b>	<b>March 28, 2015</b>	<b>March 26, 2016</b>	<b>March 28, 2015</b>
Net sales	\$ 50,557	\$ 58,010	\$ 126,429	\$ 132,609
Cost of sales	30,636	34,354	76,085	79,212
Gross margin	19,921	23,656	50,344	53,397
Operating expenses:				
Research and development	2,511	1,918	4,915	3,813
Selling, general and administrative	3,423	3,460	7,271	7,060
Total operating expenses	5,934	5,378	12,186	10,873
Operating income	13,987	18,278	38,158	42,524
Other income/(expense), net	155	286	557	456
Income before provision for income taxes	14,142	18,564	38,715	42,980
Provision for income taxes	3,626	4,995	9,838	11,387
Net income	\$ 10,516	\$ 13,569	\$ 28,877	\$ 31,593
Earnings per share:				
Basic	\$ 1.91	\$ 2.34	\$ 5.22	\$ 5.43
Diluted	\$ 1.90	\$ 2.33	\$ 5.19	\$ 5.39
Shares used in computing earnings per share:				
Basic	5,514,381	5,793,799	5,536,656	5,818,441
Diluted	5,540,886	5,834,858	5,567,506	5,858,330
Cash dividends declared per share	\$ 0.52	\$ 0.47	\$ 1.04	\$ 0.94

See accompanying Notes to Condensed Consolidated Financial Statements.

**Apple Inc.**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 26, 2016</b>	<b>March 28, 2015</b>	<b>March 26, 2016</b>	<b>March 28, 2015</b>
Net income	<u>\$ 10,516</u>	<u>\$ 13,569</u>	<u>\$ 28,877</u>	<u>\$ 31,593</u>
Other comprehensive income/(loss):				
Change in foreign currency translation, net of tax	120	(180)	18	(246)
Change in unrealized gains/losses on derivative instruments:				
Change in fair value of derivatives, net of tax	(178)	1,037	109	3,019
Adjustment for net (gains)/losses realized and included in net income, net of tax	<u>(528)</u>	<u>(739)</u>	<u>(973)</u>	<u>(1,304)</u>
Total change in unrealized gains/losses on derivative instruments, net of tax	<u>(706)</u>	<u>298</u>	<u>(864)</u>	<u>1,715</u>
Change in unrealized gains/losses on marketable securities:				
Change in fair value of marketable securities, net of tax	969	593	47	137
Adjustment for net (gains)/losses realized and included in net income, net of tax	<u>49</u>	<u>36</u>	<u>96</u>	<u>22</u>
Total change in unrealized gains/losses on marketable securities, net of tax	<u>1,018</u>	<u>629</u>	<u>143</u>	<u>159</u>
Total other comprehensive income/(loss)	<u>432</u>	<u>747</u>	<u>(703)</u>	<u>1,628</u>
Total comprehensive income	<u>\$ 10,948</u>	<u>\$ 14,316</u>	<u>\$ 28,174</u>	<u>\$ 33,221</u>

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)

	<b>March 26, 2016</b>	<b>September 26, 2015</b>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 21,514	\$ 21,120
Short-term marketable securities	33,769	20,481
Accounts receivable, less allowances of \$60 and \$63, respectively	12,229	16,849
Inventories	2,281	2,349
Vendor non-trade receivables	7,595	13,494
Other current assets	10,204	15,085
Total current assets	87,592	89,378
Long-term marketable securities	177,645	164,065
Property, plant and equipment, net	23,203	22,471
Goodwill	5,249	5,116
Acquired intangible assets, net	3,843	3,893
Other non-current assets	7,745	5,556
Total assets	<u>\$ 305,277</u>	<u>\$ 290,479</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Current liabilities:		
Accounts payable	\$ 25,098	\$ 35,490
Accrued expenses	23,208	25,181
Deferred revenue	9,461	8,940
Commercial paper	7,998	8,499
Current portion of long-term debt	2,500	2,500
Total current liabilities	68,265	80,610
Deferred revenue, non-current	3,322	3,624
Long-term debt	69,374	53,463
Other non-current liabilities	33,859	33,427
Total liabilities	<u>174,820</u>	<u>171,124</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 12,600,000 shares authorized; 5,478,446 and 5,578,753 shares issued and outstanding, respectively	29,484	27,416
Retained earnings	102,021	92,284
Accumulated other comprehensive income/(loss)	(1,048)	(345)
Total shareholders' equity	<u>130,457</u>	<u>119,355</u>
Total liabilities and shareholders' equity	<u>\$ 305,277</u>	<u>\$ 290,479</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**Apple Inc.**

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

	<b>Six Months Ended</b>	
	<b>March 26, 2016</b>	<b>March 28, 2015</b>
Cash and cash equivalents, beginning of the period	\$ 21,120	\$ 13,844
Operating activities:		
Net income	28,877	31,593
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	5,431	5,054
Share-based compensation expense	2,126	1,815
Deferred income tax expense	3,092	1,879
Changes in operating assets and liabilities:		
Accounts receivable, net	4,620	6,555
Inventories	68	(285)
Vendor non-trade receivables	5,899	2,500
Other current and non-current assets	300	2,448
Accounts payable	(9,475)	(5,428)
Deferred revenue	219	993
Other current and non-current liabilities	(2,093)	5,679
Cash generated by operating activities	<u>39,064</u>	<u>52,803</u>
Investing activities:		
Purchases of marketable securities	(86,242)	(92,523)
Proceeds from maturities of marketable securities	9,148	5,871
Proceeds from sales of marketable securities	50,051	48,924
Payments made in connection with business acquisitions, net	(140)	(115)
Payments for acquisition of property, plant and equipment	(5,948)	(5,586)
Payments for acquisition of intangible assets	(657)	(155)
Other	(322)	88
Cash used in investing activities	<u>(34,110)</u>	<u>(43,496)</u>
Financing activities:		
Proceeds from issuance of common stock	247	309
Excess tax benefits from equity awards	264	357
Payments for taxes related to net share settlement of equity awards	(751)	(608)
Payments for dividends and dividend equivalents	(5,871)	(5,544)
Repurchase of common stock	(13,530)	(12,000)
Proceeds from issuance of term debt, net	15,584	11,332
Change in commercial paper, net	(503)	(2,508)
Cash used in financing activities	<u>(4,560)</u>	<u>(8,662)</u>
Increase in cash and cash equivalents	394	645
Cash and cash equivalents, end of the period	<u>\$ 21,514</u>	<u>\$ 14,489</u>
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	\$ 6,630	\$ 7,058
Cash paid for interest	\$ 565	\$ 220

See accompanying Notes to Condensed Consolidated Financial Statements.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 1 – Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively “Apple” or the “Company”) designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. 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 value-added resellers. In addition, the Company sells a variety of third-party Apple-compatible products, including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

#### Basis of Presentation and Preparation

The accompanying condensed consolidated financial statements include the accounts of 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 in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed consolidated financial statements 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 the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 26, 2015 (the “2015 Form 10-K”). The Company’s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters. The Company’s fiscal years 2016 and 2015 each include 52 weeks. Unless otherwise stated, references to particular years, quarters or months refer to the Company’s fiscal years ended in September and the associated quarters or months of those fiscal years.

During the first quarter of 2016, the Company adopted an accounting standard that simplified the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The Company has adopted this accounting standard prospectively; accordingly, the prior period amounts in the Company’s Condensed Consolidated Balance Sheets within this Quarterly Report on Form 10-Q were not adjusted to conform to the new accounting standard. The adoption of this accounting standard was not material to the Company’s condensed consolidated financial statements.

## Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan, unvested restricted stock and unvested restricted stock units ("RSUs"). The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the computation of basic and diluted earnings per share for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (net income in millions and shares in thousands):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Numerator:				
Net income	\$ 10,516	\$ 13,569	\$ 28,877	\$ 31,593
Denominator:				
Weighted-average shares outstanding	5,514,381	5,793,799	5,536,656	5,818,441
Effect of dilutive securities	26,505	41,059	30,850	39,889
Weighted-average diluted shares	<u>5,540,886</u>	<u>5,834,858</u>	<u>5,567,506</u>	<u>5,858,330</u>
Basic earnings per share	\$ 1.91	\$ 2.34	\$ 5.22	\$ 5.43
Diluted earnings per share	\$ 1.90	\$ 2.33	\$ 5.19	\$ 5.39

Potentially dilutive securities whose effect would have been antidilutive are excluded from the computation of diluted earnings per share.

## Note 2 – Financial Instruments

### Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash and available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short- or long-term marketable securities as of March 26, 2016 and September 26, 2015 (in millions):

	March 26, 2016						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 10,199	\$ 0	\$ 0	\$ 10,199	\$ 10,199	\$ 0	\$ 0
Level 1 (1):							
Money market funds	2,798	0	0	2,798	2,798	0	0
Mutual funds	1,772	0	(203)	1,569	0	1,569	0
Subtotal	<u>4,570</u>	<u>0</u>	<u>(203)</u>	<u>4,367</u>	<u>2,798</u>	<u>1,569</u>	<u>0</u>
Level 2 (2):							
U.S. Treasury securities	47,883	207	(24)	48,066	3,753	10,614	33,699
U.S. agency securities	6,641	12	(2)	6,651	465	2,703	3,483
Non-U.S. government securities	6,873	91	(121)	6,843	0	696	6,147
Certificates of deposit and time deposits	4,169	0	0	4,169	1,529	660	1,980
Commercial paper	4,500	0	0	4,500	2,681	1,819	0
Corporate securities	129,394	543	(1,074)	128,863	89	15,553	113,221
Municipal securities	952	6	0	958	0	72	886
Mortgage- and asset-backed securities	18,268	86	(42)	18,312	0	83	18,229
Subtotal	<u>218,680</u>	<u>945</u>	<u>(1,263)</u>	<u>218,362</u>	<u>8,517</u>	<u>32,200</u>	<u>177,645</u>
Total	<u>\$ 233,449</u>	<u>\$ 945</u>	<u>\$ (1,466)</u>	<u>\$ 232,928</u>	<u>\$ 21,514</u>	<u>\$ 33,769</u>	<u>\$ 177,645</u>



September 26, 2015							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 11,389	\$ 0	\$ 0	\$ 11,389	\$ 11,389	\$ 0	\$ 0
Level 1 (1):							
Money market funds	1,798	0	0	1,798	1,798	0	0
Mutual funds	1,772	0	(144)	1,628	0	1,628	0
Subtotal	3,570	0	(144)	3,426	1,798	1,628	0
Level 2 (2):							
U.S. Treasury securities	34,902	181	(1)	35,082	0	3,498	31,584
U.S. agency securities	5,864	14	0	5,878	841	767	4,270
Non-U.S. government securities	6,356	45	(167)	6,234	43	135	6,056
Certificates of deposit and time deposits	4,347	0	0	4,347	2,065	1,405	877
Commercial paper	6,016	0	0	6,016	4,981	1,035	0
Corporate securities	116,908	242	(985)	116,165	3	11,948	104,214
Municipal securities	947	5	0	952	0	48	904
Mortgage- and asset-backed securities	16,121	87	(31)	16,177	0	17	16,160
Subtotal	191,461	574	(1,184)	190,851	7,933	18,853	164,065
Total	\$ 206,420	\$ 574	\$ (1,328)	\$ 205,666	\$ 21,120	\$ 20,481	\$ 164,065

- (1) The fair value of Level 1 securities is estimated based on quoted prices in active markets for identical assets or liabilities.
- (2) The fair value of Level 2 securities is estimated 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.

The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company's long-term marketable securities generally range from one to five years.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. As of March 26, 2016, the Company does not consider any of its investments to be other-than-temporarily impaired.

#### Derivative Financial Instruments

The Company may use derivatives to partially offset its business exposure to foreign currency and interest rate risk on expected future cash flows, on net investments in certain foreign subsidiaries and on certain existing assets and liabilities. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

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

[Table of Contents](#)

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

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

The Company may enter into interest rate swaps, options, or other instruments to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company's term debt or investments. The Company designates these instruments as either cash flow or fair value hedges. The Company's hedged interest rate transactions as of March 26, 2016 are expected to be recognized within ten years.

*Cash Flow Hedges*

The effective portions of cash flow hedges are recorded in accumulated other comprehensive income ("AOCI") until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized in other income/(expense), net in the same period as the related income or expense is recognized. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognized in other income/(expense), net.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income/(expense), net. Any subsequent changes in fair value of such derivative instruments are reflected in other income/(expense), net unless they are re-designated as hedges of other transactions.

*Net Investment Hedges*

The effective portions of net investment hedges are recorded in other comprehensive income ("OCI") as a part of the cumulative translation adjustment. The ineffective portions and amounts excluded from the effectiveness testing of net investment hedges are recognized in other income/(expense), net.

*Fair Value Hedges*

Gains and losses related to changes in fair value hedges are recognized in earnings along with a corresponding loss or gain related to the change in value of the underlying hedged item.

*Non-Designated Derivatives*

Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of March 26, 2016 and September 26, 2015 (in millions):

	March 26, 2016		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (1) :			
Foreign exchange contracts	\$ 564	\$ 69	\$ 633
Interest rate contracts	\$ 557	\$ 0	\$ 557
Derivative liabilities (2) :			
Foreign exchange contracts	\$ 1,033	\$ 243	\$ 1,276
Interest rate contracts	\$ 36	\$ 0	\$ 36

	September 26, 2015			
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value	
Derivative assets (1) :				
Foreign exchange contracts	\$ 1,442	\$ 109	\$	1,551
Interest rate contracts	\$ 394	\$ 0	\$	394
Derivative liabilities (2) :				
Foreign exchange contracts	\$ 905	\$ 94	\$	999
Interest rate contracts	\$ 13	\$ 0	\$	13

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

(2) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses in the Condensed Consolidated Balance Sheets.

The following table shows the pre-tax gains and losses of the Company's derivative and non-derivative instruments designated as cash flow, net investment and fair value hedges on OCI and the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Gains/(Losses) recognized in OCI – effective portion:				
Cash flow hedges:				
Foreign exchange contracts	\$ (138)	\$ 1,249	\$ 188	\$ 3,750
Interest rate contracts	(50)	(87)	(42)	(91)
Total	<u>\$ (188)</u>	<u>\$ 1,162</u>	<u>\$ 146</u>	<u>\$ 3,659</u>
Net investment hedges:				
Foreign exchange contracts	\$ 0	\$ (6)	\$ 0	\$ 112
Foreign currency debt	(87)	0	(77)	0
Total	<u>\$ (87)</u>	<u>\$ (6)</u>	<u>\$ (77)</u>	<u>\$ 112</u>
Gains/(Losses) reclassified from AOCI into net income – effective portion:				
Cash flow hedges:				
Foreign exchange contracts	\$ 668	\$ 818	\$ 1,183	\$ 1,485
Interest rate contracts	(3)	(5)	(7)	(9)
Total	<u>\$ 665</u>	<u>\$ 813</u>	<u>\$ 1,176</u>	<u>\$ 1,476</u>
Gains/(Losses) on derivative instruments:				
Fair value hedges:				
Interest rate contracts	<u>\$ 250</u>	<u>\$ 122</u>	<u>\$ 139</u>	<u>\$ 239</u>
Gains/(Losses) related to hedged items:				
Fair value hedges:				
Interest rate contracts	<u>\$ (250)</u>	<u>\$ (122)</u>	<u>\$ (139)</u>	<u>\$ (239)</u>

## [Table of Contents](#)

The following table shows the notional amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of March 26, 2016 and September 26, 2015 (in millions):

	March 26, 2016		September 26, 2015	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
Instruments designated as accounting hedges:				
Foreign exchange contracts	\$ 41,996	\$ 564	\$ 70,054	\$ 1,385
Interest rate contracts	\$ 23,750	\$ 557	\$ 18,750	\$ 394
Instruments not designated as accounting hedges:				
Foreign exchange contracts	\$ 30,573	\$ 69	\$ 49,190	\$ 109

The notional amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Company's exposure to credit or market loss. The credit risk amounts represent the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date. The Company's exposure to credit loss and market risk will vary over time as currency and interest rates change. Although the table above reflects the notional and credit risk amounts of the Company's derivative instruments, it does not reflect the gains or losses associated with the exposures and transactions that the instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values in its Condensed Consolidated Balance Sheets. As of March 26, 2016, the net cash collateral posted by the Company related to derivative instruments under its collateral security arrangements was \$3 million, which was recorded as other current assets in the Condensed Consolidated Balance Sheet. As of September 26, 2015, the net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was \$1.0 billion, which was recorded as accrued expenses in the Condensed Consolidated Balance Sheet.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. As of March 26, 2016 and September 26, 2015, 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 \$1.4 billion and \$2.2 billion, respectively, resulting in net derivative liabilities of \$119 million and \$78 million, respectively.

## Accounts Receivable

### Trade Receivables

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, value-added resellers, small and mid-sized businesses and education, enterprise and government customers that are not covered by collateral, third-party financing arrangements or credit insurance. As of March 26, 2016 and September 26, 2015, the Company had one customer that represented 12% of total trade receivables. The Company's cellular network carriers accounted for 55% and 71% of trade receivables as of March 26, 2016 and September 26, 2015, 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 sub-assemblies or assemble final products for the Company. Vendor non-trade receivables from three of the Company's vendors accounted for 55%, 14% and 11% of total vendor non-trade receivables as of March 26, 2016 and three of the Company's vendors accounted for 38%, 18% and 14% of total vendor non-trade receivables as of September 26, 2015.

**Note 3 – Condensed Consolidated Financial Statement Details**

The following tables show the Company's condensed consolidated financial statement details as of March 26, 2016 and September 26, 2015 (in millions):

**Property, Plant and Equipment, Net**

	March 26, 2016	September 26, 2015
Land and buildings	\$ 8,391	\$ 6,956
Machinery, equipment and internal-use software	39,723	37,038
Leasehold improvements	5,937	5,263
Gross property, plant and equipment	54,051	49,257
Accumulated depreciation and amortization	(30,848)	(26,786)
Total property, plant and equipment, net	<u>\$ 23,203</u>	<u>\$ 22,471</u>

**Other Non-Current Liabilities**

	March 26, 2016	September 26, 2015
Deferred tax liabilities	\$ 22,955	\$ 24,062
Other non-current liabilities	10,904	9,365
Total other non-current liabilities	<u>\$ 33,859</u>	<u>\$ 33,427</u>

**Other Income/(Expense), Net**

The following table shows the detail of other income/(expense), net for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Interest and dividend income	\$ 986	\$ 675	\$ 1,927	\$ 1,329
Interest expense	(321)	(163)	(597)	(294)
Other expense, net	(510)	(226)	(773)	(579)
Total other income/(expense), net	<u>\$ 155</u>	<u>\$ 286</u>	<u>\$ 557</u>	<u>\$ 456</u>

**Note 4 – Acquired Intangible Assets**

The Company's acquired intangible assets with definite useful lives primarily consist of patents and licenses and are amortized over periods typically from three to seven years. The following table summarizes the components of gross and net acquired intangible asset balances as of March 26, 2016 and September 26, 2015 (in millions):

	March 26, 2016			September 26, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived and amortizable acquired intangible assets	\$ 8,797	\$ (5,054)	\$ 3,743	\$ 8,125	\$ (4,332)	\$ 3,793
Indefinite-lived and non-amortizable acquired intangible assets	100	0	100	100	0	100
Total acquired intangible assets	<u>\$ 8,897</u>	<u>\$ (5,054)</u>	<u>\$ 3,843</u>	<u>\$ 8,225</u>	<u>\$ (4,332)</u>	<u>\$ 3,893</u>

## Note 5 – Income Taxes

As of March 26, 2016, the Company recorded gross unrecognized tax benefits of \$7.5 billion, of which \$2.8 billion, if recognized, would affect the Company's effective tax rate. As of September 26, 2015, the total amount of gross unrecognized tax benefits was \$6.9 billion, of which \$2.5 billion, if recognized, would have affected the Company's effective tax rate. The Company's total gross unrecognized tax benefits are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. The Company had \$1.5 billion and \$1.3 billion of gross interest and penalties accrued as of March 26, 2016 and September 26, 2015, respectively, which are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease (whether by payment, release or a combination of both) in the next 12 months by as much as \$800 million.

On June 11, 2014, the European Commission issued an opening decision initiating a formal investigation against Ireland for alleged state aid to the Company. The opening decision concerns the allocation of profits for taxation purposes of the Irish branches of two subsidiaries of the Company. The Company believes the European Commission's assertions are without merit. If the European Commission were to conclude against Ireland, the European Commission could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid. While such amount could be material, as of March 26, 2016 the Company is unable to estimate the impact.

## 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 March 26, 2016 and September 26, 2015, the Company had \$8.0 billion and \$8.5 billion of Commercial Paper outstanding, respectively, with maturities generally less than nine months. The weighted-average interest rate of the Company's Commercial Paper was 0.39% as of March 26, 2016 and 0.14% as of September 26, 2015.

The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the six months ended March 26, 2016 and March 28, 2015 (in millions):

	Six Months Ended	
	March 26, 2016	March 28, 2015
Maturities less than 90 days:		
Proceeds from (repayments of) commercial paper, net	\$ 660	\$ 985
Maturities greater than 90 days:		
Proceeds from commercial paper	669	547
Repayments of commercial paper	(1,832)	(4,040)
Proceeds from (repayments of) commercial paper, net	(1,163)	(3,493)
Total change in commercial paper, net	<u>\$ (503)</u>	<u>\$ (2,508)</u>

## Long-Term Debt

As of March 26, 2016, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$71.3 billion (collectively the "Notes"). The Notes are senior unsecured obligations, and interest is payable in arrears, quarterly for the U.S. dollar-denominated and Australian dollar-denominated floating-rate notes, semi-annually for the U.S. dollar-denominated, Australian dollar-denominated, British pound-denominated and Japanese yen-denominated fixed-rate notes and annually for the euro-denominated and Swiss franc-denominated fixed-rate notes. The following table provides a summary of the Company's term debt as of March 26, 2016 and September 26, 2015:

		March, 26, 2016		September 26, 2015	
	Maturities	Amount (in millions)	Effective Interest Rate	Amount (in millions)	Effective Interest Rate
2013 debt issuance of \$17.0 billion:					
Floating-rate notes	2016 - 2018	\$ 3,000	0.51% - 1.10%	\$ 3,000	0.51% - 1.10%
Fixed-rate 0.45% - 3.85% notes	2016 - 2043	14,000	0.51% - 3.91%	14,000	0.51% - 3.91%
2014 debt issuance of \$12.0 billion:					
Floating-rate notes	2017 - 2019	2,000	0.69% - 0.92%	2,000	0.37% - 0.60%
Fixed-rate 1.05% - 4.45% notes	2017 - 2044	10,000	0.69% - 4.48%	10,000	0.37% - 4.48%
2015 debt issuances of \$27.3 billion:					
Floating-rate notes	2017 - 2020	1,781	0.67% - 1.87%	1,743	0.36% - 1.87%
Fixed-rate 0.35% - 4.375% notes	2017 - 2045	25,063	0.28% - 4.51%	24,958	0.28% - 4.51%
Second quarter 2016 debt issuance of \$15.5 billion:					
Floating-rate notes	2019	500	1.44%	0	0
Floating-rate notes	2021	500	1.75%	0	0
Fixed-rate 1.30% notes	2018	500	1.32%	0	0
Fixed-rate 1.70% notes	2019	1,000	1.71%	0	0
Fixed-rate 2.25% notes	2021	3,000	1.80%	0	0
Fixed-rate 2.85% notes	2023	1,500	2.48%	0	0
Fixed-rate 3.25% notes	2026	3,250	2.33%	0	0
Fixed-rate 4.50% notes	2036	1,250	4.54%	0	0
Fixed-rate 4.65% notes	2046	4,000	4.58%	0	0
Total debt issuance		15,500		0	
Total term debt		71,344		55,701	
Unamortized premium/(discount)		15		(114)	
Hedge accounting fair value adjustments		515		376	
Less: Current portion of long-term debt		(2,500)		(2,500)	
Total long-term debt		\$ 69,374		\$ 53,463	

During the second quarter of 2016, the Company issued \$15.5 billion U.S. dollar-denominated notes. To manage interest rate risk on the U.S. dollar-denominated fixed-rate notes maturing in 2021, 2023 and 2026, the Company entered into interest rate swaps with an aggregate notional amount of \$5.0 billion, which effectively converted a portion of the fixed interest rates on these notes to a floating interest rate.

As of March 26, 2016, ¥149.3 billion of Japanese yen-denominated notes was designated as a hedge of the foreign currency exposure of its net investment in a foreign operation. The foreign currency transaction gain or loss on the Japanese yen-denominated debt designated as a hedge is recorded in OCI as a part of the cumulative translation adjustment. As of March 26, 2016 and September 26, 2015, the carrying value of the debt designated as a net investment hedge was \$1.3 billion and \$2.1 billion, respectively. For further discussion regarding the Company's use of derivative instruments see the Derivative Financial Instruments section of Note 2, "Financial Instruments."

The effective interest rates for the Notes include the interest on the Notes, amortization of the discount and, if applicable, adjustments related to hedging. The Company recognized \$311 million and \$582 million of interest expense on its term debt for the three- and six-month periods ended March 26, 2016, respectively. The Company recognized \$161 million and \$289 million of interest expense on its term debt for the three- and six-month periods ended March 28, 2015, respectively.

As of March 26, 2016 and September 26, 2015, the fair value of the Company's Notes, based on Level 2 inputs, was \$72.4 billion and \$54.9 billion, respectively.

## Note 7 – Shareholders' Equity

### Dividends

The Company declared and paid cash dividends per share during the periods presented as follows:

	<b>Dividends Per Share</b>	<b>Amount (in millions)</b>
2016:		
Second quarter	\$ 0.52	\$ 2,879
First quarter	0.52	2,898
Total cash dividends declared and paid	<u>\$ 1.04</u>	<u>\$ 5,777</u>
2015:		
Fourth quarter	\$ 0.52	\$ 2,950
Third quarter	0.52	2,997
Second quarter	0.47	2,734
First quarter	0.47	2,750
Total cash dividends declared and paid	<u>\$ 1.98</u>	<u>\$ 11,431</u>

Future dividends are subject to declaration by the Board of Directors.

### Share Repurchase Program

In 2015, the Company's Board of Directors increased the share repurchase authorization to \$140 billion of the Company's common stock, of which \$117 billion had been utilized as of March 26, 2016. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Company has entered, and in the future may enter, into accelerated share repurchase arrangements ("ASRs") with financial institutions. In exchange for up-front payments, the financial institutions deliver shares of the Company's common stock during the purchase periods of each ASR. The total number of shares ultimately delivered, and therefore the average repurchase price paid per share, is determined at the end of the applicable purchase period of each ASR based on the volume weighted-average price of the Company's common stock during that period. The shares received are retired in the periods they are delivered, and the up-front payments are accounted for as a reduction to shareholders' equity in the Company's Condensed Consolidated Balance Sheets in the periods the payments are made. The Company reflects the ASRs as a repurchase of common stock in the period delivered for purposes of calculating earnings per share and as forward contracts indexed to its own common stock. The ASRs met all of the applicable criteria for equity classification, and therefore were not accounted for as derivative instruments.

The following table shows the Company's ASR activity and related information during the six months ended March 26, 2016 and the year ended September 26, 2015:

	<b>Purchase Period End Date</b>	<b>Number of Shares (in thousands)</b>	<b>Average Repurchase Price Per Share</b>	<b>ASR Amount (in millions)</b>
November 2015 ASR	April 2016	20,382 <sup>(1)</sup>	\$ (1)	\$ 3,000
May 2015 ASR	July 2015	48,293	\$ 124.24	\$ 6,000
August 2014 ASR	February 2015	81,525	\$ 110.40	\$ 9,000
January 2014 ASR	December 2014	134,247	\$ 89.39	\$ 12,000

- (1) "Number of Shares" represents those shares delivered in the beginning of the purchase period and does not represent the final number of shares to be delivered under the ASR. The total number of shares ultimately delivered, and therefore the average repurchase price paid per share, will be determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's common stock during that period. The November 2015 ASR purchase period will end in or before April 2016.



[Table of Contents](#)

Additionally, the Company repurchased shares of its common stock in the open market, which were retired upon repurchase, during the periods presented as follows:

	<u>Number of Shares</u> <u>(in thousands)</u>	<u>Average Repurchase</u> <u>Price Per Share</u>	<u>Amount</u> <u>(in millions)</u>
2016:			
Second quarter	71,766	\$ 97.54	\$ 7,000
First quarter	25,984	\$ 115.45	3,000
Total open market common stock repurchases	<u>97,750</u>		<u>\$ 10,000</u>
2015:			
Fourth quarter	121,802	\$ 115.15	\$ 14,026
Third quarter	31,231	\$ 128.08	4,000
Second quarter	56,400	\$ 124.11	7,000
First quarter	45,704	\$ 109.40	5,000
Total open market common stock repurchases	<u>255,137</u>		<u>\$ 30,026</u>

#### Note 8 – Comprehensive Income

Comprehensive income consists of two components, net income and OCI. OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Company's OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges and unrealized gains and losses on marketable securities classified as available-for-sale.

The following table shows the pre-tax amounts reclassified from AOCI into the Condensed Consolidated Statements of Operations, and the associated financial statement line item, for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

<u>Comprehensive Income Components</u>	<u>Financial Statement</u> <u>Line Item</u>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
		<u>March 26,</u> <u>2016</u>	<u>March 28,</u> <u>2015</u>	<u>March 26,</u> <u>2016</u>	<u>March 28,</u> <u>2015</u>
Unrealized (gains)/losses on derivative instruments:					
Foreign exchange contracts	Revenue	\$ (325)	\$ (558)	\$ (654)	\$ (1,007)
	Cost of sales	(219)	(608)	(525)	(921)
	Other income/(expense), net	(131)	348	(11)	443
Interest rate contracts	Other income/(expense), net	3	4	7	8
		(672)	(814)	(1,183)	(1,477)
Unrealized (gains)/losses on marketable securities	Other income/(expense), net	76	56	149	34
Total amounts reclassified from AOCI		<u>\$ (596)</u>	<u>\$ (758)</u>	<u>\$ (1,034)</u>	<u>\$ (1,443)</u>

[Table of Contents](#)

The following table shows the changes in AOCI by component for the six months ended March 26, 2016 (in millions):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Securities	Total
Balance at September 26, 2015	\$ (653)	\$ 772	\$ (464)	\$ (345)
Other comprehensive income/(loss) before reclassifications	18	146	69	233
Amounts reclassified from AOCI	0	(1,183)	149	(1,034)
Tax effect	0	173	(75)	98
Other comprehensive income/(loss)	18	(864)	143	(703)
Balance at March 26, 2016	\$ (635)	\$ (92)	\$ (321)	\$ (1,048)

## Note 9 – Benefit Plans

### Stock Plans

The Company had 377.3 million shares reserved for future issuance under its stock plans as of March 26, 2016. RSUs granted generally vest over four years, based on continued employment, and are settled upon vesting in shares of the Company's common stock on a one-for-one basis. Each share issued with respect to RSUs granted under the Company's stock plans reduces the number of shares available for grant under the plan by two shares. RSUs cancelled and shares withheld to satisfy tax withholding obligations increase the number of shares available for grant under the plans utilizing a factor of two times the number of RSUs cancelled or shares withheld. Stock options count against the number of shares available for grant on a one-for-one basis.

### Rule 10b5-1 Trading Plans

During the three months ended March 26, 2016, Section 16 officers Timothy D. Cook, Angela Ahrendts, Luca Maestri, Daniel Riccio, Philip Schiller and Jeffrey Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under the Exchange Act. An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including shares acquired pursuant to the Company's employee and director equity plans.

### Restricted Stock Units

A summary of the Company's RSU activity and related information for the six months ended March 26, 2016 is as follows:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Balance at September 26, 2015	101,467	\$ 85.77	
RSUs granted	43,513	\$ 110.57	
RSUs vested	(22,353)	\$ 78.86	
RSUs cancelled	(2,413)	\$ 93.43	
Balance at March 26, 2016	120,214	\$ 95.80	\$ 12,703

RSUs that vested during the three- and six-month periods ended March 26, 2016 had fair values of \$450 million and \$2.5 billion, respectively, as of the vesting date. RSUs that vested during the three- and six-month periods ended March 28, 2015 had fair values of \$317 million and \$2.0 billion, respectively, as of the vesting date.

### Stock Options

The Company had 1.1 million stock options outstanding as of March 26, 2016, with a weighted-average exercise price per share of \$15.48 and weighted-average remaining contractual term of 3.7 years, substantially all of which are exercisable. The aggregate intrinsic value of the stock options outstanding as of March 26, 2016 was \$100 million, which represents the value of the Company's closing stock price on the last trading day of the period in excess of the weighted-average exercise price multiplied by the number of options outstanding.

## Share-Based Compensation

The following table shows a summary of the share-based compensation expense included in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Cost of sales	\$ 191	\$ 142	\$ 395	\$ 282
Research and development	468	384	934	758
Selling, general and administrative	389	401	797	775
Total share-based compensation expense	<u>\$ 1,048</u>	<u>\$ 927</u>	<u>\$ 2,126</u>	<u>\$ 1,815</u>

The income tax benefit related to share-based compensation expense was \$347 million and \$760 million for the three- and six-month periods ended March 26, 2016, respectively, and was \$311 million and \$662 million for the three- and six-month periods ended March 28, 2015, respectively. As of March 26, 2016, the total unrecognized compensation cost related to outstanding stock options, RSUs and restricted stock was \$9.1 billion, which the Company expects to recognize over a weighted-average period of 2.9 years.

## Note 10 – Commitments and Contingencies

### Accrued Warranty and Indemnification

The following table shows changes in the Company's accrued warranties and related costs for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Beginning accrued warranty and related costs	\$ 5,236	\$ 5,195	\$ 4,780	\$ 4,159
Cost of warranty claims	(1,128)	(1,030)	(2,397)	(2,074)
Accruals for product warranty	877	978	2,602	3,058
Ending accrued warranty and related costs	<u>\$ 4,985</u>	<u>\$ 5,143</u>	<u>\$ 4,985</u>	<u>\$ 5,143</u>

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to indemnification of end-users of its operating system or application software for infringement of third-party intellectual property rights.

The Company offers an iPhone Upgrade Program, which is available to customers who purchase an iPhone 6s and 6s Plus in one of its U.S. physical retail stores and activate the purchased iPhone with one of the four national carriers. The iPhone Upgrade Program provides customers the right to trade in that iPhone for a new iPhone, provided certain conditions are met. One of the conditions of this program requires the customer to finance the initial purchase price of the iPhone with a third-party lender. Upon exercise of the trade-in right and purchase of a new iPhone, the Company satisfies the customer's outstanding balance due to the third-party lender on the original device. The Company accounts for the trade-in right as a guarantee liability and recognizes arrangement revenue net of the fair value of such right with subsequent changes to the guarantee liability recognized within revenue.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations.

### **Concentrations in the Available Sources of Supply of Materials and Product**

Although most components essential to the Company's business are generally available from multiple sources, a number of 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 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 those suppliers concentrated 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. 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 the sole-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 operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's purchase commitments typically cover its requirements for periods up to 150 days.

### **Other Off-Balance Sheet Commitments**

#### *Operating Leases*

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The major facility leases are typically for terms not exceeding 10 years and generally contain multi-year renewal options. As of March 26, 2016, the Company had a total of 475 retail stores. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of March 26, 2016, the Company's total future minimum lease payments under noncancelable operating leases were \$6.8 billion, of which \$3.9 billion related to leases for retail space.

### **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 adjudicated, certain of which are discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors." 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 in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

#### *Apple Inc. v. Samsung Electronics Co., Ltd., et al.*

On August 24, 2012, a jury returned a verdict awarding the Company \$1.05 billion in its lawsuit against Samsung Electronics Co., Ltd. and affiliated parties in the United States District Court, Northern District of California, San Jose Division. On March 6, 2014, the District Court entered final judgment in favor of the Company in the amount of approximately \$930 million. On May 18, 2015, the U.S. Court of Appeals for the Federal Circuit affirmed in part, and reversed in part, the decision of the District Court. As a result, the Court of Appeals ordered entry of final judgment on damages in the amount of approximately \$548 million, with the District Court to determine supplemental damages and interest, as well as damages owed for products subject to the reversal in part. Samsung paid \$548 million to the Company in December 2015, which was included in net sales in the Condensed Consolidated Statement of Operations. Because the case remains subject to further proceedings, the Company has not recognized any further amounts in its results of operations. On March 21, 2016, the United States Supreme Court agreed to hear Samsung's request for appeal related to the \$548 million in damages.

**Note 11 – Segment Information and Geographic Data**

The Company reports segment information based on the “management” approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company’s reportable operating segments.

The Company manages its business primarily on a geographic basis. The Company’s reportable operating segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and those Asian countries not included in the Company’s other reportable operating segments. Although the reportable operating segments provide similar hardware and software products and similar services, each one is managed separately to better align with the location of the Company’s customers and distribution partners and the unique market dynamics of each geographic region. The accounting policies of the various segments are the same as those described in Note 1, “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2015 Form 10-K.

The Company evaluates the performance of its reportable operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers and sales through the Company’s retail stores located in those geographic locations. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the reportable operating segments. Costs excluded from segment operating income include various corporate expenses such as research and development, corporate marketing expenses, certain share-based compensation expenses, income taxes, various nonrecurring charges and other separately managed general and administrative costs. The Company does not include intercompany transfers between segments for management reporting purposes.

[Table of Contents](#)

The following table shows information by reportable operating segment for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 26, 2016</b>	<b>March 28, 2015</b>	<b>March 26, 2016</b>	<b>March 28, 2015</b>
<b>Americas:</b>				
Net sales	\$ 19,096	\$ 21,316	\$ 48,421	\$ 51,882
Operating income	\$ 6,116	\$ 7,186	\$ 16,134	\$ 17,887
<b>Europe:</b>				
Net sales	\$ 11,535	\$ 12,204	\$ 29,467	\$ 29,418
Operating income	\$ 3,602	\$ 4,112	\$ 9,381	\$ 9,994
<b>Greater China:</b>				
Net sales	\$ 12,486	\$ 16,823	\$ 30,859	\$ 32,967
Operating income	\$ 4,818	\$ 6,714	\$ 12,394	\$ 13,080
<b>Japan:</b>				
Net sales	\$ 4,281	\$ 3,457	\$ 9,075	\$ 8,905
Operating income	\$ 1,930	\$ 1,699	\$ 4,170	\$ 4,187
<b>Rest of Asia Pacific:</b>				
Net sales	\$ 3,159	\$ 4,210	\$ 8,607	\$ 9,437
Operating income	\$ 1,095	\$ 1,600	\$ 3,127	\$ 3,449

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (in millions):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 26, 2016</b>	<b>March 28, 2015</b>	<b>March 26, 2016</b>	<b>March 28, 2015</b>
Segment operating income	\$ 17,561	\$ 21,311	\$ 45,206	\$ 48,597
Research and development expense	(2,511)	(1,918)	(4,915)	(3,813)
Other corporate expenses, net	(1,063)	(1,115)	(2,133)	(2,260)
Total operating income	<u>\$ 13,987</u>	<u>\$ 18,278</u>	<u>\$ 38,158</u>	<u>\$ 42,524</u>

## 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 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. 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 II, Item 1A of this Form 10-Q under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended September 26, 2015 (the "2015 Form 10-K") filed with the U.S. Securities and Exchange Commission (the "SEC") and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. 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.*

### Available Information

The Company's Annual Report 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 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 on the Company's website at [investor.apple.com/sec.cfm](http://investor.apple.com/sec.cfm) when such reports are available on the SEC's website. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. 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](http://www.sec.gov). The contents of websites are not incorporated into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

### Overview and Highlights

#### Company Background

The Company designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, iPod®, Apple Watch®, Apple TV®, a portfolio of consumer and professional software applications, iOS, OS X®, watchOS® and tvOS™ operating systems, iCloud®, Apple Pay® and a variety of 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, iBooks Store™ and Apple Music™ (collectively "Internet 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 value-added resellers. In addition, the Company sells a variety of third-party Apple compatible products, including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

#### 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 Internet Services, which allows customers to discover and download digital content, iOS, Mac, Apple Watch and Apple TV applications, and books through either a Mac or Windows-based computer or through iPhone, iPad and iPod touch® devices ("iOS devices") and Apple Watch. 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 and technologies.

## 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 often, channel inventory of a particular product 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.

## Second Quarter Fiscal 2016 Highlights

Net sales decreased 13% or \$7.5 billion during the second quarter of 2016 compared to the same quarter in 2015, primarily driven by lower iPhone sales and the effect of weakness in most foreign currencies relative to the U.S. dollar. The Company had strong year-over-year net sales growth in Services and Other Products. During the second quarter of 2016, the Company introduced iPhone SE and the 9.7-inch iPad Pro™, both of which were available beginning in the third quarter of 2016.

The Company utilized \$7.0 billion to repurchase shares of its common stock and paid dividends and dividend equivalents of \$2.9 billion during the second quarter of 2016. Additionally, the Company issued \$15.5 billion of U.S. dollar-denominated long-term debt.

## Sales Data

The following table shows net sales by operating segment and net sales and unit sales by product for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions and units in thousands):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
<b>Net Sales by Operating Segment:</b>						
Americas	\$ 19,096	\$ 21,316	(10)%	\$ 48,421	\$ 51,882	(7)%
Europe	11,535	12,204	(5)%	29,467	29,418	0%
Greater China	12,486	16,823	(26)%	30,859	32,967	(6)%
Japan	4,281	3,457	24%	9,075	8,905	2%
Rest of Asia Pacific	3,159	4,210	(25)%	8,607	9,437	(9)%
Total net sales	<u>\$ 50,557</u>	<u>\$ 58,010</u>	(13)%	<u>\$ 126,429</u>	<u>\$ 132,609</u>	(5)%
<b>Net Sales by Product:</b>						
iPhone (1)	\$ 32,857	\$ 40,282	(18)%	\$ 84,492	\$ 91,464	(8)%
iPad (1)	4,413	5,428	(19)%	11,497	14,413	(20)%
Mac (1)	5,107	5,615	(9)%	11,853	12,559	(6)%
Services (2)	5,991	4,996	20%	12,047	9,795	23%
Other Products (1)(3)	2,189	1,689	30%	6,540	4,378	49%
Total net sales	<u>\$ 50,557</u>	<u>\$ 58,010</u>	(13)%	<u>\$ 126,429</u>	<u>\$ 132,609</u>	(5)%
<b>Unit Sales by Product:</b>						
iPhone	51,193	61,170	(16)%	125,972	135,638	(7)%
iPad	10,251	12,623	(19)%	26,373	34,042	(23)%
Mac	4,034	4,563	(12)%	9,346	10,082	(7)%

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

(2) Includes revenue from Internet Services, AppleCare®, Apple Pay, licensing and other services.

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



## Product Performance

### iPhone

The following table presents iPhone net sales and unit sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions and units in thousands):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 32,857	\$ 40,282	(18)%	\$ 84,492	\$ 91,464	(8)%
Percentage of total net sales	65%	69%		67%	69%	
Unit sales	51,193	61,170	(16)%	125,972	135,638	(7)%

iPhone net sales and unit sales decreased during the second quarter and first six months of 2016 compared to the same periods in 2015. The Company believes the unit sales decline is due primarily to the acceleration of iPhone upgrades in the first half of 2015 and challenging macroeconomic conditions around the world. Average selling prices ("ASPs") for iPhone were lower year-over-year during the second quarter and first six months of 2016 due to a change in the mix of iPhones and the effect of weakness in foreign currencies relative to the U.S. dollar.

### iPad

The following table presents iPad net sales and unit sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions and units in thousands):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 4,413	\$ 5,428	(19)%	\$ 11,497	\$ 14,413	(20)%
Percentage of total net sales	9%	9%		9%	11%	
Unit sales	10,251	12,623	(19)%	26,373	34,042	(23)%

iPad net sales and unit sales declined during the second quarter and first six months of 2016 compared to the same periods in 2015. The Company believes the decline in iPad sales is due in part to a longer repurchase cycle for iPads and some level of cannibalization from the Company's other products. Year-over-year ASPs for iPad were flat during the second quarter of 2016 and increased 3% during the first six months of 2016 due primarily to a shift in mix to higher-capacity iPads and the launch of iPad Pro, partially offset by the effect of weakness in foreign currencies relative to the U.S. dollar.

### Mac

The following table presents Mac net sales and unit sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions and units in thousands):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 5,107	\$ 5,615	(9)%	\$ 11,853	\$ 12,559	(6)%
Percentage of total net sales	10%	10%		9%	9%	
Unit sales	4,034	4,563	(12)%	9,346	10,082	(7)%

Mac net sales and unit sales declined during the second quarter and first six months of 2016 compared to the same periods in 2015, similar to the overall market contraction. Mac ASPs increased during the second quarter and first six months of 2016 compared to the same periods in 2015 due primarily to a change in the mix of Macs, partially offset by the effect of weakness in foreign currencies relative to the U.S. dollar.

[Table of Contents](#)

### Services

The following table presents net sales information of Services for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 5,991	\$ 4,996	20%	\$ 12,047	\$ 9,795	23%
Percentage of total net sales	12%	9%		10%	7%	

The year-over-year increase in net sales of Services in the second quarter and first six months of 2016 was due primarily to higher App Store, licensing and AppleCare sales. During the first quarter of 2016, the Company received \$548 million from Samsung Electronics Co., Ltd. related to its patent infringement lawsuit, which was recorded as licensing net sales within Services.

### Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and those Asian countries not included in the Company's other reportable operating segments. Although, the reportable operating 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 operating segments can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements, in Note 11, "Segment Information and Geographic Data."

### Americas

The following table presents Americas net sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 19,096	\$ 21,316	(10)%	\$ 48,421	\$ 51,882	(7)%
Percentage of total net sales	38%	37%		38%	39%	

Americas net sales decreased during the second quarter and first six months of 2016 compared to the same periods in 2015 due primarily to lower net sales of iPhone and the effect of weakness in foreign currencies relative to the U.S. dollar.

### Europe

The following table presents Europe net sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 11,535	\$ 12,204	(5)%	\$ 29,467	\$ 29,418	0%
Percentage of total net sales	23%	21%		23%	22%	

Europe net sales decreased during the second quarter of 2016 compared to the same period in 2015 due primarily to the effect of weakness in foreign currencies relative to the U.S. dollar. Year-over-year Europe net sales were flat during the first six months of 2016 due primarily to the effect of weakness in foreign currencies relative to the U.S. dollar, offset by higher unit sales of iPhone.

[Table of Contents](#)

### Greater China

The following table presents Greater China net sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 12,486	\$ 16,823	(26)%	\$ 30,859	\$ 32,967	(6)%
Percentage of total net sales	25%	29%		24%	25%	

Greater China net sales decreased during the second quarter and first six months of 2016 compared to the same periods in 2015 due primarily to lower net sales of iPhone and the effect of weakness in foreign currencies relative to the U.S. dollar.

### Japan

The following table presents Japan net sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 4,281	\$ 3,457	24%	\$ 9,075	\$ 8,905	2%
Percentage of total net sales	8%	6%		7%	7%	

Japan net sales increased during the second quarter of 2016 compared to the same period in 2015 due primarily to higher net sales of iPhone and Services. The year-over-year increase in Japan net sales during the first six months of 2016 was due primarily to higher sales of Services, partially offset by the effect of weakness in the Japanese Yen relative to the U.S. dollar.

### Rest of Asia Pacific

The following table presents Rest of Asia Pacific net sales information for the three- and six-month periods ended March 26, 2016 and March 28, 2015 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Net sales	\$ 3,159	\$ 4,210	(25)%	\$ 8,607	\$ 9,437	(9)%
Percentage of total net sales	6%	7%		7%	7%	

Rest of Asia Pacific net sales decreased during the second quarter and first six months of 2016 compared to the same periods in 2015 due primarily to lower net sales of iPhone and the effect of weakness in foreign currencies relative to the U.S. dollar.

## Gross Margin

Gross margin for the three- and six-month periods ended March 26, 2016 and March 28, 2015 was as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Net sales	\$ 50,557	\$ 58,010	\$ 126,429	\$ 132,609
Cost of sales	30,636	34,354	76,085	79,212
Gross margin	\$ 19,921	\$ 23,656	\$ 50,344	\$ 53,397
Gross margin percentage	39.4%	40.8%	39.8%	40.3%

The gross margin percentage decreased during the second quarter of 2016 and the first six months of 2016 compared to the same periods in 2015 due primarily to the effect of weakness in foreign currencies relative to the U.S. dollar and unfavorable leverage on fixed costs from lower net sales, partially offset by a favorable shift in mix to products and services with higher margins.

The Company anticipates gross margin during the third quarter of 2016 to be between 37.5% and 38.0%. The foregoing statement regarding the Company's expected gross margin percentage in the third quarter of 2016 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, its financial condition and operating results, including gross margins, could be significantly affected by fluctuations in exchange rates.

## Operating Expenses

Operating expenses for the three- and six-month periods ended March 26, 2016 and March 28, 2015 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Research and development	\$ 2,511	\$ 1,918	\$ 4,915	\$ 3,813
Percentage of total net sales	5.0%	3.3%	3.9%	2.9%
Selling, general and administrative	\$ 3,423	\$ 3,460	\$ 7,271	\$ 7,060
Percentage of total net sales	6.8%	6.0%	5.8%	5.3%
Total operating expenses	\$ 5,934	\$ 5,378	\$ 12,186	\$ 10,873
Percentage of total net sales	11.7%	9.3%	9.6%	8.2%

### Research and Development

The year-over-year increase in R&D expense during the second quarter and first six months of 2016 compared to the same periods in 2015 was driven primarily by an increase in headcount and related expenses, including share-based compensation costs, and material costs to support expanded R&D activities. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and updated products that are central to the Company's core business strategy.

### Selling, General and Administrative

The year-over-year decrease in selling, general and administrative expense during the second quarter of 2016 compared to the same period in 2015 was due primarily to a decrease in advertising and related programs, partially offset by an increase in headcount and related expenses. The year-over-year increase in selling, general and administrative expense during the first six months of 2016 compared to the same period in 2015 was due primarily to increased headcount and related expenses.

## Other Income/(Expense), Net

Other income/(expense), net for the three- and six-month periods ended March 26, 2016 and March 28, 2015 was as follows (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 26, 2016	March 28, 2015	Change	March 26, 2016	March 28, 2015	Change
Interest and dividend income	\$ 986	\$ 675		\$ 1,927	\$ 1,329	
Interest expense	(321)	(163)		(597)	(294)	
Other expense, net	(510)	(226)		(773)	(579)	
Total other income/(expense), net	\$ 155	\$ 286	(46)%	\$ 557	\$ 456	22%

The decrease in other income/(expense), net during the second quarter of 2016 compared to the same period in 2015 was due primarily to higher interest expense on debt and higher expenses associated with foreign exchange activity, partially offset by higher interest income. The increase in other income/(expense), net during the first six months of 2016 compared to the same period in 2015 was due primarily to higher interest income, partially offset by higher interest expense on debt and losses on marketable securities. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.74% and 1.43% in the second quarter of 2016 and 2015, respectively, and 1.70% and 1.42% in the first six months of 2016 and 2015, respectively.

## Provision for Income Taxes

Provision for income taxes and effective tax rates for the three- and six-month periods ended March 26, 2016 and March 28, 2015 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2016	March 28, 2015	March 26, 2016	March 28, 2015
Provision for income taxes	\$ 3,626	\$ 4,995	\$ 9,838	\$ 11,387
Effective tax rate	25.6%	26.9%	25.4%	26.5%

The Company's effective tax rates during the second quarter of 2016 and 2015 differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings, a substantial portion of which was generated by subsidiaries organized in Ireland, for which no U.S. taxes are provided when such earnings are intended to be indefinitely reinvested outside the U.S. The lower effective tax rate during the second quarter and first six months of 2016 compared to the same periods in 2015 was due primarily to a different geographic mix of earnings.

The U.S. Internal Revenue Service is currently examining the years 2010 through 2012, and all years prior to 2010 are closed. In addition, the Company is subject to audits by state, local and foreign tax authorities. Management believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

On June 11, 2014, the European Commission issued an opening decision initiating a formal investigation against Ireland for alleged state aid to the Company. The opening decision concerns the allocation of profits for taxation purposes of the Irish branches of two subsidiaries of the Company. The Company believes the European Commission's assertions are without merit. If the European Commission were to conclude against Ireland, the European Commission could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid. While such amount could be material, as of March 26, 2016 the Company is unable to estimate the impact.

## Recent Accounting Pronouncements

### Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation (Topic 718) ("ASU 2016-09"), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. ASU 2016-09 will be effective for the Company beginning in its first quarter of 2018. The Company is currently evaluating the impact of adopting the new stock compensation standard on its consolidated financial statements.

## [Table of Contents](#)

### *Leases*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of 2020 and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting the new lease standard on its consolidated financial statements.

### *Financial Instruments*

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its first quarter of 2019. The Company does not believe the adoption of the new financial instruments standard will have a material impact on its consolidated financial statements.

### *Revenue Recognition*

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter of 2018. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either its first quarter of 2018 or 2019.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations ("ASU 2016-08"), which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing ("ASU 2016-10"), which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The Company must adopt ASU 2016-08 and ASU 2016-10 with ASU 2014-09.

The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements.

### **Liquidity and Capital Resources**

The following tables present selected financial information and statistics as of March 26, 2016 and September 26, 2015 and for the first six months of 2016 and 2015 (in millions):

	<b>March 26, 2016</b>	<b>September 26, 2015</b>
Cash, cash equivalents and marketable securities	\$ 232,928	\$ 205,666
Property, plant and equipment, net	\$ 23,203	\$ 22,471
Commercial paper	\$ 7,998	\$ 8,499
Total term debt	\$ 71,874	\$ 55,963
Working capital	\$ 19,327	\$ 8,768
	<b>Six Months Ended</b>	
	<b>March 26, 2016</b>	<b>March 28, 2015</b>
Cash generated by operating activities	\$ 39,064	\$ 52,803
Cash used in investing activities	\$ (34,110)	\$ (43,496)
Cash used in financing activities	\$ (4,560)	\$ (8,662)

The Company believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations over the next 12 months. The Company currently anticipates the cash used for future dividends, the share repurchase program and debt repayments will come from its current domestic cash, cash generated from on-going U.S. operating activities and from borrowings.

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## [Table of Contents](#)

As of March 26, 2016 and September 26, 2015, the Company's cash, cash equivalents and marketable securities held by foreign subsidiaries were \$208.9 billion and \$186.9 billion, respectively, and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The Company's marketable securities investment portfolio is invested primarily in highly-rated securities and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade with the objective of minimizing the potential risk of principal loss.

During the six months ended March 26, 2016, cash generated from operating activities of \$39.1 billion was a result of \$28.9 billion of net income, non-cash adjustments to net income of \$10.6 billion and a decrease in the net change in operating assets and liabilities of \$0.5 billion. Cash used in investing activities of \$34.1 billion during the six months ended March 26, 2016 consisted primarily of cash used for purchases of marketable securities, net of sales and maturities, of \$27.0 billion and cash used to acquire property, plant and equipment of \$5.9 billion. Cash used in financing activities of \$4.6 billion during the six months ended March 26, 2016 consisted primarily of cash used to repurchase common stock of \$13.5 billion, and cash used to pay dividends and dividend equivalents of \$5.9 billion, partially offset by proceeds from issuance of term debt, net of \$15.6 billion.

During the six months ended March 28, 2015, cash generated from operating activities of \$52.8 billion was a result of \$31.6 billion of net income, non-cash adjustments to net income of \$8.7 billion and an increase in the net change in operating assets and liabilities of \$12.5 billion. Cash used in investing activities of \$43.5 billion during the six months ended March 28, 2015 consisted primarily of cash used for purchases of marketable securities, net of sales and maturities, of \$37.7 billion and cash used to acquire property, plant and equipment of \$5.6 billion. Cash used in financing activities of \$8.7 billion during the six months ended March 28, 2015 consisted primarily of cash used to repurchase common stock of \$12.0 billion, cash used to pay dividends and dividend equivalents of \$5.5 billion and cash used for repayments of commercial paper, net of \$2.5 billion, partially offset by proceeds from the issuance of term debt, net of \$11.3 billion.

### *Capital Assets*

The Company's capital expenditures were \$2.8 billion during the first six months of 2016. The Company anticipates utilizing approximately \$15.0 billion for capital expenditures during 2016, which includes product tooling and manufacturing process equipment; data centers; corporate facilities and infrastructure, including information systems hardware, software and enhancements; and retail store facilities.

### *Debt*

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses the net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of March 26, 2016, the Company had \$8.0 billion of Commercial Paper outstanding, with a weighted-average interest rate of 0.39% and maturities generally less than nine months.

As of March 26, 2016, the Company has outstanding floating- and fixed-rate notes for an aggregate principal amount of \$71.3 billion (collectively the "Notes"). The Company has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on the Notes. In addition, the Company has entered, and in the future may enter, into currency swaps to manage foreign currency risk on the Notes.

Further information regarding the Company's debt issuances and related hedging activity can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements, in Note 2, "Financial Instruments" and Note 6, "Debt."

### *Capital Return Program*

In April 2015, the Company's Board of Directors increased the share repurchase program authorization from \$90 billion to \$140 billion of the Company's common stock, increasing the expected total size of the capital return program to \$200 billion. As of March 26, 2016, \$117 billion of the share repurchase program has been utilized. The Company's share repurchase program does not obligate it to acquire any specific number 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 Exchange Act.

[Table of Contents](#)

The following table presents the Company's dividends, dividend equivalents, share repurchases and net share settlement activity from the start of the capital return program in August 2012 through March 26, 2016 (in millions):

	Dividends and Dividend Equivalents Paid	Accelerated Share Repurchases	Open Market Share Repurchases	Taxes Related to Settlement of Equity Awards	Total
Q2 2016	\$ 2,902	\$ 0	\$ 7,000	\$ 154	\$ 10,056
Q1 2016	2,969	3,000	3,000	597	9,566
2015	11,561	6,000	30,026	1,499	49,086
2014	11,126	21,000	24,000	1,158	57,284
2013	10,564	13,950	9,000	1,082	34,596
2012	2,488	0	0	56	2,544
Total	<u>\$ 41,610</u>	<u>\$ 43,950</u>	<u>\$ 73,026</u>	<u>\$ 4,546</u>	<u>\$ 163,132</u>

On April 26, 2016, the Company announced that the Board of Directors increased the total capital return program from \$200 billion to \$250 billion, which includes an increase in the share repurchase authorization from \$140 billion to \$175 billion. The Company expects to execute its capital return program by the end of March 2018 by paying dividends and dividend equivalents, repurchasing shares and remitting withheld taxes related to net share settlement of restricted stock units. The Company plans to continue to access the domestic and international debt markets to assist in funding its capital return program.

Additionally, the Company announced on April 26, 2016 that the Board of Directors raised the cash dividend by 10% to \$0.57 per share, beginning with the dividend to be paid during the third quarter of 2016. The Company intends to increase its dividend on an annual basis subject to declaration by the Board of Directors.

#### Off-Balance Sheet Arrangements and Contractual Obligations

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the Company, or engages in leasing, hedging, or R&D services with the Company.

#### Operating Leases

The Company's major facility leases are typically for terms not exceeding 10 years and generally contain multi-year renewal options. As of March 26, 2016, the Company had a total of 475 retail stores. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of March 26, 2016, the Company's total future minimum lease payments under noncancelable operating leases were \$6.8 billion, of which \$3.9 billion related to leases for retail space.

#### Purchase Commitments

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. As of March 26, 2016, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of \$15.5 billion.

#### Other Obligations

In addition to the commitments mentioned above, the Company had other off-balance sheet obligations of \$7.2 billion as of March 26, 2016 that consisted of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to inventory prepayments, advertising, licensing, R&D, internet and telecommunications services, energy and other obligations. Subsequent to March 26, 2016, the Company entered into an additional other off-balance sheet obligation of \$4.0 billion.



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## [Table of Contents](#)

The Company's other non-current liabilities in the Condensed Consolidated Balance Sheets consist primarily of deferred tax liabilities, gross unrecognized tax benefits and the related gross interest and penalties. As of March 26, 2016, the Company had non-current deferred tax liabilities of \$23.0 billion. Additionally, as of March 26, 2016, the Company had gross unrecognized tax benefits of \$7.5 billion and an additional \$1.5 billion for gross interest and penalties classified as non-current liabilities. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments due to uncertainties in the timing of tax audit outcomes.

### **Indemnification**

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to indemnification of end-users of its operating system or application software for infringement of third-party intellectual property rights.

The Company offers an iPhone Upgrade Program, which is available to customers who purchase an iPhone 6s and 6s Plus in one of its U.S. physical retail stores and activate the purchased iPhone with one of the four national carriers. The iPhone Upgrade Program provides customers the right to trade in that iPhone for a new iPhone, provided certain conditions are met. One of the conditions of this program requires the customer to finance the initial purchase price of the iPhone with a third-party lender. Upon exercise of the trade-in right and purchase of a new iPhone, the Company satisfies the customer's outstanding balance due to the third-party lender on the original device. The Company accounts for the trade-in right as a guarantee liability and recognizes arrangement revenue net of the fair value of such right with subsequent changes to the guarantee liability recognized within revenue.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") 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 in its condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates, and such differences may be material.

Note 1, "Summary of Significant Accounting Policies" in Part I, Item 1 of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2015 Form 10-K, and "Critical Accounting Policies and Estimates" in Part I, Item 7 of the 2015 Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's condensed consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates since the 2015 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 second quarter of 2016. 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 2015 Form 10-K.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of March 26, 2016 to ensure 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 2016, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is subject to the legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. 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 in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected. See the risk factor "*The Company could be impacted by unfavorable results of legal proceedings, such as being found to have infringed on intellectual property rights*" in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors." The Company settled certain matters during the second quarter of 2016 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results.

*Apple eBooks Antitrust Litigation (United States of America v. Apple Inc., et al.)*

On April 11, 2012, the U.S. Department of Justice filed a civil antitrust action against the Company and five major book publishers in the U.S. District Court for the Southern District of New York, alleging an unreasonable restraint of interstate trade and commerce in violation of §1 of the Sherman Act and seeking, among other things, injunctive relief, the District Court's declaration that the Company's agency agreements with the publishers are null and void and/or the District Court's reformation of such agreements. On July 10, 2013, the District Court found, following a bench trial, that the Company conspired to restrain trade in violation of §1 of the Sherman Act and relevant state statutes to the extent those laws are congruent with §1 of the Sherman Act. The District Court entered a permanent injunction, which took effect on October 6, 2013 and will be in effect for five years. The Company has taken the necessary steps to comply with the terms of the District Court's order, including renegotiating agreements with the five major eBook publishers, updating its antitrust training program and completing a two-year monitorship with a court-appointed antitrust compliance monitor, whose appointment the District Court ended in October 2015. The Company appealed the District Court's decision. Following the exhaustion of all appeals, the Company paid \$450 million in April 2016 pursuant to a settlement agreement reached in June 2014.

## **Item 1A. Risk Factors**

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of the 2015 Form 10-K and in Part II, Item 1A of the Form 10-Q for the quarter ended December 26, 2015, in each case under the heading "Risk Factors." The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-Q. The following information should be read in conjunction with the condensed consolidated financial statements and related notes in Part I, Item 1, "Financial Statements" and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q.

Because of the following factors, as well as other factors affecting the Company's financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

### *Global and regional economic conditions could materially adversely affect the Company.*

The Company's operations and performance depend significantly on global and regional economic conditions. Uncertainty about global and regional economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, higher unemployment, financial market volatility, government austerity programs, negative financial news, declines in income or asset values and/or other factors. These worldwide and regional economic conditions could have a material adverse effect on demand for the Company's products and services. Demand also could differ materially from the Company's expectations as a result of currency fluctuations because the Company generally raises prices on goods and services sold outside the U.S. to correspond with the effect of a strengthening of the U.S. dollar. Other factors that could influence worldwide or regional demand include changes in fuel and other energy costs, conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could materially adversely affect demand for the Company's products and services.

In the event of financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, or significant financial service institution failures, there could be tightening in the credit markets, low liquidity and extreme volatility in fixed income, credit, currency and equity markets. This could have a number of effects on the Company's business, including the insolvency or financial instability of outsourcing partners or suppliers or their inability to obtain credit to finance development and/or manufacture products resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of the Company's products; failure of derivative counterparties and other financial institutions; and restrictions on the Company's ability to issue new debt. Other income and expense also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; changes in interest rates; increases or decreases in cash balances; volatility in foreign exchange rates; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realized in the future on the Company's financial instruments differing significantly from the fair values currently assigned to them.

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## [Table of Contents](#)

*Global markets for the Company's products and services are highly competitive and subject to rapid technological change, and the Company may be unable to compete effectively in these markets.*

The Company's products and services compete in highly competitive global markets characterized by aggressive price cutting and resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors and price sensitivity on the part of consumers.

The Company's ability to compete successfully depends heavily on its ability to ensure a continuing and timely introduction of innovative new products, services and technologies to the marketplace. The Company believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications and related services. As a result, the Company must make significant investments in R&D. The Company currently holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. In contrast, many of the Company's competitors seek to compete primarily through aggressive pricing and very low cost structures, and emulating the Company's products and infringing on its intellectual property. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Company's intellectual property, the Company's ability to maintain a competitive advantage could be adversely affected.

The Company markets certain mobile communication and media devices based on the iOS mobile operating system and also markets related third-party digital content and applications. The Company faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships; and the Company has a minority market share in the global smartphone market. Additionally, the Company faces significant price competition as competitors reduce their selling prices and attempt to imitate the Company's product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. 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. Some of the Company's competitors have greater experience, product breadth and distribution channels than the Company. Because some current and potential competitors have substantial resources and/or experience and a lower cost structure, they may be able to provide products and services at little or no profit or even at a loss. The Company also expects competition to intensify as competitors attempt to imitate the Company's approach to providing components seamlessly within their individual offerings or work collaboratively to offer integrated solutions. The Company's financial condition and operating results depend substantially on the Company's ability to continually improve iOS and iOS devices in order to maintain their functional and design advantages.

The Company is the only authorized maker of hardware using OS X, which has a minority market share in the personal computer market. This market has been contracting and is dominated by computer makers using competing operating systems, most notably Windows. In the market for personal computers and accessories, the Company faces a significant number of competitors, many of which have broader product lines, lower priced products and a larger installed customer base. Historically, consolidation in this market has resulted in larger competitors. Price competition has been particularly intense as competitors selling Windows-based personal computers have aggressively cut prices and lowered product margins. An increasing number of internet-enabled devices that include software applications and are smaller and simpler than traditional personal computers compete for market share with the Company's existing products. The Company's financial condition and operating results also depend on its ability to continually improve the Mac platform to maintain its functional and design advantages.

There can be no assurance the Company will be able to continue to provide products and services that compete effectively.

*To remain competitive and stimulate customer demand, the Company must successfully manage frequent product introductions and transitions.*

Due to the highly volatile and competitive nature of the industries in which the Company competes, the Company must continually introduce new products, services and technologies, enhance existing products and services, effectively stimulate customer demand for new and upgraded products and successfully manage the transition to these new and upgraded products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, the Company's ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction. Accordingly, the Company cannot determine in advance the ultimate effect of new product introductions and transitions.

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## [Table of Contents](#)

*The Company depends on the performance of distributors, carriers and other resellers.*

The Company distributes its products through cellular network carriers, wholesalers, national and regional retailers and value-added resellers, many of whom distribute products from competing manufacturers. The Company also sells its products and third-party products in most of its major markets directly to education, enterprise and government customers and consumers and small and mid-sized businesses through its online and retail stores.

Carriers providing cellular network service for iPhone typically subsidize users' purchases of the device. There is no assurance that such subsidies will be continued at all or in the same amounts upon renewal of the Company's agreements with these carriers or in agreements the Company enters into with new carriers.

Many resellers have narrow operating margins and have been adversely affected in the past by weak economic conditions. Some resellers have perceived the expansion of the Company's direct sales as conflicting with their business interests as distributors and resellers of the Company's products. Such a perception could discourage resellers from investing resources in the distribution and sale of the Company's products or lead them to limit or cease distribution of those products. The Company has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers' stores with Company employees and contractors, and improving product placement displays. These programs could require a substantial investment while providing no assurance of return or incremental revenue. The financial condition of these resellers could weaken, these resellers could stop distributing the Company's products, or uncertainty regarding demand for some or all of the Company's products could cause resellers to reduce their ordering and marketing of the Company's products.

*The Company faces substantial inventory and other asset risk in addition to purchase commitment cancellation risk.*

The Company records a write-down for product and component inventories that have become obsolete or exceed anticipated demand or net realizable value and accrues necessary cancellation fee reserves for orders of excess products and components. The Company also reviews its long-lived assets, including capital assets held at its suppliers' facilities and inventory prepayments, for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the Company determines that impairment has occurred, it records a write-down equal to the amount by which the carrying value of the assets exceeds its fair value. Although the Company believes its provisions related to inventory, capital assets, inventory prepayments and other assets and purchase commitments are currently adequate, no assurance can be given that the Company will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Company competes.

The Company must order components for its products and build inventory in advance of product announcements and shipments. Consistent with industry practice, components are normally acquired through a combination of purchase orders, supplier contracts and open orders, in each case based on projected demand. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. Purchase commitments typically cover forecasted component and manufacturing requirements for periods up to 150 days. Because the Company's markets are volatile, competitive and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments.

*Future operating results depend upon the Company's ability to obtain components in sufficient quantities.*

Because the Company currently obtains components from single or limited sources, the Company is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While the Company has entered into agreements for the supply of many components, there can be no assurance that the Company will be able to extend or renew these agreements on similar terms, or at all. A number of suppliers of components may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting the Company's ability to obtain sufficient quantities of components. The effects of global or regional economic conditions on the Company's suppliers, described in "*Global and regional economic conditions could materially adversely affect the Company*" above, also could affect the Company's ability to obtain components. Therefore, the Company remains subject to significant risks of supply shortages and price increases.

The Company and other participants in the markets for mobile communication and media devices and personal computers also compete for various components with other industries that have experienced increased demand for their products. The Company uses some custom components that are not common to the rest of these industries. The Company's new products 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. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if those suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. The supply of components for a new or existing product could be delayed or constrained, or a key manufacturing vendor could delay shipments of completed products to the Company.

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## [Table of Contents](#)

*The Company depends on component and product manufacturing and logistical services provided by outsourcing partners, many of which are located outside of the U.S.*

Substantially all of the Company's manufacturing is performed in whole or in part by a few outsourcing partners located primarily in Asia. The Company has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Company's direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of products or services, or the Company's flexibility to respond to changing conditions. Although arrangements with these partners may contain provisions for warranty expense reimbursement, the Company may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. While the Company relies on its partners to adhere to its supplier code of conduct, material violations of the supplier code of conduct could occur.

The Company relies on sole-sourced outsourcing partners in the U.S., Asia and Europe to supply and manufacture many critical components, and on outsourcing partners primarily located in Asia, for final assembly of substantially all of the Company's hardware products. Any failure of these partners to perform may have a negative impact on the Company's cost or supply of components or finished goods. In addition, manufacturing or logistics in these locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

The Company has invested in manufacturing process equipment, much of which is held at certain of its outsourcing partners, and has made prepayments to certain of its suppliers associated with long-term supply agreements. While these arrangements help ensure the supply of components and finished goods, if these outsourcing partners or suppliers experience severe financial problems or other disruptions in their business, such continued supply could be reduced or terminated and the net realizable value of these assets could be negatively impacted.

*The Company's products and services may experience quality problems from time to time that can result in decreased sales and operating margin and harm to the Company's reputation.*

The Company sells complex hardware and software products and services that can contain design and manufacturing defects. Sophisticated operating system software and applications, such as those sold by the Company, often contain "bugs" that can unexpectedly interfere with the software's intended operation. The Company's online services may from time to time experience outages, service slowdowns, or errors. Defects may also occur in components and products the Company purchases from third parties. There can be no assurance the Company will be able to detect and fix all defects in the hardware, software and services it sells. Failure to do so could result in lost revenue, significant warranty and other expenses and harm to the Company's reputation.

*The Company relies on access to third-party digital content, which may not be available to the Company on commercially reasonable terms or at all.*

The Company contracts with numerous third parties to offer their digital content to customers. This includes the right to sell currently available music, movies, TV shows and books. The licensing or other distribution arrangements with these third parties are for relatively short terms and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers and distributors currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Company to license or otherwise distribute their content in the future. Other content owners, providers or distributors may seek to limit the Company's access to, or increase the cost of, such content. The Company may be unable to continue to offer a wide variety of content at reasonable prices with acceptable usage rules, or continue to expand its geographic reach. Failure to obtain the right to make available third-party digital content, or to make available such content on commercially reasonable terms, could have a material adverse impact on the Company's financial condition and operating results.

Some third-party digital content providers require the Company to provide digital rights management and other security solutions. If requirements change, the Company may have to develop or license new technology to provide these solutions. There is no assurance the Company will be able to develop or license such solutions at a reasonable cost and in a timely manner. In addition, certain countries have passed or may propose and adopt legislation that would force the Company to license its digital rights management, which could lessen the protection of content and subject it to piracy and also could negatively affect arrangements with the Company's content providers.

*The Company's future performance depends in part on support from third-party software developers.*

The Company believes decisions by customers to purchase its hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for the Company's products. If third-party software applications and services cease to be developed and maintained for the Company's products, customers may choose not to buy the Company's products.



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## [Table of Contents](#)

With respect to its Mac products, the Company believes the availability of third-party software applications and services depends in part on the developers' perception and analysis of the relative benefits of developing, maintaining and upgrading such software for the Company's products compared to Windows-based products. This analysis may be based on factors such as the market position of the Company and its products, the anticipated revenue that may be generated, expected future growth of Mac sales and the costs of developing such applications and services. If the Company's minority share of the global personal computer market causes developers to question the Mac's prospects, developers could be less inclined to develop or upgrade software for the Company's Mac products and more inclined to devote their resources to developing and upgrading software for the larger Windows market.

With respect to iOS devices, the Company relies on the continued availability and development of compelling and innovative software applications, which are distributed through a single distribution channel, the App Store. iOS devices are subject to rapid technological change, and, if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. As with applications for the Company's Mac products, the availability and development of these applications also depend on developers' perceptions and analysis of the relative benefits of developing, maintaining or upgrading software for the Company's iOS devices rather than its competitors' platforms, such as Android. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Company's iOS devices may suffer.

*The Company relies on access to third-party intellectual property, which may not be available to the Company on commercially reasonable terms or at all.*

Many of the Company's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, the Company believes such licenses generally can be obtained on reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms or at all. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude the Company from selling certain products or otherwise have a material adverse impact on the Company's financial condition and operating results.

*The Company could be impacted by unfavorable results of legal proceedings, such as being found to have infringed on intellectual property rights.*

The Company is subject to various legal proceedings and claims that have not yet been fully resolved and that have arisen in the ordinary course of business, and additional claims may arise in the future.

For example, technology companies, including many of the Company's competitors, frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As the Company has grown, the intellectual property rights claims against it have increased and may continue to increase. In particular, the Company's cellular enabled products compete with products from mobile communication and media device companies that hold significant patent portfolios, and the number of patent claims against the Company has significantly increased. The Company is vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in various countries. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. If the Company is found to infringe one or more patents or other intellectual property rights, regardless of whether it can develop non-infringing technology, it may be required to pay substantial damages or royalties to a third-party, or it may be subject to a temporary or permanent injunction prohibiting the Company from marketing or selling certain products.

In certain cases, the Company may consider the desirability of entering into licensing agreements, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses.

Regardless of the merit of particular claims, litigation may be expensive, time-consuming, disruptive to the Company's operations and distracting to management. In recognition of these considerations, the Company may enter into arrangements to settle litigation.

In management's opinion, there is not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies, including matters related to infringement of intellectual property rights. However, the outcome of litigation is inherently uncertain.

Although management considers the likelihood of such an outcome to be remote, if one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Company that could materially adversely affect its financial condition and operating results.

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## [Table of Contents](#)

*The Company is subject to laws and regulations worldwide, changes to which could increase the Company's costs and individually or in the aggregate adversely affect the Company's business.*

The Company is subject to laws and regulations affecting its domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect the Company's activities including, but not limited to, in areas of labor, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health and safety.

By way of example, laws and regulations related to mobile communications and media devices in the many jurisdictions in which the Company operates are extensive and subject to change. Such changes could include, among others, restrictions on the production, manufacture, distribution and use of devices, locking devices to a carrier's network, or mandating the use of devices on more than one carrier's network. These devices are also subject to certification and regulation by governmental and standardization bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications, or delays in product shipment dates, or could preclude the Company from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make the Company's products and services less attractive to the Company's customers, delay the introduction of new products in one or more regions, or cause the Company to change or limit its business practices. The Company has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Company's employees, contractors, or agents will not violate such laws and regulations or the Company's policies and procedures.

*The Company's business is subject to the risks of international operations.*

The Company derives a significant portion of its revenue and earnings from its international operations. Compliance with applicable U.S. and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although the Company has implemented policies and procedures to comply with these laws and regulations, a violation by the Company's employees, contractors, or agents could nevertheless occur. In some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. Violations of these laws and regulations could materially adversely affect the Company's brand, international growth efforts and business.

The Company also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Margins on sales of the Company's products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. The Company is also exposed to credit and collectability risk on its trade receivables with customers in certain international markets. There can be no assurance the Company can effectively limit its credit risk and avoid losses.

*The Company's retail stores have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.*

The Company's retail stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel. The Company also has entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company's more typical retail stores. Due to the high cost structure associated with the Company's retail stores, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs.

Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, as well as the Company's inability to manage costs associated with store construction and operation, the Company's failure to manage relationships with its existing retail partners, more challenging environments in managing retail operations outside the U.S., costs associated with unanticipated fluctuations in the value of retail inventory, and the Company's inability to obtain and renew leases in quality retail locations at a reasonable cost.



*Investment in new business strategies and acquisitions could disrupt the Company's ongoing business and present risks not originally contemplated.*

The Company has invested, and in the future may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return of capital and unidentified issues not discovered in the Company's due diligence. These new ventures are inherently risky and may not be successful.

*The Company's business and reputation may be impacted by information technology system failures or network disruptions.*

The Company may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could, among other things, prevent access to the Company's online stores and services, preclude retail store transactions, compromise Company or customer data, and result in delayed or cancelled orders. System failures and disruptions could also impede the manufacturing and shipping of products, delivery of online services, transactions processing and financial reporting.

*There may be breaches of the Company's information technology systems that materially damage business partner and customer relationships, curtail or otherwise adversely impact access to online stores and services, or subject the Company to significant reputational, financial, legal and operational consequences.*

The Company's business requires it to use and store customer, employee and business partner personally identifiable information ("PII"). This may include, among other information, names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers and payment account information. Although malicious attacks to gain access to PII affect many companies across various industries, the Company is at a relatively greater risk of being targeted because of its high profile and the amount of PII it manages.

The Company requires user names and passwords in order to access its information technology systems. The Company also uses encryption and authentication technologies designed to secure the transmission and storage of data and prevent access to Company data or accounts. As with all companies, these security measures are subject to third-party security breaches, employee error, malfeasance, faulty password management, or other irregularities. For example, third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access the Company's information technology systems. To help protect customers and the Company, the Company monitors accounts and systems for unusual activity and may freeze accounts under suspicious circumstances, which may result in the delay or loss of customer orders.

The Company devotes significant resources to network security, data encryption and other security measures to protect its systems and data, but these security measures cannot provide absolute security. To the extent the Company was to experience a breach of its systems and was unable to protect sensitive data, such a breach could materially damage business partner and customer relationships, and curtail or otherwise adversely impact access to online stores and services. Moreover, if a computer security breach affects the Company's systems or results in the unauthorized release of PII, the Company's reputation and brand could be materially damaged, use of the Company's products and services could decrease, and the Company could be exposed to a risk of loss or litigation and possible liability. While the Company maintains insurance coverage that, subject to policy terms and conditions and subject to a significant self-insured retention, is designed to address certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in the continually evolving area of cyber risk.

The Company is also subject to payment card association rules and obligations under its contracts with payment card processors. Under these rules and obligations, if information is compromised, the Company could be liable to payment card issuers for associated expenses and penalties. In addition, if the Company fails to follow payment card industry security standards, even if no customer information is compromised, the Company could incur significant fines or experience a significant increase in payment card transaction costs.

*The Company's business is subject to a variety of U.S. and international laws, rules, policies and other obligations regarding data protection.*

The Company is subject to federal, state and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also may restrict transfers of PII among the Company and its international subsidiaries. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Company to incur substantial costs or require the Company to change its business practices. Noncompliance could result in significant penalties or legal liability.

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## [Table of Contents](#)

The Company makes statements about its use and disclosure of PII through its privacy policy, information provided on its website and press statements. Any failure by the Company to comply with these public statements or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against the Company by governmental entities or others. Penalties could include ongoing audit requirements or significant legal liability.

*The Company's success depends largely on the continued service and availability of key personnel.*

Much of the Company's future success depends on the continued availability and service of key personnel, including its Chief Executive Officer, executive team and other highly skilled employees. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in Silicon Valley, where most of the Company's key personnel are located.

*The Company's business may be impacted by political events, war, terrorism, public health issues, natural disasters and other business interruptions.*

War, terrorism, geopolitical uncertainties, public health issues and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on the Company, its suppliers, logistics providers, manufacturing vendors and customers, including channel partners. The Company's business operations are subject to interruption by, among others, natural disasters, whether as a result of climate change or otherwise, fire, power shortages, nuclear power plant accidents, terrorist attacks and other hostile acts, labor disputes, public health issues and other events beyond its control. Such events could decrease demand for the Company's products, make it difficult or impossible for the Company to make and deliver products to its customers, including channel partners, or to receive components from its suppliers, and create delays and inefficiencies in the Company's supply chain. Should major public health issues, including pandemics, arise, the Company could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of the Company's manufacturing vendors and component suppliers. The majority of the Company's R&D activities, its corporate headquarters, information technology systems and other critical business operations, including certain component suppliers and manufacturing vendors, are in locations that could be affected by natural disasters. In the event of a natural disaster, the Company could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

*The Company expects its quarterly revenue and operating results to fluctuate.*

The Company's profit margins vary across its products and distribution channels. The Company's software, accessories, and service and support contracts generally have higher gross margins than certain of the Company's other products. Gross margins on the Company's hardware products vary across product lines and can change over time as a result of product transitions, pricing and configuration changes, and component, warranty, and other cost fluctuations. The Company's direct sales generally have higher associated gross margins than its indirect sales through its channel partners. In addition, the Company's gross margin and operating margin percentages, as well as overall profitability, may be materially adversely impacted as a result of a shift in product, geographic or channel mix, component cost increases, the strengthening U.S. dollar, price competition, or the introduction of new products, including those that have higher cost structures with flat or reduced pricing.

The Company has typically experienced higher net sales in its first quarter compared to other quarters due in part to seasonal holiday demand. Additionally, new product introductions can significantly impact net sales, product costs and operating expenses. Further, the Company generates a majority of its net sales from a single product and a decline in demand for that product could significantly impact quarterly net sales. The Company could also be subject to unexpected developments late in a quarter, such as lower-than-anticipated demand for the Company's products, issues with new product introductions, an internal systems failure, or failure of one of the Company's logistics, components supply, or manufacturing partners.

*The Company's stock price is subject to volatility.*

The Company's stock price has experienced substantial price volatility in the past and may continue to do so in the future. Additionally, the Company, the technology industry and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to these companies' operating performance. Price volatility over a given period may cause the average price at which the Company repurchases its own stock to exceed the stock's price at a given point in time. The Company believes its stock price should reflect expectations of future growth and profitability. The Company also believes its stock price should reflect expectations that its cash dividend will continue at current levels or grow and that its current share repurchase program will be fully consummated. Future dividends are subject to declaration by the Company's Board of Directors, and the Company's share repurchase program does not obligate it to acquire any specific number of shares. If the Company fails to meet expectations related to future growth, profitability, dividends, share repurchases or other market expectations, its stock price may decline significantly, which could have a material adverse impact on investor confidence and employee retention.

*The Company's financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.*

The Company's primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales and operating expenses worldwide. Weakening of foreign currencies relative to the U.S. dollar adversely affects the U.S. dollar value of the Company's foreign currency-denominated sales and earnings, and generally leads the Company to raise international pricing, potentially reducing demand for the Company's products. Margins on sales of the Company's products in foreign countries and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by foreign currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, the Company may decide not to raise local prices to fully offset the dollar's strengthening, or at all, which would adversely affect the U.S. dollar value of the Company's foreign currency-denominated sales and earnings. Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to the Company's foreign currency-denominated sales and earnings, could cause the Company to reduce international pricing and incur losses on its foreign currency derivative instruments, thereby limiting the benefit. Additionally, strengthening of foreign currencies may also increase the Company's cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Company uses derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

*The Company is exposed to credit risk and fluctuations in the market values of its investment portfolio.*

Given the global nature of its business, the Company has both domestic and international investments. Credit ratings and pricing of the Company's investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of the Company's cash, cash equivalents and marketable securities may fluctuate substantially. Therefore, although the Company has not realized any significant losses on its cash, cash equivalents and marketable securities, future fluctuations in their value could result in a significant realized loss.

*The Company is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and prepayments related to long-term supply agreements, and this risk is heightened during periods when economic conditions worsen.*

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and value-added resellers. The Company also sells its products directly to small and mid-sized businesses and education, enterprise and government customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral, third-party financing arrangements or credit insurance. The Company's exposure to credit and collectability risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. The Company also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Company. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of inventory components. As of March 26, 2016, a significant portion of the Company's trade receivables was concentrated within cellular network carriers, and its vendor non-trade receivables and prepayments related to long-term supply agreements were concentrated among a few individual vendors located primarily in Asia. While the Company has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables, as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

*The Company could be subject to changes in its tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.*

The Company is subject to taxes in the U.S. and numerous foreign jurisdictions, including Ireland, where a number of the Company's subsidiaries are organized. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. The Company's effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation, including in the U.S. and Ireland. For example, in June 2014, the European Commission opened a formal investigation of Ireland to examine whether decisions by the tax authorities with regard to the corporate income tax to be paid by two of the Company's Irish subsidiaries comply with European Union rules on state aid. If the European Commission were to conclude against Ireland, it could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid, and such amount could be material.

The Company is also subject to the examination of its tax returns and other tax matters by the Internal Revenue Service and other tax authorities and governmental bodies. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations. If the Company's effective tax rates were to increase, particularly in the U.S. or Ireland, or if the ultimate determination of the Company's taxes owed is for an amount in excess of amounts previously accrued, the Company's financial condition, operating results and cash flows could be adversely affected.

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

Share repurchase activity during the three months ended March 26, 2016 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 <sup>(1)</sup>
December 27, 2015 to January 30, 2016:				
Open market and privately negotiated purchases	5,270	\$ 94.87	5,270	
January 31, 2016 to February 27, 2016:				
Open market and privately negotiated purchases	47,132	\$ 95.48	47,132	
February 28, 2016 to March 26, 2016:				
Open market and privately negotiated purchases	19,364	\$ 103.28	19,364	
Total	<u>71,766</u>			<u>\$ 23,024</u>

- (1) In 2012, the Company's Board of Directors authorized a program to repurchase up to \$10 billion of the Company's common stock beginning in 2013. The Company's Board of Directors increased the authorization to repurchase the Company's common stock to \$60 billion in April 2013, to \$90 billion in April 2014 and to \$140 billion in April 2015. As of March 26, 2016, \$117 billion of the \$140 billion had been utilized. The remaining \$23 billion in the table represents the amount available to repurchase shares under the authorized repurchase program as of March 26, 2016. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**
**Index to 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 February 23, 2016, including forms of global notes representing the Floating Rate Notes due 2019, Floating Rate Notes due 2021, 1.30% Notes due 2018, 1.70% Notes due 2019, 2.25% Notes due 2021, 2.85% Notes due 2023, 3.25% Notes due 2026, 4.50% Notes due 2036 and 4.65% Notes due 2046.	8-K	4.1	2/23/16
4.2	Supplement No. 1 to the Officer's Certificate of the Registrant, dated as of March 24, 2016.	8-K	4.1	3/24/16
10.8*	2014 Employee Stock Plan, as amended and restated as of February 26, 2016.	8-K	10.1	3/1/16
10.16 *, **	Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of October 5, 2015.			
10.17 *, **	Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of October 5, 2015.			
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.INS**	XBRL Instance Document.			
101.SCH**	XBRL Taxonomy Extension Schema Document.			
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.			
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.			
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.			
*	Indicates management contract or compensatory plan or arrangement.			
**	Filed herewith.			
***	Furnished herewith.			

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

April 27, 2016

Apple Inc.

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

**APPLE INC.  
2014 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. 2014 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 [stock@apple.com](mailto:stock@apple.com). If you do not provide such notification within thirty (30) days after the Award Date, you will be deemed to have accepted your Award on the terms and conditions set forth herein.

APPLE INC.  
2014 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. 2014 Employee Stock Plan (the "**Plan**"). Capitalized terms are defined in the Plan if not defined herein. The Award 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. Stock Units.** As used herein, the term "**Stock Unit**" shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Company's Common Stock ("**Share**") solely for purposes of the Plan and this Award Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Award Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

**3. Vesting.** Subject to Section 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**").

**4. Continuance of Employment.** The vesting schedule requires continued 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 vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a Termination of Service as provided in Section 8 below and in the Plan.

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 paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.



## **5. Dividend and Voting Rights.**

(a) **Limitations on Rights Associated with Stock Units.** 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 Stock Units or any Shares underlying or issuable in respect of such Stock Units 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 certificate or book entry evidencing such Shares.

(b) **Dividend Equivalent Rights Distributions.** As of any date that the Company pays an ordinary cash dividend on its Common Stock, the Company shall credit the Participant with a dollar amount equal to (i) the per share cash dividend paid by the Company on its Common Stock on such date, multiplied by (ii) the total number of Stock Units (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 Stock Units to which they relate; 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 Stock Units 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, neither the Award, nor any interest therein or amount or Shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily.

**7. Timing and Manner of Payment of Stock Units.** On or as soon as administratively practical following each vesting of the applicable portion of the total Award pursuant to Section 3 or Section 8 (and in all events not later than two and one-half (2 1/2) months after such vesting event), 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 Stock Units subject to the Award that vest on the applicable Vesting Date, less Tax-Related Items (as defined in Section 11 below), unless such Stock Units 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 Stock Units 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 Stock Units 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 Stock Units that are paid or that terminate pursuant to Section 8.

**8. Effect of Termination of Service.** Except as expressly provided below in this Section 8, the Participant's Stock Units (as well as the related Dividend Equivalent Rights) shall terminate to the extent such Stock Units 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. Notwithstanding the foregoing, in the event the Participant's Termination of Service is due to the Participant's Disability at a time when Stock Units remain outstanding and unvested under the Award, (a) the Award shall vest with respect to the number of Stock Units determined by multiplying (i) the number of then-outstanding and unvested Stock Units subject to the Award that would have otherwise vested pursuant to Section 3 on the next Vesting Date following the Severance Date but for such Termination of Service, by (ii) a fraction, the numerator of which shall be the number of days that have elapsed between the Vesting Date that immediately preceded the Severance Date (or, in the case of a Termination of Service prior to the initial Vesting Date, the Vesting Commencement Date) and the Severance Date, and the denominator of which shall be the number of days between the Vesting Date that immediately preceded the Severance Date (or, in the case of a Termination of Service prior to the initial Vesting Date, the Vesting Commencement Date) and the next Vesting Date following the Severance Date that would have occurred but for such Termination of Service; and (b) any Stock Units (as well as the related Dividend Equivalent Rights) that are not vested after giving effect to the foregoing clause (a) shall terminate on the Severance Date. Further, in the event the Participant's Termination of Service is due to the Participant's death, any then-outstanding and unvested Stock Units subject to the Award shall be fully vested as of the Severance Date, and any Dividend Equivalent Rights credited to the Participant shall be paid. If any unvested Stock Units are terminated hereunder, such Stock Units (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, as well as any recoupment or "clawback" policies of the Company that may be in effect from time to time. 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.

**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 Stock Units 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.** Regardless of any action the Company and/or the Participant's employer (the "**Employer**") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant or deemed by the Company or the Employer to be an appropriate charge to the Participant even if technically due by the Company or the Employer ("**Tax-Related Items**"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount 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 Stock Units, the vesting of the Stock Units, 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, at its discretion and pursuant to such procedures as it may specify from time to time, to satisfy all Tax-Related Items by one or a combination of the following:

- (a) withholding from any wages or other cash compensation 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; or

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

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates. If the maximum rate is used, any over-withheld amount will be refunded to the Participant in cash by the Company or Employer (with no entitlement to the Common Stock equivalent) or if not refunded, the Participant may seek a refund from the local tax authorities. 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 Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. The Participant shall pay to the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. 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, 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 options or any other entitlement to Shares 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 Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

**18. Counterparts** . This Award Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

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**19. 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.

**20. 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.

**21. 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.

**22. 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.

**23. 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.

**24. Imposition of Other Requirements** . The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Stock Units 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.  
2014 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 Schedule:

Performance Period:

This restricted stock unit award (the "Award") is granted under and governed by the terms and conditions of the Apple Inc. 2014 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 [stock@apple.com](mailto:stock@apple.com). If you do not provide such notification within thirty (30) days after the Award Date, you will be deemed to have accepted your Award on the terms and conditions set forth herein.

APPLE INC.  
2014 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. 2014 Employee Stock Plan (the “**Plan**”). Capitalized terms are defined in the Plan if not defined herein. The Award 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. Stock Units.** As used herein, the term “**Stock Unit**” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Company's Common Stock (“**Share**”) solely for purposes of the Plan and this Award Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Award Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

**3. Vesting.** Subject to Section 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.** The vesting schedule requires continued 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 or avoid or mitigate a termination of rights and benefits upon or following a Termination of Service as provided in Section 8 below and in the Plan.

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 paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.



## **5. Dividend and Voting Rights.**

(a) **Limitations on Rights Associated with Stock Units.** 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 Stock Units or any Shares underlying or issuable in respect of such Stock Units 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 certificate or book entry evidencing such Shares.

(b) **Dividend Equivalent Rights Distributions.** As of any date that the Company pays an ordinary cash dividend on its Common Stock, the Company shall credit the Participant with a dollar amount equal to (i) the per share cash dividend paid by the Company on its Common Stock on such date, multiplied by (ii) the total target number of Stock Units (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 Stock Units to which they relate; 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 Stock Units 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 Stock Units 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, neither the Award, nor any interest therein or amount or Shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily.

**7. Timing and Manner of Payment of Stock Units.** On or as soon as administratively practical following the vesting of the Award pursuant to Section 3 or Section 8 (and in all events not later than two and one-half (2 1/2) months after such vesting event), 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 Stock Units subject to the Award that vest on the Vesting Date, less Tax-Related Items (as defined in Section 11 below), unless such Stock Units 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 Stock Units 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 Stock Units 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 Stock Units that are paid or that terminate pursuant to Section 8.

**8. Effect of Termination of Service.** Except as provided in the next sentence, the Participant's Stock Units (as well as the related Dividend Equivalent Rights) shall terminate to the extent such Stock Units 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. In the event the Participant's Severance Date is the result of the Participant's Termination of Service due to the Participant's death or Disability, and the Severance Date occurs prior to the Vesting Date, on the Vesting Date the Award shall vest with respect to a number of Stock Units determined by multiplying (i) the Stock Units subject to the Award that would have otherwise vested pursuant to the Award on such Vesting Date but for the Termination of Service and to the extent the applicable performance-based vesting requirement is satisfied, by (ii) the Severance Fraction (determined as set forth below). Any Stock Units that are unvested on the Severance Date and that are not eligible to vest on the Vesting Date following the Severance Date pursuant to the preceding sentence shall terminate as of the Severance Date, and any Stock Units that remain outstanding and unvested after giving effect to the preceding sentence shall terminate as of the Vesting Date. The "**Severance Fraction**" means a fraction, the numerator of which shall be determined by subtracting the number of days remaining in the Performance Period on the Severance Date from the total number of days in the Performance Period, and the denominator of which shall be the total number of days in the Performance Period. If any unvested Stock Units are terminated pursuant to this Award Agreement, such Stock Units (as well as the related Dividend Equivalent Rights) shall automatically terminate and be cancelled as of the applicable Severance Date (or, to the extent the applicable performance-based vesting conditions are not satisfied, 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, as well as any recoupment or "clawback" policies of the Company that may be in effect from time to time. 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.

**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 Stock Units 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.** Regardless of any action the Company and/or the Participant's employer (the "**Employer**") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant or deemed by the Company or the Employer to be an appropriate charge to the Participant even if technically due by the Company or the Employer ("**Tax-Related Items**"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount 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 Stock Units, the vesting of the Stock Units, 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, at its discretion and pursuant to such procedures as it may specify from time to time, to satisfy all Tax-Related Items by one or a combination of the following:

- (a) withholding from any wages or other cash compensation 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; or

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

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates. If the maximum rate is used, any over-withheld amount will be refunded to the Participant in cash by the Company or Employer (with no entitlement to the Common Stock equivalent) or if not refunded, the Participant may seek a refund from the local tax authorities. 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 Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. The Participant shall pay to the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. 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, 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 options or any other entitlement to Shares 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 Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

**18. Counterparts** . This Award Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

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**19. 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.

**20. 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.

**21. 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.

**22. 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.

**23. 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.

**24. Imposition of Other Requirements** . The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Stock Units 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.

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## PERFORMANCE AWARD

### EXHIBIT A

#### PERFORMANCE VESTING REQUIREMENTS

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

For TSR Percentile performance for the Performance Period between the levels indicated above, the portion of the Stock Units 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 Stock Units vest.

The number of Stock Units that vest on the Vesting Date will be rounded to the nearest whole unit, and the balance of the Stock Units 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 ending with the last trading day before the beginning 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.



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- “ **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.

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## 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: April 27, 2016

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: April 27, 2016

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 March 26, 2016 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: April 27, 2016

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 March 26, 2016 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: April 27, 2016

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