

Operator

Please standby, we are about to begin. Good day, everyone, and welcome to this Apple Incorporated Third Quarter Fiscal Year 2013 Earnings Release Conference Call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Nancy Paxton, Senior Director of Investor Relations. Please go ahead, ma'am.

Nancy Paxton

Thank you. Good afternoon, and thanks to everyone for joining us. Speaking first today is Apple's CFO, Peter Oppenheimer and he will be joined by CEO, Tim Cook; and Treasurer, Gary Wipfler for the Q&A session with analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including without limitation, those regarding revenues, gross margins, operating expenses, other income and expense, stock-based compensation expense, taxes, future products and capital allocation plans. Actual results or trends could differ materially from our forecast.

For more information, please refer to the risk factors discussed in Apple's Form 10-K for 2012, the Form 10-Q for the second quarter of the 2013 and the Form 8-K filed with the SEC today along with the associated press release. Apple assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

I'd now like to turn the call over to Peter Oppenheimer for introductory remarks.

Peter Oppenheimer

Thank you, Nancy. We are pleased to report the results of our third fiscal quarter. We established a new June quarter record for iPhone sales driving Apple's strongest June quarter revenue ever.

Revenue for the quarter was \$35.3 billion, up \$300 million or 1% from the year ago quarter, and at the high end of our guidance range. Gross margin was 36.9% also at the high end of our guidance range, and operating margin was \$9.2 billion representing 26% of revenue. Net income was \$6.9 billion translating to the diluted earnings per share of \$7.47. Channel inventories declined sequentially by \$1 billion during the June quarter this year meaning that sell-through was \$36.3 billion. In contrast, channel inventory increased \$700 million from the beginning to the end of the June quarter last year meaning that sell-through was \$34.3 billion in that quarter.

As such, our June quarter sell-through increased by \$2 billion, or 6% year-over-year ahead of our 1% [selling and] [ph] revenue growth.

As for the details of the quarter, I'd like to begin with iPhone. We sold 31.2 million iPhones compared to 26 million in the year ago quarter, an increase of 5.2 million, or 20%. We had a sequential decrease of about 600,000 iPhones in channel inventory in the June quarter translating to iPhone sell-through of about 31.8 million units. iPhone sales were ahead of our expectations and we were particularly pleased with very strong year-over-year growth in iPhone sales in a number of both developed and emerging markets including the U.S., UK, Japan, Brazil, Russia, India, Thailand and Singapore. iPhone 5 remains by far the most popular iPhone but we were also happy with sales of iPhone 4 and 4s. We exited the quarter with about 11 million units of total iPhones in channel inventory and ended within our target range of 4 to 6 weeks of iPhone channel inventory.

iPhone unit sales in the U.S. increased 51% compared to the year ago quarter and based on research recently published by comScore, iPhone once again achieved the number one spot in the U.S. smartphone market for the three months period ended in May with over 39% share. iPhone sales were also very strong in Japan growing [66%] [ph] year-over-year. iPhone is the top selling smartphone in Japan based on the latest published quarterly data from IDC and Apple is the number one or number two selling smartphone manufacturer in most markets IDC tracks including North America, Western Europe, Russia, Turkey, Australia, Hong Kong, Thailand, Malaysia and Singapore.

The most recently published study by Kantar measured at 93% loyalty rate among iPhone owners significantly higher than our competitors. And iPhone continues to lead in terms of customer experience. Not only has iPhone earned the top spot in customer satisfaction from J.D. Power and Associates, an unprecedented nine consecutive times it has also received the top customer satisfaction ranking in a number of surveys including the recent Quality Insights survey of smartphone customers in South Korea. iPhone also continues to be the smartphone of choice for business. Given the security and stability of iOS, enterprise and government customers around the world continue to deploy iPhone on their network in ways that go far beyond personal productivity.

Companies have built tens of thousands of custom apps to improve every aspect of their business. Global companies including American Airlines, Cisco, General Electric, Roche and SAP have deployed more than 25,000 iPhones each across their organizations. U.S. government organizations such as NASA's Jet Propulsion Lab, the National Oceanic and Atmospheric Administration, the ATF and the National Geospatial-Intelligence Agency are

supporting and managing thousands of iPhones on their networks and continue to create both customer facing and internal iOS apps.

And just this past quarter iOS 6 was granted FIPS 140-2 validation by the U.S. federal government and approval by the U.S. Department of Defense to connect to their networks. Combining sales to business, government and education customers, iPhone holds a 62.5% share of the U.S. commercial market based on the latest quarterly data published by IDC.

Turning to iPad we sold 14.6 million iPads during the quarter compared to 17 million in the year ago quarter. The tough year-over-year comparison was driven by both the significant channel inventory increase and the first full quarter of the availability of the third generation iPad in the year ago quarter. We built 1.2 million units of iPad channel inventory in the June quarter last year whereas we reduced channel inventory by 700,000 units in the June quarter this year.

Factoring in this 1.9 million unit channel inventory swing, iPad unit sell-through was down 3% year-over-year. We exited the quarter with about 4.1 million units of iPad channel inventory within our target range of 4 to 6 weeks.

Customers continue to love their iPads, for the second consecutive time in the two year history of a survey, iPad ranked number one in the 2013 U.S. tablet satisfaction survey by J.D. Power and Associates and again in its latest study published today [Chitika] [ph] reported that iPad accounted for 84.3% share of tablet web usage by customers in the U.S. and Canada, its highest level this year.

In every major industry around the world companies are developing, deploying and supporting apps for iPad. Government organizations as well as global enterprise companies across diverse fields including automotive, insurance, energy services and healthcare are using iPad and custom apps to create unique meaningful experiences for their employees, partners, and customers. The USDA's National Agricultural Statistics Service has deployed thousands of iPads to in-person interviewers resulting in higher response rates and decreased cost. And companies including Eli Lilly, Novartis, Cathay Life, Roche, and SAP have deployed over 20,000 iPads each across their organizations.

Turning to Mac, we are pleased with sales of 3.8 million Macs, which is a 7% decline from the year ago quarter, but higher than our expectations. IDC estimates that the global personal computer market contracted by 11% during the June quarter, indicating that Macs gained share. In June, we introduced two new versions of MacBook Air and customer response has

been great. Wired magazine described the new 13-inch MacBook Air as nearly flawless citing its phenomenal battery life, processing performance, feather-light chassis, and super-fast WiFi. Additionally, last month, we provided a sneak-peek at our next generation Mac Pro engineered around the workstation graphics with dual GPUs, PCI Express-based flash storage, high-performance Thunderbolt 2, next generation Xeon processors, ultra-fast memory and support for 4-K video. The new state-of-the-art Mac Pro will be assembled in the U.S. and will be available later this year.

We were excited to release to developer preview of OS X Mavericks last month. More than 200 new features, OS - with more than 200 new features, OS X Mavericks brings Maps and iBooks to the Mac, introduces Finder Tags and Tabs, enhances multi-display support for power users, delivers new core technologies for breakthrough power efficiency and performance, and includes an all-new version of Safari. OS X Mavericks will be available to customers in the fall. We ended the quarter with just below our 4 to 5 week target range of Mac channel inventory.

Our U.S. education institution business had a great quarter generating its highest quarterly revenue ever. The results were fueled by all-time record quarterly iPad sales of 1.1 million units in addition to strong June quarter Mac sales. The state of Maine's Learning Technology Initiative, which provides the state's little school and high school students and teachers with personal computing solutions allowed individual school districts to choose which products to purchase rather than standardized on a single statewide solution. We are very proud that an estimated 94% of the 69,000 total units selected this year were Apple products. And we are extremely pleased to have received the Los Angeles School Board of Education's unanimous approval to begin the first phase of a massive rollout of iPads to students across the district starting this fall. The district is the second largest in the United States and plans to equip every one of its 660,000 students with a tablet by 2014.

We continue to be very pleased with the growth and the strength of the Apple ecosystem. With the broadest geographic reach and depth of content in the industry, our iTunes Stores generated record billings of \$4.3 billion in the June quarter culminating in our best months and best week ever for App Store billings at the very end of the quarter. The quarter's iTunes billings translated to quarterly revenue of \$2.4 billion, up 29% from the year ago quarter with strong growth in revenue in both content and apps. The continued strong iTunes sales combined with other software and service revenue resulted in total quarterly revenue of \$4 billion from iTunes software and services. We added some great new video content to iTunes and Apple TV.

Last month we announced HBO GO and WatchESPN are now available directly on Apple TV joining programming from Hulu Plus, Netflix's streaming catalog, live sports from MLB, NBA and NHL as well as Internet content from Vimeo, YouTube and Flickr. Sky News, Crunchyroll and Qello are offering live news, sports and current TV programming. Apple TV users can now choose from a broad selection of programming including over 60,000 movies and over 230,000 TV episodes as well as the world's largest collection of music on the iTunes Store.

iTunes users have downloaded more than 1 billion TV episodes and 390 million movies from iTunes to-date, and they are purchasing over 800,000 TV episodes and over 350,000 movies per day. We recently celebrated the five year anniversary of our amazing app store. Our developers have now created more than 900,000 iOS apps including 375,000 apps made for iPad. The popularity of these apps remains incredibly strong.

Cumulative app downloads have surpassed 50 billion and app developers have made over \$11 billion for their sales through the App Store half of which was earned in the last four quarters. Our vibrant ecosystem continues to drive tremendous user engagement with our devices and services and we now have over 320 million iPod accounts and 240 million Game Center accounts and our customers have sent almost 900 billion iMessages, uploaded over a 125 billion photos and received over 8 trillion push notifications. And thanks to the stability and security and popularity of the iOS platform, the iOS devices continue to have a strong lead over Android in the enterprise.

In its most recently published quarterly enterprise device activations report, the technology is found that among its corporate clients iPhone 5 was by far the most frequently updated device of any kind and iPad's represent 88% of all tablet activations. We're continuing to invest in software and services to make the ecosystem and user experience even richer. This fall we will release a beta version of iWork for iCloud bringing pages, numbers and keynotes to the web. With iWork for iCloud users will be able to create great looking letters, reports and flyers, generate complex yet beautiful spreadsheets and develop and deliver beautiful presentations with powerful graphics and special effects all from within a web browser.

And we're extremely excited about the fall launch of iOS 7 with its stunning new user interface and many great new features including control center, AirDrop and iTunes Radio, smarter multi-tasking and enhancements to notification center, photos, Safari and Siri.

I would now like to turn to the Apple retail stores, revenue for the quarter was 4.1 billion approximately equal to the year ago quarter. The stores

experienced strong growth in iPhone sales and have been most successful MacBook Air launch to-date.

We opened six new stores across five countries during the quarter and end of the quarter with a total of 408 stores including a 156 outside of United States. We expect over nine new stores in the September quarter getting us to a total of 27 new store openings in fiscal 13. We also relocated four stores in the June quarter that had outgrown their former space and we expect to complete a total of 23 such relocations in fiscal '13. With an average of 405 stores opened in the June average revenue per store was 10.1 million compared to 11.1 million in the year ago quarter.

Retail segment income was 667 million; we hosted 84 million visitors to our stores during the quarter this translates to 16,000 visitors per store per week. Operating expenses were 3.8 billion and included 488 million in stock based compensation expense. OI&E was 234 million and the tax rate for the quarter was 26.9%. And turning to our cash we ended the quarter with a 146.6 billion in cash plus short term and long term marketable securities compared to a 144.7 billion at the end of the March quarter, a sequential increase of 1.9 billion. A 106 billion of our total cash was offshored at the end of the June quarter and cash flow from operations with 7.8 billion. In early April we concluded the 1.95 billion accelerated share repurchase program that we initiated in December quarter resulted in cumulative retirement of over 4 million shares of Apple stock under that program.

In late April we executed a very successful debt offering issuing 17 billion of debt across 3, 5, 10 and 30 year maturities. We paid 2.8 billion in dividends in the quarter and we also utilized a total of 16 billion in cash on share repurchase activity through a combination of a new accelerated share repurchase program and open market purchases. 12 billion of the 16 billion was utilized under a new ASR program initiated with two financial institutions in April.

An initial delivery of 23.5 million shares was made under this program with the final number of shares delivered in average price per share to be determined at the conclusion of the program, based on the volume weighted average purchase price of Apple's stock over the program period, which will conclude in fiscal '14. In addition to the new ASR, we executed 4 billion of open market share repurchases, resulting in the retirement of 9 million additional shares. Our Board of Directors has declared a dividend of \$3.05 per common share payable on August 15, 2013, the shareholders of record as of the close of business on August 12, 2013.

Now, as we move ahead into the March quarter, I would like to review our outlook, which includes the types of forward-looking information that Nancy

referred to at the beginning of the call. We expect revenue to be between \$34 billion and \$37 billion compared to \$36 billion in the year ago quarter. We expect gross margin to be between 36% and 37% reflecting approximately \$90 billion related to stock-based compensation expense. We expect OpEx to be between \$3.9 billion and \$3.95 billion, including about \$495 million related to stock-based compensation. We expect OI&E to be about \$200 million and we expect the tax rate to be about 26.5%.

In closing, we are pleased with our record June quarter iPhone sales, the strong growth in revenue from iTunes software and services, and the continued enhancement and popularity of our tremendously vibrant ecosystem. We are very excited about the upcoming releases of the stunning new iOS 7 in OS X Mavericks, and we are very hard at work on some amazing new products that we will introduce in the fall in across 2014.

And with that, I'd like to open the call to questions.

Nancy Paxton

Thank you, Peter. And we ask that you limit yourself to one question and one follow-up. Operator, may we have the first question please?

Question-and-Answer Session

Operator

(Operator Instructions) Your first question will come from Katy Huberty with Morgan Stanley.

Katy Huberty - Morgan Stanley

Yes, thanks. Peter, as you mentioned in the press release today, new products will ship this fall, and historically, gross margins do come down in a product transition quarter, but that's not reflected in your outlook, so can you talk about why this product cycle might be different?

Peter Oppenheimer

Katy, as I said in my prepared remarks, we expect our gross margins to be between 36% and 37%, which is consistent with what we expected in the June quarter. And on a sequential basis, that would mean that gross margin would be largely flat to slightly down. We are on track to have a very busy fall. I would like to leave it there and go into more detail on October.

Katy Huberty - Morgan Stanley

Okay. As a follow-up, can you talk about of why you think channel inventory came down more than seasonally this quarter and also inventory on your balance sheet was up significantly, is that a direct result of the channel wanting to hold back inventory?

Peter Oppenheimer

Katy, I will take the balance sheet part of your question and Tim can talk about the channel.

Katy Huberty - Morgan Stanley

Okay.

Peter Oppenheimer

The inventory on the balance sheet was really up for two reasons. First, we have got more storage this year than we had last. So, our finished goods inventory was a part of the inventory increase and then our components inventory was up as well.

Tim Cook

Katy, it's Tim. From an iPad point of view, or iPad and iPhone, we reduced inventory, and reduced it fairly significantly. iPad was down over 700,000 units in the beginning of the quarter and iPhone was down over 600. As you know from working with us over several quarters, we typically don't like to have any more inventory than we need. And so if we can find a way to reduce, we do so. And we have done that in both of these cases. We also have slight decreases in the Macintosh area and on iPod.

Katy Huberty - Morgan Stanley

Okay, thank you.

Nancy Paxton

Thanks, Katy. Can we have the next question please?

Operator

From Goldman Sachs, we will go to Bill Shope.

Bill Shope - Goldman Sachs

Okay, great. Thanks. I have a bit of a longer term question. Despite the fairly substantial iPhone upside this quarter, there has been increasing concerns at the high-end of the smartphone markets reaching a saturation

point and that growth may be harder to come by for really for all vendors. What's your perspective on that and the current industry dynamics? And Tim, do you think there are new innovations and services in the pipeline that can reinvigorate the premium segment of the market after what's obviously been a bit tough 2013 to that segment, to the industry.

Tim Cook

Well from a growth point of view for Apple our key catalysts will be, always will be new products and new services and these are above in existing categories that we're in and in new categories. In addition to this we have opportunities and distribution from carrier relationships to expanding our retail stores, expanding our online store and continuing to expand the indirect channel and we also have a market expansion opportunity, Peter mentioned enterprise in his comments and the share positions that we have there over 60% in both iPad and iPhone and I think we're at the very front end of that and so I think we have lots of growth opportunities.

And I don't subscribe to the common view that the higher end if you will of the smartphone market is at its peak. I don't believe that but we will see and we will report our result as we go along.

Bill Shope - Goldman Sachs

Okay, great. And then on the iPad side of the equation. Looking at sell through decline this quarter obviously ex the channel inventory dynamics, should we think of this as more of a pause within your customer base ahead of your next refresh as we see in the past or is there a broader industry dynamic at play within tablets that could contribute to that.

Tim Cook

For us if you look year-over-year. We had 2.4 million unit decline but 80% of that or 1.9 million units were just due to changes in channel inventory. As I think Peter referenced earlier, we reduced by over 700 in the current quarter and the year ago quarter had an increase of 1.2 and so the underlying sell through declined by just 3%. If you look at the situation that we're in in the year ago quarter we had just announced the third-generation iPad which was our first iPad with a retina display. We had announced in March and so that was our first full quarter and so from what Peter and I expected 90 days ago we hit within the midpoint of the range that we expected to hit on iPad unit sales and so it was not a surprise to us.

In terms of how other people are doing, I don't know. What I can tell you is that most recent data I have gotten which actually just came out I believe this morning is that the iPad Web share data shows that through the quarter

we accelerated further and are now, iPad accounts for 84% of the web traffic from tablets which is absolutely incredible and so if there are lots of other tablets selling I don't know what they are being used for because that's a pretty, the basic function is web browser.

We feel really good about where we are. Peter had mentioned earlier we had an incredible quarter in U.S. education setting a new record for iPad. We're really happy to be selected for the first phase of 660,000 unit roll out at LA Unified and really bold move they are making to change teaching and learning and we had double-digit unit growth in China, for iPad in Japan, in Canada, in Latin America, in Russia, in the Middle East and in India and so we're really happy with what we saw.

Nancy Paxton

Thanks Bill. Can we have the next question please?

Operator

From Sanford Bernstein, we will go to Toni Sacconaghi.

Antonio Sacconaghi - Sanford C. Bernstein

I was wondering if you could provide some kind of gross margin bridge sequentially, I think last quarter you had about a 90 basis point one time impact from the China warranty accrual. So if we adjust for that gross margins were down about a 150 basis points sequentially, and the mix of products was relatively similar to last quarter given that you're also riding the experience curve in these products, I was surprised given the mix that gross margins were as down as much sequentially as they were. Can you provide a bridge on a sequential basis on what happened with gross margins?

Peter Oppenheimer

Sure. First of all, let me say, we are very pleased with gross margin in the quarter at 36.9%. It was at really the high end of the range that we provided of 36% to 37%. And the sequential decline was not a surprise to us. We understood the warranty effects in March. And as I said on last quarter's call, we expect that our margins to be down sequentially primarily for two reasons. The first is the lower sequential revenue, so we lost leverage going from March to June, and we expected a different product mix. And as you can see, we reported very near the top end of that and feel good.

Antonio Sacconaghi - Sanford C. Bernstein

Right, but Peter, the mix ultimately was not that different I think iPhones were 52.5% last quarter, they were 51.5%. So, it actually seems like your mix was perhaps better than you had anticipated. So, I appreciate the volume revenue mix, but was your mix exactly in line with what you expected?

Peter Oppenheimer

Well we had some puts and takes within the quarter, but it was – it ultimately ended up within the range that we thought it would be and we hit the high end.

Antonio Sacconaghi - Sanford C. Bernstein

Okay. The second one I was wondering whether you could comment on was just iPhone ASPs, they were down about 5% sequentially or down about 10% over the last two quarters. I presume that's principally due to a higher mix of 4s and 4Ss, but I was wondering if you could comment on what's driving that change in ASP and whether it's more pronounced in certain geographies versus others?

Peter Oppenheimer

We were down 4% year-over-year on the iPhone ASP about \$27, and that was primarily due to the mix of the products that we are selling and FX headwinds. As we anticipated iPhone 4 sales accelerated as we offered more affordable pricing in emerging and other markets, so that's on a year-over-year basis. And then sequentially, it was down about \$32, and again, that was driven by mix as well in part iPhone 4. Tim, do you want make comments about what we may have seen in the regions?

Tim Cook

Yes, sure. From an iPhone point of view, Toni, with the moves that we made on 4 and with iPhone 5 continuing to be the most popular model we saw very strong sales in several of the emerging markets or prepaid markets. India was up over 400%. Turkey and Poland were both up over 60%. The Philippines were up about 140%. And in addition, we saw very strong iPhone sales in several of the developed markets. For example, the U.S. was up over 50%, Japan up over 60%, the UK about 50%, and so we had several regions, where iPhone growth actually accelerated from the previous quarter, which is a unusual pattern for us and we were very, very happy with this.

Antonio Sacconaghi - Sanford C. Bernstein

And notably absent from that list was China, was that was your pricing how you treated to change pricing this quarter relative to previous quarters any different in China than the rest of the world?

Tim Cook

China was weaker in the quarter, although the datasheet that obviously focuses on revenue doesn't really tell the complete story here. If you look at sell-through as we have mentioned earlier with the inventory changes, it's important to do that. And so our sell-through in China was only down 4% from the year ago quarter when you normalized for channel inventory. Hong Kong was actually down more significantly. Mainland China was actually up year-over-year. It was up 5%, but that is the lower growth rate than we have been seeing and are attributed to many things including the economy there clearly doesn't help us or nor others. In Hong Kong, Hong Kong is an international shopping haven as you know for not only tourist but also some resellers and we saw more dramatic downturn there, it's not totally clear exactly what had occurred but it was down on a sell through basis by about 20% so that weighed greater China down as you can see in your data sheet.

Nancy Paxton

Thank you Tony. Can we have the next question please?

Operator

Ben Reitzes with Barclays.

Ben Reitzes - Barclays Capital

The question that I wanted ask was with regard to, there's been a lot of talk about a trade-in program that you guys are going to start even doing on your own with regard iPhone's, is there any update on that, and if so is that something that could help margins and help expand your emerging market sales and how is that going to work? Thanks.

Tim Cook

Ben we haven't announced anything relative to a trade-in program so what you've seen is rumor oriented. There are a number of channels that do trade-in programs now not only in the U.S. but in different regions and the reason that it's so attractive around iPhone is that the residual value of an iPhone stay so high and there is so much demand for it and so that makes the trade-in programs more lucrative to a win-win from many points of view. But we haven't announced anything about us.

Ben Reitzes - Barclays Capital

Are you opposed to it?

Tim Cook

No I'm not opposed to it. I see channels doing it and I like the environmental aspect of it and so that part of it really is encouraging today.

Ben Reitzes - Barclays Capital

Okay, then really quick on China you answered some of it in the question before but how do we turn it around here, China and other APAC, what can we do to make it turn, you know there has been some press in China that obviously you had to deal with and when do we see that market turning and even though investors are worried about it from a secular point of view as well as the economy there.

Tim Cook

I think it's important to put in perspective. If you combine the stores (ph) that we have in Greater China our revenues there were 4.9 billion for the quarter and so that 14% powered the company which is very significant and in a few years that was in 100s of millions and so we have run our business there significantly.

We have a very strong market there and in the last 12 months we have done 27 billion on a trailing basis and so it's a huge business for us. Underlying the results are, if you look at iPad sell through in greater China was up 8% but the sell through in Mainland China was up 37% and so iPad is doing remarkably well. The latest share numbers we have seen on iPad for the tablet market is over 50% and year-to-date iPad units are up 48% year-over-year and so there have been direct growth there.

From an ecosystem point of view we continue to attract a lot of developers from China. We now have about a 0.5 million developers in China that are working on iOS apps and that's up almost 70% year-over-year and so I think that's in top economy (ph) for China but for outside of China is many offered their apps through, in different stores around the world. We're obviously paying the developers quite a bit and so that's furthering advancement of the ecosystem of developers. We're continuing to invest in distribution, we're going to double the number of retail stores there for the next two years and we're continuing to lift iPhone point of sales and iPad sales both of which are currently lower than where we would them or need them today but we're doing that very cautiously with what we want to do with great quality. And so I continue to believe that in the arc of time here,

China is a huge opportunity for Apple and I don't get discouraged over a 90-day cycle that can have economic factors and other things in it.

Ben Reitzes - Barclays Capital

Thank you.

Nancy Paxton

Thanks Ben. Can we have the next question please?

Operator

From Piper Jaffray, we will hear from Gene Munster.

Gene Munster - Piper Jaffray

Good afternoon. You talked about more affordable pricing and Peter, can you just confirm that, that was just with the iPhone 4 and then separately as you think about the growth that you had in some of these emerging markets, it sounds like some more recently it has come from affordable pricing, but also you potentially could address those markets in products that are more appropriate for those markets? And maybe can you just talk from a very high level just how you think about, are those both levers that you potentially could use or do you feel that pricing is the lever? And then a follow-up question.

Tim Cook

Gene, it's Tim. The reference that Peter made earlier was to the iPhone 4 and what we have seen is that the number of first-time smartphone buyers that the iPhone 4 is attracting is very, very impressive. And we want to attract as many of these buyers as we can. And we saw that beginning to happen towards the end of the Q2 timeframe as I have referenced on last quarter's call and we did that on a wider spread basis offered the more affordable pricing on a wider scale basis this quarter and continued to be very happy with what we saw and where iPhone 5 continues to be the most popular iPhone by far, we are really happy to provide an incredible high-quality product with iPhone 4 running iOS 6 to as many first-time smartphone buyers as we can. And I think it's proven to be exactly a great product for that buyer.

Gene Munster - Piper Jaffray

Do you think there are more weapons that you could use in these markets to continue the pace that you have?

Tim Cook

There is always more weapons. And we have more than one tool in the toolbox, but yes, it's a great way for a buyer to get into the iOS ecosystem and the customer set ratings that we have with iOS 6 and the stickiness of the platform is huge. And so it's great for customers and we are very glad to offer it.

Gene Munster - Piper Jaffray

Okay. And then my final question is just in terms of the growth question that some investors have about how you keep such a higher revenue growth number moving, last quarter you referred to new products emerging and this time you referred to more products over the next few years. Are there product categories out there that are big enough to move the needle for Apple?

Tim Cook

We will see, Gene. We are working on some stuff that we are really proud of and we will see how it does, and we will announce things when we are ready.

Nancy Paxton

Thanks Gene.

Gene Munster - Piper Jaffray

Thank you.

Nancy Paxton

Thank you. Can we have the next question please?

Operator

From Cross Research we will go to Shannon Cross.

Shannon Cross - Cross Research

Thank you. Tim, can you talk broadly about your discussions with both existing and potential carrier partners, I would think that 56% growth in Japan might prod one in particular to be interested in some of the coming product? And then also there has been some comments about Russia and just concerns in general about pricing in that, so how sort of in general have your discussions with your carrier partners been?

Tim Cook

I would classify them as being good. The processing on Russia probably needs some color. The articles I have seen suggested that we are not selling iPhone through carrier owned stores. If that's the one that you are referencing if you look at the Russian market, over 80% of smartphones are sold in retail. They are outside of carrier-owned stores and we sell through a number of national chains there, and in fact, our activations in Russia for iPhones were set of record last quarter, is our highest quarter in Russia ever. And so we are really happy with now we're doing there. We do continue to sell through some carrier on stores as well but obviously the contribution is much less than the retail organizations and so forth and so I think that's probably not well understood there. We're continually looking for other relationships to both add and enhance the once we have got and I do think there are some opportunities there for us.

Shannon Cross - Cross Research

Okay great and then can you talk a bit about commodities just in terms of pricing of some of your key commodity's ability to procure them and how some of, I guess your supply chain is working these days.

Tim Cook

We certainly have no problem procuring. In terms of where we see pricing headed and this would have been factored into the most fortune guys (ph) appear a bit earlier. Despite the very, very weak PC market DRAM pricing has actually increased and we see continued upper pressure in this area.

NAND pricing is fairly stable and it's following seasonal trends as we would expect, both LCDs and HDDs have, the prices have fallen and we would expect further reductions in these areas and if you look at other commodities they appear to be in supply for an imbalance and so we would expect the pricing to decline on these sort of historical levels.

Nancy Paxton

Thanks Shannon. Can we have the next question please?

Operator

From UBS, we will go to Steve Milunovich.

Steve Milunovich - UBS Securities

Thank you. Peter first could you clarify whether in your fiscal fourth quarter guidance you have any of these new products assume shipping in the quarter?

Peter Oppenheimer

Steve that's nothing something that I can comment on.

Steve Milunovich - UBS Securities

Okay and then Tim kind of a philosophical question, but whenever you talk about what's important in the company it always comes back to great products, better, be more important than more, Wall-Street is kind of in the more business. So I just wonder kind of talk about your philosophy and if you can come up with a couple of really great products maybe they will provide enough growth, maybe they don't but you don't seem as focused on kind of financial metrics and growth projections as a lot of companies are. Maybe tie (ph) that a little bit in your functional organizations, does that limit how many products you can actually take to market overtime?

Tim Cook

Steve I think about it as differently than that, the way I think about is, we're here to make great products and we think that if we focus on that and do that really, really well that the financial metrics will also come and so we don't see those two things being mutually exclusive. We see them having great overlap and I think if you look at how the company has executed over many years you would suggest that that's possible.

Steve Milunovich - UBS Securities

But you don't go into saying we need to X% percent growth, what do we need to do from a product. It sounds like you go the opposite, what are some really great products we can do and if we do that, the metric will take care of itself.

Tim Cook

We started the product because we believe that the most important saying is that our customers love the products and want them, if you don't start at that level you can wind up creating things that people don't want. So we try very hard to focus on products and customers, enriching customers and making great products.

Nancy Paxton

Thank you Steve. Can we have the next question please?

Operator

And we will go to Keith Bachman with Bank of Montreal.

Keith Bachman - Bank of Montreal

Just to Bill's earlier question, Bill Shope's on you don't think the high-end is saturated and yet ASPs have come down quite a bit of iPhone's. I was wondering if you could philosophically is the current mix what we should be thinking about for iPhone's and more specifically would you anticipate that ASPs would continue to trend lower in iPhone's or stay where they are at least directionally?

Tim Cook

Keith in terms, we don't project ASPs, we do give guidance and we have an assumption of the ASP for the current quarter in our guidance obviously to come up with the numbers that Peter talked about earlier. If you look underneath the iPhone numbers, I think Peter alluded to earlier, we saw significant growth clearly in the lower price point year-over-year which for us is iPhone 4, it's still a great product. And that was one of the things and the iPhone 5 doing well that allows us to significantly beat what I think is probably the vast majority of expectations out there for iPhone sales. And so I don't think we do a lot better at the low end and where we sell more of those in the mix change that it has changed across the last year. If you look at 3GS last year, which was in a comparable position as our entry product, we are selling a lot more 4s and 3GSs, I think we both understand the market much better and have our things on the pulse of distribution in different countries and so forth this year. I am sure that we will get better and better at that over time and how that will change mix, I don't know.

Typically, for us, a product has the highest mix during its initial few months of sales, and so you have a natural kind of seasonal decline over time of a product cycle that generally happens on iPhone, it generally happens on iPad, and we have seen it happen on the Mac over many years. And so I don't see anything that fundamentally would change that, but again, we are going to look at this thing quarter-by-quarter and tell you how we look at the quarter and give you guidance forward as we go.

Keith Bachman - Bank of Montreal

Okay, alright. And then Peter for you, there has been a few comments on gross margins and I want to try to broaden out a bit. In the past as you look at the one quarter forward which would be the September quarter you have given us some of the puts and takes that think about there has been a couple of specific questions asked about, but I want to broaden out and see

if you could just highlight what you think are the puts and takes in the September quarter as you see them today, particularly with reference to the quarter you just reported? Thank you.

Peter Oppenheimer

Sure. I am going to keep my comments limited, but I will give you a put and a take.

Keith Bachman - Bank of Montreal

Okay.

Peter Oppenheimer

Where I guess the tailwind we would expect our component costs to be favorable in the quarter.

Keith Bachman - Bank of Montreal

Okay.

Peter Oppenheimer

Conversely, we would expect some FX pressure in the quarter given the strengthening in the dollar, particularly against the yen.

Keith Bachman - Bank of Montreal

Okay, thanks guys.

Nancy Paxton

Thank you. Can we have the next question please?

Operator

And from Raymond James we will hear from Tavis McCourt.

Tavis McCourt - Raymond James

Thanks for taking my question. Peter, first a clarification on the share buyback and can you tell us what the ending basic share count was in the third quarter?

Peter Oppenheimer

All of that is on the income statement, so you got the ending basic and diluted, but let me give you a couple of points that I think could be helpful

for you. During the June quarter, we concluded the first \$2 billion ASR program that we started in December and then so we got the final shares in on those, and we did our second ASR program of \$12 billion, that started at the end of April and we received 23.5 million shares initially on that. And I went through in my prepared remarks, at some point during fiscal '14 that program will close and we will get the final number of shares. We also bought back 4 billion of stock in the open market during the June quarter and received about 9 million shares. So, the impact of those in the June quarter lowered our diluted share count in the quarter by about 22.9 million shares. And as you look forward into the September quarter before any further buybacks or any issuance to employees we would expect to see an additional approximate 11 million share benefit from the things that occurred during the June quarter.

Tavis McCourt - Raymond James

Great, thanks. And one for you Tim, one of the comments out of the developers' conference was iOS, hopefully, I guess in 12 different car manufacturer models next year. I was wondering if you can talk a little bit about that opportunity whether it's a license opportunity, what's the strategic relevance of that if you are willing to? Thanks.

Tim Cook

I am sorry I couldn't hear that question.

Tavis McCourt - Raymond James

I think at the developers conference there was a comment about iOS being built into a number of car manufacturing models for next year? I was wondering if you can talk about kind of the strategic relevance for that and what the business model might be for that for Apple?

Tim Cook

I see it is very important. It is a part of the ecosystem, and so just like the app store is a key part of the ecosystem and iTunes and all other content are key and the services we provide from messaging to and (inaudible) support. Having something in the automobile is very, very important, it's something that people want and I think that Apple can do this in a unique way better than anyone else. So it's a key focus for us.