

## **Operator**

Good day, and welcome to this Apple Incorporated First Quarter Fiscal Year 2012 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.

## **Nancy Paxton**

Thank you. Good afternoon, and thanks to everyone for joining us. Speaking today is Apple CFO, Peter Oppenheimer. And he'll be joined by Apple CEO, Tim Cook; and Treasurer, Gary Wipfler, for the Q&A session with the 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 revenue, gross margin, operating expenses, other income and expense, stock-based compensation expense, taxes, earnings per share and future products. 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 2011 and the Form 8-K filed with the SEC today along with the attached 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 thrilled to report the results of a tremendous quarter, generating the highest quarterly revenue and earnings in Apple's history. We established numerous new records during the quarter, including all-time highs for quarterly iPhone, iPad and Mac sales. We are very proud of these results and are extremely pleased with the momentum of our business.

Revenue for the quarter was \$46.3 billion, representing year-over-year growth of 73%. The increase was fueled primarily by strong growth in iPhone, iPad and Mac sales, and was also aided by the inclusion of a 14th week in the quarter, which we indicated previously.

Operating margin was \$17.3 billion, representing 37.4% of revenue. Net income was \$13.1 billion, increasing 118% over the prior December quarter's results, and equaling half of the net income generated in all of fiscal 2011. The quarter's net income translated to earnings per share of \$13.87.

Turning to the details of the quarter. I'd like to begin with our Mac products and services. We established a new all-time quarterly record with sales of 5.2 million Macs, setting new records for both desktops and portables. Mac sales grew 26% year-over-year compared to IDC's latest published forecast of 0 growth for the market overall in the December quarter. While total Mac sales benefited from the 14th week, average weekly Mac sales were up strongly year-over-year across the quarter. Mac sales outgrew the market in each of our geographies with particular strength in our Asia-Pacific segment where sales were up 58% year-over-year. The increase in Mac sales was fueled by very strong growth of MacBook Pro and MacBook Air, as well as the continued strong performance of iMac. We began and ended the quarter with between 3 and 4 weeks of Mac channel inventory on a look-forward basis.

As we announced last month, the Mac App Store has been a great success with customers downloading over 100 million apps in less than a year. The Mac App Store offers thousands of apps in education, games, graphics and design, lifestyle, productivity, utilities and other categories, and has rapidly become a favorite shopping destination for Mac software.

Moving to our music products. We sold 15.4 million iPods compared to 19.4 million in the year-ago quarter. Total iPod sales were ahead of our expectations and iPod touch continued to account for over half of all iPods sold. iPod share of the U.S. market for MP3 players remains at over 70% based on the latest monthly data published by MPD. And iPod continued to be the top-selling MP3 player in most countries we track based on the latest data published by GFK.

We ended the quarter within our target range of 4 to 6 weeks of iPod channel inventory on a look-forward basis. The iTunes Store generated record results with revenue in the quarter of \$1.7 billion. During the quarter, we launched iTunes music stores in Brazil as well as 27 other countries in Latin America and Europe, now offering a catalog of over 20 million songs from major recording labels, as well as thousands of independent artists. And iTunes customers were amazingly busy on December 25, generating over 140 million downloads of apps and content that day.

I'd now like to turn to iPhone. We were thrilled to sell a record 37 million iPhones compared to 16.2 million in the previous December quarter. This

represents 128% year-over-year growth compared to 40% growth for the smartphone market overall in the December quarter, based on the latest published estimate from IDC. We experienced very strong iPhone sales growth in all of our segments, thanks primarily to the tremendous popularity of iPhone 4S.

Customers have been captivated by Siri, which let's them use their voices to send messages, place phone calls, schedule appointments and more. Siri understands what users say, knows what they mean and helps them with everyday tasks and information requests. iPhone channel inventory increased sequentially by about 200k, leaving us with a little under 6 million iPhones in the channel at the end of the quarter, and below our target range of 4 to 6 weeks on a look-forward basis.

Recognized revenue from iPhone handset and accessory sales was \$24.4 billion during the quarter compared to \$10.5 billion in the year-ago quarter, an increase of 133%. Nearly all of the top companies in the Fortune 500 now approve and support iPhone on their networks. This includes companies in markets such as financial services, consumer products, transportation, healthcare and insurance.

iPhone is changing the way companies across the globe use mobile devices for work. In addition to accessing e-mail, calendar and contacts, many of these companies are developing and deploying mission-critical iPhone apps to help improve productivity and give employees secure and immediate access to information anywhere. Many companies around the world have thousands of employees using iPhone and business apps. Some new examples include Royal Dutch Shell, Credit Suisse, Kimberly-Clark, St. Jude Medical, Providian, Teradata, Nike, [indiscernible] and Facebook. We were very pleased to begin shipping iPhone 4S in China and 21 additional countries earlier this month. iPhone 4S is now available in over 90 countries, making this our fastest iPhone rollout ever.

Turning to iPad. We were very pleased with record sales of 15.4 million iPads during the December quarter compared to 7.3 million in the year-ago quarter, an increase of 111%. iPad was extremely popular with holiday season buyers, and we remain very excited about the potential for this market.

Recognized revenue from sales of iPad and iPad accessories during the quarter increased by 99% year-over-year to over \$9.1 billion compared to \$4.6 billion in the year-ago quarter. iPad sales surpassed our expectations with sell-through exceeding sell-in by about 200,000 units. We exited the quarter within our target range of 4 to 6 weeks of iPad channel inventory on a look-forward basis.

iPad continues its unprecedented adoption in business. Nearly all of the top companies within major Fortune 500 markets including pharma, manufacturing, hospitality, consumer products, financial services, healthcare and retail are actively using iPad to improve workflows, business processes and customer engagements. We are delighted to learn how iPad enables businesses to change the way they work. Real estate agents at Coldwell Banker and Sotheby's access sales presentations and use custom iPad apps in the field. Retail chains such as Bed Bath & Beyond use iPads to deliver key business metrics on the sales floor. Wineries are using iPads in their vineyards to call up weather data and soil profiles, record quality assessments and make decisions on the spot about whether to harvest their grapes. And in this past quarter, Chinese airline, EVA, has also deployed iPads to pilots and crew for flight manuals, documentation and training.

iPad is extremely popular with students, teachers and administrators as a wonderfully engaging and powerful tool for teaching and learning. Today, 1.5 million iPads are already in use in education institutions, including over 1,000 one-to-one deployments.

We were very pleased to announce iBooks 2 last week featuring iBook Textbooks to deliver educational content that is more interactive, current and portable than ever from leading publishers, including Houghton Mifflin, McGraw-Hill and Pearson, as well as thousands of independent publishers. And with iBooks Author, anyone with a Mac can create iBook textbooks, cookbooks, picture books and more, and publish them to Apple's iBook Store. And over 600,000 copies of iBooks Author have already been downloaded since last Thursday's announcement.

We were also happy to announce the all-new iTunes U App last week, allowing students using iPads to have access to the world's largest catalog of free educational content, along with over 20,000 education apps and hundreds of thousands of books in the iBookstore that can be used in their school curriculum. And as of today, over 3 million copies of iTunes U App have already been downloaded.

Combining iPhone, iPad and iPod touch, we surpassed 315 million cumulative iOS device sales, selling more than 62 million in the December quarter. We were very pleased to launch iOS 5 and iCloud during the quarter. Customers are loving the new features of iOS 5, including Notification Center, iMessage and Reminders. And iCloud is off to a great start with more than 85 million customers signed up as of today. With iCloud, customers can store their music and photos and documents and keep their personal information and content in sync across all their devices, automatically and seamlessly.

The App Store continues to be incredibly successful with over 550,000 apps available, including 170,000 apps specifically for iPad. We are thrilled that by the end of this month, our developers will have earned over \$4 billion cumulatively from App Store sales, including over \$700 million in the December quarter alone.

I'd now like to turn to the Apple retail stores, which also generated record results. Revenue was \$6.1 billion, an increase of 59% over the prior year. The stores experienced very strong year-over-year growth in iPhone, iPad and Mac sales, establishing new records for all 3. iPhone sales were extremely robust, more than doubling year-over-year thanks primarily to the very successful launch of the iPhone 4S.

Sales of iPad were also up significantly year-over-year, thanks to continued strength of iPad 2 and strong holiday season buying. The stores also sold 1.1 million Macs compared to 851,000 in the year-ago quarter. And about half the Macs sold in our stores during the December quarter were to customers who had never owned a Mac before.

We opened 4 new stores in the quarter, including our spectacular new store at Grand Central, as well as 3 stores in Europe, bringing us to a total of 361 stores. With an average of 358 stores open, average revenue per store was \$17.1 million compared to \$12 million in the year-ago quarter, an increase of 43%.

Segment margin reached a new record of over \$1.8 billion and 30.3% of retail revenue compared to \$1 billion and 26.2% in the year-ago quarter. Store traffic reached new record levels with 110 million visitors compared to 76 million visitors in the year-ago quarter, an increase of 45%. That translates to an average of almost 22,000 visitors per store per week, reflecting incredible interest in our stores and our products.

Our EasyPay checkout process has significantly enhanced our ability to handle such high customer traffic levels. And now, with personal pick up, customers can order Macs, iPods or iPads from the Apple online store and pick up most in-stock products within 1 hour at the Apple Retail Store of their choice, making shopping for Apple products that much easier and faster.

Total company gross margin was 44.7%, which was 470 basis points higher than our guidance. About half of this difference was driven by lower commodity and other product costs. Another quarter was due to leverage on the higher revenue and some onetime items benefiting the quarter. And the remainder was due to better-than-expected mix largely from the record iPhone sales.

Operating expenses were \$3.36 billion, and included \$357 million in stock-based compensation expense. OI&E was \$137 million, and the tax rate for the quarter was 25.25%.

Turning to our cash. Our cash for short-term and long-term marketable securities totaled \$97.6 billion at the end of the December quarter compared to \$81.6 billion at the end of September quarter, a sequential increase of \$16 billion. About \$64 billion of the cash was offshore at the end of the December quarter.

Cash flow from operations was over \$17.5 billion. We are actively discussing uses of our cash balance and don't have anything specific to announce today. In the meantime, we continue to be very disciplined with the cash and are not letting it burn a hole in our pockets.

As we move ahead into the March quarter, which will be 13-week quarter, I'd 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 about \$32.5 billion, compared to \$24.7 billion in the March quarter last year. We expect gross margin to be about 42%, reflecting approximately \$60 million related to stock-based compensation expense. We expect OpEx to be about \$3.05 billion, including about \$350 million related to stock-based compensation.

We expect OI&E to be about \$125 million, and we expect the tax rate to be about 25.25%. We are targeting EPS of about \$8.50.

In closing, we are extremely pleased with customer response to our products and the record-breaking results in the December quarter. We launched iPhone 4S to rave reviews, delivered iOS and iCloud to millions of customers and surpassed all previous records for quarterly iPhone, iPad and Mac sales. We are very proud to be delivering the strongest product lineup in Apple's history and we are extremely enthusiastic about our new product pipeline.

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

## **Question-and-Answer Session**

**Nancy Paxton**

Thank you, Peter. [Operator Instructions]

**Operator**

[Operator Instructions] And your first question will come from Ben Reitzes of Barclays.

**Benjamin A. Reitzes - Barclays Capital, Research Division**

Tim and Peter, can you describe the iPhone momentum as you ended the quarter? And what is included for the iPhone in your guidance and your enthusiasm for the product as we head into the first half of the calendar year? Any more detail in metrics would be helpful.

**Timothy D. Cook**

Sure, Ben. This is Tim. We were thrilled with the 37 million iPhones that we sold. It's up 128% against a market rate of growth of about 40%, according to IDC's latest projection. And this is substantially above the 20 million unit previous record. We would attribute it to a -- just a breathtaking customer reception of the iPhone 4S with iOS 5, and key features such as Siri and this incredible camera with advanced optics. Customers are absolutely loving this product. We also attribute it to -- we made a very bold bet entering the quarter as to what the demand would be. And as it turns out, despite it being a very bold bet, we were short of supply throughout the quarter and did end with a significant backlog as Peter has said. That situation has improved some since the end of the quarter, but we still are short in some key geographies currently. I would also attribute the performance to the delayed purchases from the prior quarter as we discussed in the October call as the -- people were anticipating a new iPhone being announced. I think we made the correct decision to go with a broad range of iPhones. It turned out to be a benefit as we thought it would. And of course, the 14th week, as Peter said, is a part of this, although everyone knew that, as we did as well, and factored that into our guidance. Geographically, we saw strength in literally in every key region. But in particular, I would call out that U.S. and Japan, which got billing early in the quarter and had most sale -- many more sales days than most countries. I would also say that was particularly huge with the iPhone sales in Greater China, particularly considering that we did not launch the iPhone 4S in China until in January. And therefore, had no sales into mainland China during last quarter. And so we could not be happier. We felt we were betting bold, as I think many of you would have thought if you would have known what we were doing. But as it turns out, we didn't bet high enough. Our customers are loving iPhone and we're very happy with that.

**Benjamin A. Reitzes - Barclays Capital, Research Division**

My follow-up is, as we're doing the math here, it seems like the ASP is up sequentially for the iPhone. So it seems like there was a very good mix of the 4S and the higher capacity 4S, could you just comment a little bit on that versus the iPhone 4 which you cut the price of?

## **Timothy D. Cook**

The iPhone 4S was the most popular iPhone during the quarter. And consistent with most launches, we typically see a higher mix of the front end of the launch.

## **Operator**

Next, we'll go to Katy Huberty with Morgan Stanley.

## **Katy Huberty - Morgan Stanley, Research Division**

Just a follow-up on the iPhone discussion. Tim, can you talk about whether the pent-up demand at the end of December and today -- is both countries like U.S. and Japan that had the phone all quarter? Or is it just countries that recently received and are able to sell the phone? So if can you talk about that, and then the second part would be, does the component environment and your production capacity or your suppliers' capacity allow you to start to address that catch-up demand, address China, which is new this quarter, and also help you start to rebuild inventory in March? Or are there any constraints that you see in the near term?

## **Timothy D. Cook**

I don't want to comment on current sales trends other than -- because we have included, obviously, that in our guidance. But I would -- given that we just launched in China, I would say the demand there has been staggering. We are selling through our reseller stores and our online store. We're not currently selling through a retail store. And the demand is off the charts. And so we're very happy with the demand response there. The other countries that we launched in earlier this quarter were smaller countries in a demand sense. And so we'll see how the quarter goes from a supply-demand point of view. We did make progress as we moved from the end of the quarter until now, as I alluded to earlier, and got caught up in some countries, but there is still some that we are not caught up. So we'll see how we'll do going forward.

In terms of the component environment, generally speaking, the component environment is favorable. That was one of the things that allowed us to overachieve on gross margin. And we would predict that, that component environment stays favorable on most key commodities with the exception of hard drives which, as you know, was very much affected by the tragic situation in Thailand. And I don't predict Apple having a material supply issue during the quarter, but we will pay more for drives during the quarter. And that's reflected in our guidance that Peter gave earlier.



## **Operator**

From Citi, we'll go to Richard Gardner.

## **Richard Gardner - Citigroup Inc, Research Division**

I was actually going to ask about the hard drive situation. I'd love to just get a little bit more detail there in terms of whether it did have any sort of meaningful impact on Mac sales during the December quarter? Tim and -- you mentioned that you expect to pay more for drives. I guess you don't expect it to have any sort of impact on revenue for the March quarter?

## **Timothy D. Cook**

Yes, for the December quarter, Rich, there was not a material supply or cost impact to any of our product lines as a result of the -- for the March quarter, we're not expecting any material supply impact. However, in the hard drive area, prices have increased and we have included those cost increases in our guidance that Peter provided earlier.

## **Richard Gardner - Citigroup Inc, Research Division**

Okay. And then for the December quarter, you obviously -- you saw some pretty dramatic declines in key components like NAND, down about 10% and DRAM down almost 40%. Can you talk about, within that context, how favorable you expect pricing to be for some of those key commodities here on the March quarter and whether the overall industry shortage of HDDs is having a material impact on pricing and other categories?

## **Timothy D. Cook**

Yes. Last quarter -- not confirming the percentages that you gave out, but we did receive better costs than we had rolled in our guidance on -- particularly on displays and NAND Flash and DRAM. And we would expect that NAND, DRAM and most LCDs would continue to be in a position that supply exceeds demand for the industry, and therefore those price trends should continue to be favorable in this quarter and we reflected that in our guidance. The big exception is the hard drive, which I pointed out earlier, which is constrained on an industry-wide basis, and where I believe we can navigate the supply issue that we are paying more for them and that's rolled in our guidance.

## **Peter Oppenheimer**

Rich, it's Peter. I'd like to just talk a little bit about the gross margin guidance to put the component environment in context. We do see that

helping us sequentially in the March quarter. But overall, we would anticipate our gross margin to be down by about 270 basis points. And we see that largely coming from the loss of leverage on the sequentially lower revenue on the December to March quarter. The nonrecurrence of onetime items, which benefited us in the December quarter, and the stronger U.S. dollar that we've seen.

**Richard Gardner - Citigroup Inc, Research Division**

Since you touched on it, Peter, can you talk about how big the nonrecurring items were as a gross margin benefit in December?

**Peter Oppenheimer**

Yes. They, along with the leverage, the 2 of those together represented about 1/4 of the upside that you saw to our guidance. About half of it came from better commodity and other product costs, and the remaining quarter came from better mix, largely the iPhone sales.

**Operator**

Bill Shope with Goldman Sachs.

**Bill C. Shope - Goldman Sachs Group Inc., Research Division**

Okay. Great. I have a question on the iPad. Obviously, a very strong shipment number for the December quarter. But with that said, did you see any impact at all from some of the new lower-priced tablets in the market? And I guess looking forward into 2012, how do you think about competition from the lower-priced content, subsidized tablets like that of Amazon's models in 2012?

**Timothy D. Cook**

We're really happy with the 15.4 million iPads that we were able to sell. And as Peter said, we did take down the channel inventory slightly. There's the -- underlying sell through was slightly higher than that. This is consistent with our long-term beliefs that we've had since -- before we introduced the product, that this is a huge opportunity for Apple over time. And as I've said before, I truly believe, and many others in the company believe, that there will come a day that the tablet market and units is larger than the PC market. In fact, it's interesting to note that in the U.S., it's clear from the IDC's recent data on desktop PCs in the U.S., that tablets exceeded desktop PC sales last quarter in the U.S. And so I think you can already see different indicators that there is significant momentum in this space. In terms of our competitiveness, the ecosystem for iPad is in a class by itself. We strongly

believed in optimizing applications from day one to take advantage of the larger canvas, and we now have apps totaling over 170,000 available for customers. And that compares to what appears to us to be only a few hundred for the competition. And so I think people really want to do multiple things with their tablets. And therefore, we don't really see these limited function tablets and e-readers being in the same category. There is clearly customers that will buy those. I think they'll sell a fair number of units. But I don't think that people that want an iPad will settle for a limited function.

And in terms of other tablets, last year was supposed to be the year of the tablet. I think most people would agree, it was the year of the iPad for the second year in a row. And so we're just going to continue to innovate like crazy in this area. And we think we can continue to compete with anyone that is currently shipping tablets or that might enter in the future.

**Bill C. Shope - Goldman Sachs Group Inc., Research Division**

Okay. Great. And then, I guess digging into the iPhone number a bit more, you gave us a lot of great color on that performance, but could you dig in a bit more to what your learning in terms of iPhone elasticity with the new price points for the 3GS, I guess in both the post and prepaid markets? And I know in the past, you've talked about the iPhone and the prepaid market that sort of an evolving strategy that you all were approaching with sort of an open mind. How are you thinking about that now that you've had a full quarter with these lower price points and obviously, some success there?

**Timothy D. Cook**

Each of the models, the 3GS, the iPhone 4 and the iPhone 4S, were important in achieving the 37 million total units. And so we're glad to cover the broad range with great products. But the iPhone 4S was clearly the most popular among those. In the postpaid markets, as you know, there's a much smaller difference between what the customer pays in each of these. It's larger in the prepaid markets, and so it's too early to tell given we just started this October as to how this will play out over time. But we're thrilled with the total result, and you can bet that we're into details in every single country in the world trying to learn what we can learn to adjust and even do better in the future.

**Operator**

From Sanford Bernstein, we'll hear from Toni Sacconaghi.

**A.M. Sacconaghi - Sanford C. Bernstein & Co., LLC., Research Division**

Peter, Tim, I'd like to follow up on your comment that you're actively discussing, uses of cash. Is that any different, quite frankly, than what you've been doing historically? Or is that statement meant to suggest that you're thinking more constructively about cash than you have historically?

**Peter Oppenheimer**

Tony, it's Peter. We have always discussed, internally as a management team and with our board, our cash. We recognize that the cash is growing for all the right reasons and I would characterize our discussions today as active about what makes the most sense to do with the cash balance, but we don't have anything to announce specifically today.

**A.M. Sacconaghi - Sanford C. Bernstein & Co., LLC., Research Division**

Is there a timeframe or will you actually tell us that you've finished those discussions? Or is there a process for which there is an ending and you will inform us about that?

**Peter Oppenheimer**

When we have something to announce, Tony, we will announce it. But I want to say again that we are actively discussing the best uses of our cash balance.

**A.M. Sacconaghi - Sanford C. Bernstein & Co., LLC., Research Division**

And then on my follow-up, I was wondering, I want to revisit the gross margin question. I think in each of the last 10 years, your gross margin has actually gone up from Q1 to Q2. I think the last 3 years, which is more representative of your mix, it's kind of been going up by 200 basis points. So by saying it's going to go down 270 basis points, that's kind of bucking normal seasonality by 400 to 500 basis points, sounds like the onetime items is about 50 basis points. Is the loss of leverage that significant? Or what am I missing?

**Peter Oppenheimer**

The factors that are -- Tony, that are going to affect our sequential decline are primarily 3. They are the loss of leverage from the revenue, so we reported \$46.3 billion this quarter, which included a 14th week. We see our revenues being \$32.5 billion next quarter. So against our fixed cost that will have a significant impact. We did have some onetime items in the December quarter which won't recur, and the dollar is much stronger. So those are the principal 3 reasons. I would also say that 44.7 is a high, high, higher than we have seen since I've been with Apple in 15 years. And it's hard to

compare this year versus last because we're in different commodity cycles and different currency levels and where we are with our product cycles as well. Last year, we did have a sequential increase in iPhones, and that was a big contributor to our going up sequentially. We don't see that reoccurring this year, especially from the high of \$44.7 billion.

### **Operator**

We'll go to Gene Munster with Piper Jaffray.

### **Charles Eugene Munster - Piper Jaffray Companies, Research Division**

So we just got back from CES and everyone has a connected TV, trying to solve problems that only Apple can solve, and yet when we look at your Apple TV offering, it seems a little dated compared to what's on the market. So just from a high level, how should we be thinking about your strategy in the living room?

### **Timothy D. Cook**

Gene, it's Tim. The Apple TV product is doing actually very well. In last fiscal year that ended in September, we sold a bit above 2.8 million units. And just in the past quarter, the December quarter, we set a new quarterly record for Apple TV at over 1.4 million. But in the scheme of things, if you dollarize this in revenue that -- we still classify this as a hobby. However, we continue to add things to it and if you're using the latest one, I don't know about you, but I couldn't live without it. And so I think it's a fantastic product. And we continue to pull the string to see where it takes us. But other than that, I don't have any comments.

### **A.M. Sacconaghi - Sanford C. Bernstein & Co., LLC., Research Division**

Okay. And then Tim, you've been CEO for 4 months now, and I wonder what your early read on your new job has been. Has anything surprised you? Have you ever come across anything that you didn't expect?

### **Timothy D. Cook**

I love Apple, and it's just a reminder everyday of how much of a privilege it is to work with a team of people that are so incredible, and how lucky I am.

### **Charles Eugene Munster - Piper Jaffray Companies, Research Division**

But from like a strategic standpoint or anything that you can add as far as your first 4 months?

**Timothy D. Cook**

No, you can see the -- our results. And I think the team is doing a fantastic job. We feel very good about where we are.

**Operator**

Next, we'll go to Keith Bachman with the Bank of Montréal.

**Keith F. Bachman - BMO Capital Markets U.S.**

Peter, to start with you, when you talked about the cash balances, that you'll announce something when you announce it. But could you give us a little perspective on how at least you're framing the differences, opportunities in terms of dividends and buybacks?

**Peter Oppenheimer**

Keith, we're examining all uses of our cash balance, what we might do in the supply chain, what we can do from an acquisition perspective and otherwise. Since I don't have any perspective to share with you today, specifically on dividends or buybacks, other than again, we are actively discussing the cash balance. And in the meantime, we're not letting it burn a hole in our pockets.

**Keith F. Bachman - BMO Capital Markets U.S.**

Tim, then, try one for you. One thing you didn't mention much in your prepared remarks and subsequent questions was discussions around iCloud. And I just wanted to try to get some perspective: a, what's your perception on how it's adding value to Apple's products; and then b, as importantly, what are the metrics that you guys are using to determine if it indeed is driving success surrounding the various products?

**Timothy D. Cook**

I think Peter shared earlier the number of customers that had signed up for iCloud, and it's already over 85 million. So it's incredible that this has happened just in -- just a few months, period of time. We're thrilled with it, and the response customers has been incredible. It's solved a lot of problems that customers were having and made their lives incredible, much, much easier. And so I see it as a -- it was a fundamental shift recognizing that people had numerous devices and they wanted the bulk of their content in the cloud, and easily accessible from all the devices. And I think we're seeing the response from that, and with 85 million customers in just 3

months, it is a very, very important part. It's just not a product. It's a strategy for the next decade.

## **Operator**

That comes from Chris Whitmore with Deutsche Bank.

## **Chris Whitmore - Deutsche Bank AG, Research Division**

I wanted to ask about iPhone distribution in the quarter, and outlook for distribution as we move forward over the next several quarters. Can you give us an update in terms of where you are in distribution for the phone? And in terms of China, what are the prospects for expanding your reach from a carrier standpoint in China over the next couple of quarters?

## **Timothy D. Cook**

We are now over 130,000 points of sale throughout the world. That's up about 35% on a year-over-year basis. And so we have consistently added points of distribution. That's both adding carriers that have captured distribution, our own distribution as well as key retailers, which are particularly important in some markets. We added carriers last quarter with KDDI in Japan and Sprint in the United States. And both of those carriers, they can speak for their own results, but we are extremely pleased with both companies, and while the incumbents that were in the market also did incredibly well. And in terms of China, China Unicom continues to be a very key partner. I've got nothing to announce today on an expansion there. But as I consistently said, China is an extremely important market for us, and we continue to look at how to grow it further.

## **Chris Whitmore - Deutsche Bank AG, Research Division**

Okay. And for my follow-up, I wanted to ask about your revenue guidance for the March quarter. If you assume kind of weekly sales are adjust for the 14th week, it looks like you're guiding revenue down to about 25% quarter-on-quarter. However, you started the quarter with a pretty significant backlog of iPhones, et cetera, pretty strong momentum. Why would revenue be down more than normal seasonal or just historical seasonal end of March?

## **Peter Oppenheimer**

Chris, this is Peter, I'll take that. Let me first start with units and then I'll talk about some points on revenue. iPhone, we would expect to have a significant year-over-year increase and be down sequentially, as we reported from the 14-week December quarter. For iPad, we would expect to have a

significant year-over-year increase, and also be down sequentially as reported from the 14-week December quarter and the end of the gift-giving season. And for Mac and iPod, we would expect to be down sequentially consistent with our typical seasonality. From a revenue perspective, I completely understand the question that you're asking, and I want to talk to you about 5 reasons why I expect the -- us to be down in greater percent sequentially this year than we were last.

The first, the December quarter this year included a 14th week, which was the week between Christmas and New Year's. That week accounted for approximately 1/14 of the December quarter's revenue. Second, that week between Christmas and New Year's, fell within the March quarter last year and it will not be included this year. And sales in that week are typically greater than the average for the weekly sales in the March quarter. So when we think about our March quarter on a sequential basis, we would have loved to add that week in the quarter that we're now heading into. Last year, we increased the iPhone channel inventory by about 1.7 million units in the December quarter, so -- or this March quarter, so that benefited the quarter and reduced the comparable. The fourth, our December quarter results this fiscal year benefited from the launch of the iPhone 4S. We believe there were significant pent-up demand for the iPhone 4S heading into the December quarter, and it's been our fastest iPhone rollout ever. The previous iPhone launch took place at the end of June 2010. So in the year-ago December quarter marked the second full quarter of new iPhone availability. So we have some differences in launch timing. And finally, the U.S. dollar has strengthened in recent weeks, particularly against the euro, and we expect this to have an impact on our sequential compare. Last year, the dollar was relatively flat within the comparable time period. All that being said, we just reported an amazing quarter and we feel very good about the momentum of our business.

## **Operator**

We'll go to Shannon Cross with Cross Research.

## **Shannon S. Cross - Cross Research LLC**

Tim, I had a question -- and actually, Peter, I realize you're not going to talk specifically about cash, but with regard to acquisitions, perhaps you can talk a little bit about your strategy behind some other acquisitions including your most recent one, which was Anobit.

## **Peter Oppenheimer**

Shannon, we have done acquisitions where it tended be smaller or medium-sized companies that have just great engineering and other talent, a great



start on a product or a technology that we'd like to bring in to Apple, and sometimes including the IP. And that's really the acquisitions that we've done. We tend to do several a year. We're very, very disciplined in how we think about this and how we do it. And I think our track record here has been very strong.

**Shannon S. Cross - Cross Research LLC**

And can you talk a little bit about how they're integrated in? I'm just kind of curious as to -- since there's been several sort of semi-related acquisitions that you've made? I mean, do they sort of become encompassed within Apple or do you run them sort of as standalone divisions?

**Timothy D. Cook**

Shannon, we don't believe in lots of divisions like a lot of companies do. So we run the company as one instead of a lot of many companies. The semiconductor team works for Bob Mansfield, as does all of the hardware engineering for the whole company. And so Bob and his team are integrating Anobit into that team. Anobit has fantastic technical talent and we're really fortunate to have them join us.

**Operator**

From Credit Suisse, we'll hear from Kulbinder Garcha.

**Kulbinder Garcha - Crédit Suisse AG, Research Division**

Both of my questions kind of link to geographic expansion, maybe for Tim. I take the point of your focus in China, but it's also like -- I think if given what you said, you may be at 230 or 235 carriers now. There's about 500 carriers in the world, and I was wondering what your ambitions are and what you think the reality is over the next 12 to 18 months of I think at least a sizable share of them. And I had similar question on geographic expansion, Tim, just in terms of country rollout, you seem to have at least addressed part of China on the retail side, and it sounds like Brazil is next. But when can we look forward, Tim, you maybe addressing markets like India or Russia more aggressively with your retail presence?

**Timothy D. Cook**

Yes, we are today selling in Brazil through online store and reseller partners, including some very key carrier partners. We're selling in Russia through carrier partners and reseller partners. And we're selling in India through some carrier partners and reseller partners. And so we're in all of those countries today. But I've tried to be very clear in the past, and I'll do so

again, that we have a ton more energy in the China market today. That doesn't mean that there is a lack of effort or focus on the others. It just means that it's less than what we're investing in China today.

On the second country on the list of those 4, for us, would be Brazil. I think there's a huge opportunity for us there, and we've more than begun to go deeper into Brazil. But I don't want to signal that, that means that Apple Retail would be there, because I don't envision that occurring in the near term. In India where it is small, the revenue went up over 3x last quarter, but that's on a small base. And so we're beginning to see traction in most of these, but we recognize we have to focus to deeply understand the point that we can really get to a large revenue figure like Greater China currently is.

In terms of more carriers, we have been adding carriers. I anticipate we'll continue to add carriers. We have nothing specific to announce today, but you can bet that we're looking at the same list that you are. In terms of major carriers there, the number is much smaller than the number you quoted, as you know, there is a lot of smaller carriers on there. And the same thing with countries, there's many smaller countries. But all of those are important, I'd like to get into all of them over time.

## **Operator**

From JPMorgan, we'll go to Mark Moskowitz.

## **Mark A Moskowitz - JP Morgan Chase & Co, Research Division**

Tim, I want to come back to the tablet market here. Obviously, the iPhone was scintillating in terms of the growth, but I think the iPad growth also really outpaced a lot of our expectations. And the question really is -- it's kind of a loaded question. The question is really around -- do you think that Apple actually benefited from some of these lower cost, reduced features that tablets come into the market, where folks came in to check them out and realized not really that good, so they trade up to the iPad? And do you see that may be happening as well with the MacBook Air this year? Because this year seems like to be the ultrabook's version of "Let's try to be like Apple as well."

## **Timothy D. Cook**

Well, I looked at the data, particularly in the U.S. on a weekly basis, after Amazon launched the Kindle Fire. And I wouldn't, in my view, there wasn't an obvious effect on the numbers plus or minus. The theory that you've got, I have heard clearly from some customers that, that occurred, that they went in thinking that they would buy that, they'd look at it and decided to

buy an iPad. Whether that's happening on a very, very large basis, I don't know. Again, my own view is looking at our data in the U.S., there was no obvious change in the data, for what it's worth. That's how I see it. There is cannibalization clearly of the Mac by the iPad, but we continue to believe there is much more cannibalization of Windows PCs by the iPad and there's many more of them to cannibalize. And so we love that trend. We think it's great for us. The thing that is very different about the iPad is you can see it beginning to appear virtually everywhere. The enterprise has adopted it in a very large percent of the Fortune 500, as Peter talked about earlier. That number is also quite large when you look at the Global 500. In education, in K-12, we sold twice the number of iPads as we did Macs. And generally speaking, education adopts new technologies fairly slowly, so that's somewhat surprising. And of course, the consumer is -- has moved in a huge way to iPad. And so it's winning market by market, by market. I think that consumers that go in and look at it and think about the ecosystem and the huge advantages and the overall customer experience, I think we will win a fair number of those. And I think you can see that in the results. And so we couldn't be happier with doing over 15 million. And I think it's remarkable that we sold over 55 million iPads, and we've only been in the business April of 2011, I think, when we shipped the first one -- or 2010, excuse me.

### **Mark A Moskowitz - JP Morgan Chase & Co, Research Division**

And then the other question I have is given your customer data, are you seeing any sort of phenomena now where, because of the accelerated refresh cycles, the widened gap in terms of what Apple has given to the customer base versus the competition's meager efforts, if you will? Are you seeing accelerated refresh rates within your customer base in terms of someone who buys an iPhone, maybe they're buying it quicker or maybe they're also buying now a MacBook Air or an iPad, do you see an accelerated refresh rate or a halo effect?

### **Timothy D. Cook**

In the enterprise space, we've seen -- as an example, we've seen iPhones sort of being a catalyst. And the iPad moves after the iPhone. And in several accounts, we've seen the Mac follow that. And so there are clear examples where one product has pulled the other. And at a macro level, how much it's happening, it's very difficult to put our fingers on, but many customers, consumers, enterprise, education, they're all pointing that out. And as you know, we've seen that phenomenon before with the halo that the iPod created for the Mac back at the early 2002, 2003, 2004 range. And so it's not a phenomenon that is new to us.

### **Operator**

Next, we'll go to Mike Abramsky with RBC Capital Markets.

**Mike Abramsky - RBC Capital Markets, LLC, Research Division**

Tim, Android versus iPhone. Is this, in your view, becoming a 2-horse race similar to Mac versus Windows? And how do you see the sustainability of your integrated model versus what happened in terms of the growth of the OEM model in the PC market?

**Timothy D. Cook**

I wouldn't classify it like Mac and Windows at all. The Mac has outgrown the market for over 20 quarters in a row, but still has a single-digit percentage of the worldwide market, where iOS, if you look at phones and tablets, and the iPod touch, we've sold over 315 million iOS devices. And so I think this compares very favorable to any comparison, and over 62 million of those were done in the last quarter alone. I don't have comparable numbers, Mike, on Android. I haven't found a way to get very crisp quarterly reporting like we do that is straightforward and transparent. However, you can see from a momentum point of view, if you look at the MPD data that just came out a few days ago, it shows in the U.S., and this is just looking at October, November and so this had part of our launch in October and then all of it in November, it shows that just the iPhones, looking at phones not total iOS, it shows iPhone at 43% and Android at 47%. The Nielsen data that just came out a few days ago shows iPhone in the October, November, December timeframe at 45% versus Android at 47%. And the comScore data that also came out on October, November shows iPhone at 42% versus Android at 41%. And so it seems like all of the data that I've seen in the U.S. would say that it's a very close race in iPhone.

I think on the iPad side, although I don't have specific numbers to share from third parties, I think that all of us inherently believe that iPad is way ahead there. And there's really no comparable products to the iPod touch out there. And so iOS is doing extremely well. I wouldn't say it's 2-horse race. There's a horse in Redmond that always suits up and always runs, and will keep running. And there's other players that we can never count out. And so what we focus on is innovating and making the world's best products. And we'll just keep on doing that and somewhat ignore how many horses there are. And we just want to stay ahead and be the lead one.

**Mike Abramsky - RBC Capital Markets, LLC, Research Division**

Okay, just as a quick follow-up. There's 2 developments in the market on -- in smartphones that you sort of haven't approached yet, but Android has at least approached, which would be 4G and larger screens. In the past, you've articulated a fairly firm view both on the iPad and the iPhone of display

dimensions, for example, you mentioned that earlier in this call in iPad. Has the popularity, for example, of larger screens on Android phones changed or impacted, for example, your view? And same thing on 4G obviously, some of these phones have challenges to battery life, but what are your thoughts there?

**Timothy D. Cook**

Well, I wouldn't comment on the future roadmap, I'm sure that's a shock to you. But I would point out that we just sold a record 37 million iPhones. And so I think there's an incredible number of people -- and we could have sold more if we would have had more supply. But there's a lot of people out there that really love what we're doing.