APPLE INC
Form 10-K/A
January 25, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 26, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________

Commission file number: 000-10030

Apple Inc.

(Exact name of registrant as specified in its charter)

California	**94-2404110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1 Infinite Loop	
Cupertino, California	**95014**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (408) 996-1010

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value	**The NASDAQ Global Select Market**
(Title of class)	**(Name of exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller Reporting Company ¨

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

Yes ¨ No x

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, as of March 28, 2009, was approximately $94,593,000,000 based upon the closing price reported for such date on the NASDAQ Global Select Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

900,678,473 shares of Common Stock Issued and Outstanding as of October 16, 2009

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant s definitive Proxy Statement relating to its 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

Table of Contents

Parts of this Amendment No. 1 to the Annual Report on Form 10-K contain forward-looking statements that involve risks and uncertainties. Many of the forward-looking statements are located in Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as anticipates, believes, estimates, expects, intends, plans, predicts, and similar terms. Forward-looking statements are not guarantees of future performance and the Company s actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled Risk Factors under Part I, Item 1A of the Form 10-K for the year ended September 26, 2009 that was filed with the Securities and Exchange Commission on October 27, 2009. All information presented herein is based on the Company s fiscal calendar. Unless otherwise stated, references in this report to particular years or quarters refer to the Company s fiscal years ended in September and the associated quarters of those fiscal years. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Explanatory Note

Apple Inc. (the Company) is filing this Amendment No. 1 to the Annual Report on Form 10-K (the Form 10-K/A) to amend its Annual Report on Form 10-K for the year ended September 26, 2009, which was filed with the Securities and Exchange Commission (SEC) on October 27, 2009 (the Original Filing and together with the Form 10-K/A, the Form 10-K). As amended by this Form 10-K/A, the Form 10-K reflects the Company s retrospective adoption of the Financial Accounting Standards Board s (FASB) amended accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements (new accounting principles). The new accounting principles permit prospective or retrospective adoption, and the Company elected retrospective adoption. The Company adopted the new accounting principles during the first quarter of 2010, as reflected in the Company s financial statements included in its Quarterly Report on Form 10-Q for the quarter ended December 26, 2009, which was filed with the SEC on January 25, 2010. The new accounting principles significantly change how the Company accounts for certain revenue arrangements that include both hardware and software elements as described further below.

Under the historical accounting principles, the Company was required to account for sales of both iPhone and Apple TV using subscription accounting because the Company indicated it might from time-to-time provide future unspecified software upgrades and features for those products free of charge. Under subscription accounting, revenue and associated product cost of sales for iPhone and Apple TV were deferred at the time of sale and recognized on a straight-line basis over each product s estimated economic life. This resulted in the deferral of significant amounts of revenue and cost of sales related to iPhone and Apple TV. Costs incurred by the Company for engineering, sales, marketing and warranty were expensed as incurred. As of September 26, 2009, based on the historical accounting principles, total accumulated deferred revenue and deferred costs associated with past iPhone and Apple TV sales were $12.1 billion and $5.2 billion, respectively.

The new accounting principles generally require the Company to account for the sale of both iPhone and Apple TV as two deliverables. The first deliverable is the hardware and software delivered at the time of sale, and the second deliverable is the right included with the purchase of iPhone and Apple TV to receive on a when-and-if-available basis future unspecified software upgrades and features relating to the product s software. The new accounting principles result in the recognition of substantially all of the revenue and product costs from sales of iPhone and Apple TV at the time of sale. Additionally, the Company is required to estimate a standalone selling price for the unspecified software upgrade right included with the sale of iPhone and Apple TV and recognizes that amount ratably over the 24-month estimated life of the related hardware device. For all periods presented, the Company s estimated selling price for the software upgrade right included with each iPhone and Apple TV sold is $25 and $10, respectively. The adoption of the new accounting principles increased the Company s net sales by $6.4 billion, $5.0 billion and $572 million for 2009, 2008 and 2007, respectively. As of

[Table of Contents](#)

September 26, 2009, the revised total accumulated deferred revenue associated with iPhone and Apple TV sales to date was $483 million; revised accumulated deferred costs for such sales were zero.

The Company had the option of adopting the new accounting principles on a prospective or retrospective basis. Prospective adoption would have required the Company to apply the new accounting principles to sales beginning in fiscal year 2010 without reflecting the impact of the new accounting principles on iPhone and Apple TV sales made prior to September 2009. Accordingly, the Company s financial results for the two years following adoption would have included the impact of amortizing the significant amounts of deferred revenue and cost of sales related to historical iPhone and Apple TV sales. The Company believes prospective adoption would have resulted in financial information that was not comparable between financial periods because of the significant amount of past iPhone sales; therefore, the Company elected retrospective adoption. Retrospective adoption required the Company to revise its previously issued financial statements as if the new accounting principles had always been applied. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users, is more consistent with the information the Company s management uses to evaluate its business, and better reflects the underlying economic performance of the Company. Accordingly, the Company has revised its financial statements for 2009, 2008 and 2007 in this Form 10-K/A to reflect the retrospective adoption of the new accounting principles. There was no impact from the retrospective adoption of the new accounting principles for 2006 and 2005. Those years predated the Company s introduction of iPhone and Apple TV.

Part II, Item 8 under Note 2, Retrospective Adoption of New Accounting Principles in Notes to Consolidated Financial Statements of this Form 10-K/A provides a discussion of the full effects of the retrospective adoption of the new accounting principles to the Company s previously reported Consolidated Balance Sheets and Consolidated Statements of Operations. This Form 10-K/A amends the following items in the Company s Original Filing to reflect the retrospective adoption of the new accounting principles:

Part II, Item 6. Selected Financial Data

Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Part II, Item 8. Financial Statements and Supplementary Data

Part IV, Item 15. Exhibits, Financial Statement Schedules

This Form 10-K/A includes only items amended due to the retrospective adoption of the new accounting principles. This Form 10-K/A does not attempt to modify or update the disclosures in any other items set forth in the Original Filing. This Form 10-K/A speaks as of September 26, 2009, unless otherwise noted. The Original Filing sets forth the annual disclosures that are unaffected by the retrospective adoption of the new accounting principles. Accordingly, this Form 10-K/A should be read in conjunction with the Original Filing and all filings made with the SEC subsequent to the date of the Original Filing.

Table of Contents

PART II

Item 6. Selected Financial Data

The Consolidated Balance Sheets as of September 26, 2009 and September 27, 2008, and the Consolidated Statements of Operations for the years ended September 26, 2009, September 27, 2008, and September 29, 2007 have been amended to reflect the impact of the retrospective adoption of the new accounting principles, which has been reflected in the following table. There was no impact from the retrospective adoption of the new accounting principles for the years ended September 30, 2006 and September 24, 2005. Those years predated the Company s introduction of iPhone and Apple TV.

The information set forth below for the five years ended September 26, 2009, is not necessarily indicative of results of future operations, and should be read in conjunction with Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included in Part II, Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below (in millions, except share amounts which are reflected in thousands and per share amounts).

	2009	2008	2007	2006	2005
Net sales	$ 42,905	$ 37,491	$ 24,578	$ 19,315	$ 13,931
Net income	$ 8,235	$ 6,119	$ 3,495	$ 1,989	$ 1,328
Earnings per common share:					
Basic	$ 9.22	$ 6.94	$ 4.04	$ 2.36	$ 1.64
Diluted	$ 9.08	$ 6.78	$ 3.93	$ 2.27	$ 1.55
Cash dividends declared per common share	$	$	$	$	$
Shares used in computing earnings per share:					
Basic	893,016	881,592	864,595	844,058	808,439
Diluted	907,005	902,139	889,292	877,526	856,878
Cash, cash equivalents and marketable securities	$ 33,992	$ 24,490	$ 15,386	$ 10,110	$ 8,261
Total assets	$ 47,501	$ 36,171	$ 24,878	$ 17,205	$ 11,516
Long-term debt	$	$	$	$	$
Total liabilities	$ 15,861	$ 13,874	$ 10,347	$ 7,221	$ 4,088
Shareholders equity	$ 31,640	$ 22,297	$ 14,531	$ 9,984	$ 7,428

3

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Form 10-K contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as anticipates, expects, believes, plans, predicts, and similar terms. Forward-looking statements are not guarantees of future performance and the Company s actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled Risk Factors under Part I, Item 1A of this Form 10-K, which are incorporated herein by reference. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of this Form 10-K. All information presented herein is based on the Company s fiscal calendar. Unless otherwise stated, references in this report to particular years or quarters refer to the Company s fiscal years ended in September and the associated quarters of those fiscal years. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

The following information has been amended to reflect the retrospective adoption of the Financial Accounting Standards Board s (FASB) amended accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements (new accounting principles) on the Company s financial results, which is more fully described in the Explanatory Note immediately preceding Part II, Item 6 and in Part II, Item 8 under Note 2, Retrospective Adoption of New Accounting Principles in Notes to Consolidated Financial Statements of this Form 10-K.

Executive Overview

The Company designs, manufactures, and markets personal computers, mobile communication devices, and portable digital music and video players and sells a variety of related software, services, peripherals, and networking solutions. The Company s products and services include the Mac line of desktop and portable computers, iPhone, the iPod line of portable digital music and video players, Apple TV, Xserve, a portfolio of consumer and professional software applications, the Mac OS X operating system, third-party digital content and applications through the iTunes Store, and a variety of accessory, service and support offerings. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, and third-party wholesalers, retailers, and value-added resellers. In addition, the Company sells a variety of third-party Mac, iPhone and iPod compatible products, including application software, printers, storage devices, speakers, headphones, and various other accessories and peripherals through its online and retail stores. The Company sells to consumer, small and mid-sized business (SMB), education, enterprise, government, and creative markets.

The Company is focused on providing innovative products and solutions to consumer, SMB, education, enterprise, government and creative customers that greatly enhance their evolving digital lifestyles and work environments. The Company s overall business strategy is to control the design and development of the hardware and software for all of its products, including the personal computer, mobile communications and consumer electronics devices. The Company s business strategy leverages its unique ability to design and develop its own operating system, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design. The Company believes continual investment in research and development is critical to the development and enhancement of innovative products and technologies. In conjunction with its strategy, the Company continues to build and host a robust platform for the discovery and delivery of third-party digital content and applications through the iTunes Store. Most recently the Company launched the App Store that allows users to browse, search for, and purchase third-party applications through either a Mac or Windows-based computer or by wirelessly downloading directly to an iPhone or iPod touch. The Company also desires to support a community for the development of third-party products that complement the Company s offerings through its developer programs. The Company is therefore uniquely positioned to offer superior and well-integrated digital lifestyle and productivity solutions.

Table of Contents

The Company participates in several highly competitive markets, including personal computers with its Mac line of personal computers, mobile communications with iPhone, consumer electronics with its iPod product families, and distribution of third-party digital content and applications through its online iTunes Store. While the Company is widely recognized as a leading innovator in the personal computer, mobile communications and consumer electronics markets as well as a leader in the emerging market for distribution of digital content and applications, these markets are highly competitive and subject to aggressive pricing. To remain competitive, the Company believes that increased investment in research and development and marketing and advertising is necessary to maintain or expand its position in the markets where it competes. The Company s research and development spending is focused on further developing its existing Mac line of personal computers, its operating system, application software, iPhone and iPods; developing new digital lifestyle consumer and professional software applications; and investing in new product areas and technologies. The Company also believes increased investment in marketing and advertising programs is critical to increasing product and brand awareness.

The Company utilizes a variety of direct and indirect distribution channels. The Company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware, software, and peripheral integration, demonstrate the unique digital lifestyle solutions that are available on Mac computers, and demonstrate the compatibility of the Mac with the Windows platform and networks. The Company further believes providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers. To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to expand and improve its distribution capabilities by opening its own retail stores in the U.S. and in international markets. The Company had 273 stores open as of September 26, 2009.

The Company has also invested in programs to enhance reseller sales, including the Apple Sales Consultant Program, which places Apple employees and contractors at selected third-party reseller locations, and the Apple Premium Reseller Program, through which independently run businesses focus on the Apple platform and provide a high level of customer service and product expertise. The Company believes providing direct contact with its targeted customers is an efficient way to demonstrate the advantages of its Mac computers and other products over those of its competitors. The Company also sells to customers directly through its online stores around the world and through its direct sales force.

The Company distributes iPhone in over 80 countries, through its direct channels, its cellular network carriers distribution channels and certain third-party resellers. The Company has signed multi-year agreements with various cellular network carriers authorizing them to distribute and provide cellular network services for iPhones. These agreements are generally not exclusive with a specific carrier, except in the U.S., Germany, Spain, Ireland and certain other countries.

The Company s iPods are sold through a significant number of distribution points to provide broad access. iPods can be purchased in certain department stores, member-only warehouse stores, large retail chains and specialty retail stores, as well as through the channels for Mac distribution listed above.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles (GAAP) and the Company s discussion and analysis of its financial condition and operating results require the Company s management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 1, Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company s consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

Table of Contents

Management believes the Company s critical accounting policies and estimates are those related to revenue recognition, valuation of marketable securities, allowance for doubtful accounts, inventory valuation and inventory purchase commitments, warranty costs, income taxes, and legal and other contingencies. Management considers these policies critical because they are both important to the portrayal of the Company s financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company s senior management has reviewed these critical accounting policies and related disclosures with the Audit and Finance Committee of the Company s Board of Directors.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, peripherals, and service and support contracts. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers recognition of revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. The Company recognizes revenue from the sale of hardware products (e.g., Mac computers, iPhones, iPods and peripherals), software bundled with hardware that is essential to the functionality of the hardware, and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

For multi-element arrangements that include tangible products containing software essential to the tangible product s functionality and undelivered software elements relating to the tangible product s essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the new accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) and (iii) best estimate of the selling price (ESP).

For iPhone, the Company indicated it might from time-to-time provide future unspecified software upgrades and features free of charge to customers. The Company has identified two deliverables generally contained in arrangements involving the sale of iPhone. The first deliverable is the hardware and software essential to the functionality of the hardware device delivered at the time of sale, and the second deliverable is the right included with the purchase of iPhone to receive on a when-and-if-available basis future unspecified software upgrades and features relating to the product s essential software. The Company has allocated revenue between these two deliverables using the relative selling price method. Because the Company has neither VSOE nor TPE for the two deliverables, the allocation of revenue has been based on the Company s ESPs. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of sale provided the other conditions for revenue recognition have been met. Amounts allocated to the unspecified software upgrade rights are deferred and recognized on a straight-line basis over the 24-month estimated life of the related hardware. All product cost of sales, including estimated warranty costs, are generally recognized at the time of sale. Costs for engineering and sales and marketing are expensed as incurred. If the estimated life of the hardware product should change, the future rate of amortization of the revenue allocated to the software upgrade right will also change.

For all periods presented, the Company s ESP for the software upgrade right included with each iPhone sold is $25. The Company s process for determining its ESP for deliverables without VSOE or TPE involves management s judgment. The Company s process considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. The Company believes its customers, particularly

Table of Contents

consumers, would be reluctant to buy unspecified software upgrade rights related to iPhone. This view is primarily based on the fact that upgrade rights do not obligate the Company to provide upgrades at a particular time or at all, and do not specify to customers which upgrades or features will be delivered in the future. Therefore, the Company has concluded if it were to sell upgrade rights on a standalone basis, such as those included with iPhone, the selling price would be relatively low. Key factors considered by the Company in developing the ESPs for iPhone upgrade rights include prices charged by the Company for similar offerings, the Company s historical pricing practices, the nature of the upgrade rights (e.g., unspecified and when-and-if-available), and the relative ESP of the upgrade rights as compared to the total selling price of the product. If the facts and circumstances underlying the factors considered change or should future facts and circumstances lead the Company to consider additional factors, the Company s ESP for software upgrades related to future iPhone sales could change in future periods. If the Company s ESP for the unspecified software upgrade rights related to iPhone had been $5 or 20% higher or lower, the Company s net sales for the year ended September 26, 2009 would have decreased or increased by $50 million as compared to the Company s net sales of $42.9 billion.

The Company records reductions to revenue for estimated commitments related to price protection and for customer incentive programs, including reseller and end-user rebates, and other sales programs and volume-based incentives. For transactions involving price protection, the Company recognizes revenue net of the estimated amount to be refunded, provided the refund amount can be reasonably and reliably estimated and the other conditions for revenue recognition have been met. The Company s policy requires that, if refunds cannot be reliably estimated, revenue is not recognized until reliable estimates can be made or the price protection lapses. For customer incentive programs, the estimated cost of these programs is recognized at the later of the date at which the Company has sold the product or the date at which the program is offered. The Company also records reductions to revenue for expected future product returns based on the Company s historical experience. Future market conditions and product transitions may require the Company to increase customer incentive programs and incur incremental price protection obligations that could result in additional reductions to revenue at the time such programs are offered. Additionally, certain customer incentive programs require management to estimate the number of customers who will actually redeem the incentive. Management s estimates are based on historical experience and the specific terms and conditions of particular incentive programs. If a greater than estimated proportion of customers redeem such incentives, the Company would be required to record additional reductions to revenue, which would have a negative impact on the Company s results of operations.

Valuation and Impairment of Marketable Securities

The Company s investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of investments are included in accumulated other comprehensive income, net of tax, as reported in the Company s Consolidated Balance Sheets. Changes in the fair value of investments impact the Company s net income only when such investments are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security s cost basis. The Company regularly reviews its investment portfolio to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other things, the duration and extent to which the fair value of an investment is less than its cost, the financial condition of the issuer and any changes thereto, and the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s amortized cost basis. The Company s assessment on whether an investment is other-than-temporarily impaired or not, could change in the future due to new developments or changes in assumptions related to any particular investment.

Table of Contents

Allowance for Doubtful Accounts

The Company distributes its products through third-party distributors, cellular network carriers, and resellers and directly to certain education, consumer, and enterprise customers. The Company generally does not require collateral from its customers; however, the Company will require collateral in certain instances to limit credit risk. In addition, when possible the Company does attempt to limit credit risk on trade receivables with credit insurance for certain customers in Latin America, Europe, Asia, and Australia, or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit-risk-sharing related to any of these arrangements. However, considerable trade receivables that are not covered by collateral, third-party financing arrangements, or credit insurance are outstanding with the Company s distribution and retail channel partners.

The allowance for doubtful accounts is based on management s assessment of the ability to collect specific customer accounts and includes consideration of the credit-worthiness and financial condition of those specific customers. The Company records an allowance to reduce the specific receivables to the amount that it reasonably believes to be collectible. The Company also records an allowance for all other trade receivables based on multiple factors, including historical experience with bad debts, the general economic environment, the financial condition of the Company s distribution channels, and the aging of such receivables. If there is a deterioration of a major customer s financial condition, if the Company becomes aware of additional information related to the credit-worthiness of a major customer, or if future actual default rates on trade receivables in general differ from those currently anticipated, the Company may have to adjust its allowance for doubtful accounts, which would affect its results of operations in the period the adjustments are made.

Inventory Valuation and Inventory Purchase Commitments

The Company must order components for its products and build inventory in advance of product shipments. The Company records a write-down for inventories of components and products, including third-party products held for resale, which have become obsolete or are in excess of anticipated demand or net realizable value. The Company performs a detailed review of inventory each fiscal quarter that considers multiple factors including demand forecasts, product life cycle status, product development plans, current sales levels, and component cost trends. The personal computer, mobile communications and consumer electronics industries are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. If future demand or market conditions for the Company s products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, the Company may be required to record additional write-downs, which would negatively affect its results of operations in the period when the write-downs were recorded.

The Company records accruals for estimated cancellation fees related to component orders that have been cancelled or are expected to be cancelled. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. These commitments typically cover the Company s requirements for periods ranging from 30 to 150 days. If there is an abrupt and substantial decline in demand for one or more of the Company s products or an unanticipated change in technological requirements for any of the Company s products, the Company may be required to record additional accruals for cancellation fees that would negatively affect its results of operations in the period when the cancellation fees are identified and recorded.

Warranty Costs

The Company provides for the estimated cost of hardware and software warranties at the time the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company s typical experience. Each quarter, the Company reevaluates its estimates to assess the adequacy of its recorded warranty liabilities considering the size of the installed base of products subject to warranty protection and adjusts the amounts as necessary. If actual

Table of Contents

product failure rates or repair costs differ from estimates, revisions to the estimated warranty liability would be required and could materially affect the Company s results of operations.

The Company periodically provides updates to its applications and operating system software to maintain the software s compliance with specifications. The estimated cost to develop such updates is accounted for as warranty cost that is recognized at the time related software revenue is recognized. Factors considered in determining appropriate accruals related to such updates include the number of units delivered, the number of updates expected to occur, and the historical cost and estimated future cost of the resources necessary to develop these updates.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with GAAP, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes and measures uncertain tax positions in accordance with GAAP, whereby the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management s expectations could have a material impact on the Company s financial condition and operating results.

Legal and Other Contingencies

As discussed in Part I, Item 3 of this Form 10-K under the heading Legal Proceedings and in Note 9, Commitments and Contingencies in Notes to Consolidated Financial Statements, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In accordance with GAAP, the Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management s opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

Table of Contents

Net Sales

Fiscal years 2009, 2008 and 2007 spanned 52 weeks. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters.

The following table summarizes net sales and Mac unit sales by operating segment and net sales and unit sales by product during the three years ended September 26, 2009 (in millions, except unit sales in thousands and per unit amounts):

	2009	Change	2008	Change	2007
Net Sales by Operating Segment:					
Americas net sales	$ 18,887	15%	$ 16,447	38%	$ 11,907
Europe net sales	11,810	28%	9,233	69%	5,469
Japan net sales	2,279	32%	1,728	59%	1,084
Retail net sales	6,656	(9)%	7,292	67%	4,362
Other Segments net sales (a)	3,273	17%	2,791	59%	1,756
Total net sales	$ 42,905	14%	$ 37,491	53%	$ 24,578
Mac Unit Sales by Operating Segment:					
Americas Mac unit sales	4,120	4%	3,980	32%	3,019
Europe Mac unit sales	2,840	13%	2,519	39%	1,816
Japan Mac unit sales	395	2%	389	29%	302
Retail Mac unit sales	2,115	4%	2,034	47%	1,386
Other Segments Mac unit sales (a)	926	17%	793	50%	528
Total Mac unit sales	10,396	7%	9,715	38%	7,051
Net Sales by Product:					
Desktops (b)	$ 4,324	(23)%	$ 5,622	40%	$ 4,023
Portables (c)	9,535	9%	8,732	38%	6,313
Total Mac net sales	13,859	(3)%	14,354	39%	10,336
iPod	8,091	(12)%	9,153	10%	8,305
Other music related products and services (d)	4,036	21%	3,340	34%	2,496
iPhone and related products and services (e)	13,033	93%	6,742	NM	630
Peripherals and other hardware (f)	1,475	(13)%	1,694	30%	1,303
Software, service and other sales (g)	2,411	9%	2,208	46%	1,508
Total net sales	$ 42,905	14%	$ 37,491	53%	$ 24,578
Unit Sales by Product:					
Desktops (b)	3,182	(14)%	3,712	37%	2,714
Portables (c)	7,214	20%	6,003	38%	4,337
Total Mac unit sales	10,396	7%	9,715	38%	7,051
Net sales per Mac unit sold (h)	$ 1,333	(10)%	$ 1,478	1%	$ 1,466
iPod unit sales	54,132	(1)%	54,828	6%	51,630
Net sales per iPod unit sold (i)	$ 149	(11)%	$ 167	4%	$ 161

iPhone units sold	20,731	78%	11,627	NM	1,389

(a) Other Segments include Asia Pacific and FileMaker.
(b) Includes iMac, Mac mini, Mac Pro and Xserve product lines.

Table of Contents

(c) Includes MacBook, MacBook Air and MacBook Pro product lines.
(d) Consists of iTunes Store sales, iPod services, and Apple-branded and third-party iPod accessories.
(e) Derived from handset sales, carrier agreements, and Apple-branded and third-party iPhone accessories.
(f) Includes sales of displays, wireless connectivity and networking solutions, and other hardware accessories.
(g) Includes sales of Apple-branded operating system and application software, third-party software, AppleCare and Internet services.
(h) Derived by dividing total Mac net sales by total Mac unit sales.
(i) Derived by dividing total iPod net sales by total iPod unit sales.
NM = Not Meaningful

Fiscal Year 2009 versus 2008

Net sales during 2009 increased $5.4 billion or 14% compared to 2008. Several factors contributed positively to these increases, including the following:

iPhone revenue and net sales of related products and services amounted to $13.0 billion in 2009, an increase of $6.3 billion or 93% compared to 2008. The year-over-year iPhone revenue growth is largely attributable to the year-over-year increase in iPhone handset unit sales. iPhone handset unit sales totaled 20.7 million during 2009, which represents an increase of 9.1 million or 78% during 2009 compared to 2008. This growth is attributed primarily to expanded distribution and strong overall demand for iPhones. iPhone 3GS was released in the U.S. on June 19, 2009 and in many other countries over the remainder of 2009. iPhone revenue includes handset revenue recognized and revenue from sales of iPhone accessories and carrier agreements.

Net sales of other music-related products and services increased $696 million or 21% during 2009 compared to 2008. The increase was due predominantly to increased net sales of third-party digital content and applications from the iTunes Store, which experienced double-digit growth in each of the Company s geographic segments during 2009 compared to the same period in 2008. The Company believes this continued growth is the result of heightened consumer interest in downloading third-party digital content and applications, continued growth in its customer base of iPod and iPhone customers, the expansion of third-party audio and video content available for sale and rent via the iTunes Store, and the continued interest in and growth of the App Store. The Company continues to expand its iTunes content and applications offerings around the world.

Partially offsetting the favorable factors discussed above, net sales during 2009 were negatively impacted by certain factors, including the following:

Net sales of iPods decreased $1.1 billion or 12% during 2009 compared to 2008. iPod unit sales decreased slightly by 1% during 2009 compared to 2008. Net sales per iPod unit sold decreased 11% to $149 in 2009 compared to 2008, resulting from lower average selling prices across all of the iPod product lines, which were due primarily to price reductions taken with the introduction of new iPods in September 2009 and September 2008 and a stronger U.S. dollar, offset partially by a higher product mix of iPod touch.

Mac net sales declined 3% during 2009 compared to 2008, although Mac unit sales increased by 7% over the same period. Net sales per Mac unit sold decreased by 10% during 2009 compared to 2008, due primarily to lower average selling prices across all Mac portable and desktop systems and a stronger U.S. dollar. Net sales of Macs accounted for 32% of the Company s total net sales for 2009. During 2009, Mac portable systems net sales and unit sales increased by 9% and 20%, respectively, compared to 2008. This growth was driven by strong demand for MacBook Pro, which was updated in June 2009 and October 2008, and experienced double digit net sales and unit growth in each of the Company s reportable operating segments compared to the same period in 2008. The Company also had a higher product mix of portable systems, which is consistent with the overall market trends. However, net sales and unit sales of the Company s Mac desktop systems decreased by 23% and 14%,

Table of Contents

respectively, during 2009 compared to 2008. The decrease in net sales of Mac desktop systems was due mainly to a shift in product mix towards lower-priced desktops, lower average selling prices across all Mac desktop systems and a stronger U.S. dollar.

Fiscal Year 2008 versus 2007

Net sales during 2008 increased $12.9 billion or 53% from 2007. Several factors contributed to these increases including the following:

Net sales of iPhone and related products and services were $6.7 billion for 2008, with iPhone handset unit sales totaling 11.6 million. Net sales of iPhone and related products and services were $630 million in 2007, which represented sales for slightly more than one fiscal quarter. iPhone revenue includes handset revenue recognized and revenue from sales of iPhone accessories and carrier agreements.

Mac net sales increased $4.0 billion or 39% during 2008 compared to 2007, while Mac unit sales increased by 2.7 million units or 38%. Net sales related to the Company s Mac shipments accounted for 38% of the Company s total net revenue in 2008. Higher Mac unit sales, which contributed to the increases in net sales, were driven by higher sales of all of the Company s Mac portable products as well as the popularity of the iMac, which experienced strong growth in net sales and unit sales in all of the Company s reportable segments. Unit sales of the Company s Mac portable products accounted for 62% of the Company s personal computer shipments in both 2008 and 2007. Net sales and unit sales of the Company s Mac portable products both increased by 38% during 2008 compared to 2007. This growth was attributable to strong demand for all the Mac portable products, particularly the MacBook, which had double-digit growth in all of the Company s operating segments, and the addition of the MacBook Air, which was introduced to the Company s Mac portable product line in January 2008. Growth of the Company s Mac desktop systems was also strong, with increased net sales and unit sales of 40% and 37%, respectively, during 2008 due primarily to strong sales of the iMac in all of the Company s operating segments.

Net sales of iPods increased $848 million or 10% during 2008 compared to 2007 and unit sales of iPods increased 6% compared to 2007. The iPod unit growth was due to strong demand for the iPod touch, and to a lesser extent, higher unit sales of the iPod shuffle due to a price reduction in February 2008. iPod net sales grew faster than iPod unit sales due to higher average selling prices caused by a shift in overall iPod product mix to the higher priced iPod touch.

Net sales of other music related products and services increased $844 million or 34% during 2008 compared to 2007, due primarily to significantly increased net sales from the iTunes Store in each of the Company s geographic segments. The Company believes this success is the result of heightened consumer interest in downloading third-party digital content, the expansion of third-party audio and video content available for sale and rent via the iTunes Store, and the launch of the iTunes App Store. The Company continues to expand its iTunes content offerings around the world.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company s reportable operating segments consist of the Americas, Europe, Japan and Retail. The Americas, Europe and Japan reportable segments do not include activities related to the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries as well as the Middle East and Africa. The Retail segment operates Apple-owned retail stores in the U.S. and in international markets. Each reportable geographic operating segment and the Retail operating segment provide similar hardware and software products and similar services. Further information regarding the Company s operating segments may be found in Note 10, Segment Information and Geographic Data in Notes to Consolidated Financial Statements of this Form 10-K. Under the historical subscription accounting methodology no single customer accounted for more than 10% of

Table of Contents

net sales in 2009; under the new accounting principles that were retrospectively adopted in the first quarter of 2010, however, one of the Company s customers represented 11% of net sales in 2009. There was no single customer that accounted for more than 10% of net sales in 2008 or 2007 under the historical subscription accounting methodology or the new accounting principles.

Americas

During 2009, net sales in the Americas segment increased $2.4 billion or 15% compared to 2008. The increase in net sales during 2009 was attributable to the significant year-over-year increase in iPhone revenue, higher sales of third-party digital content and applications from the iTunes Store, and increased sales of Mac portable systems, which were partially offset by a decrease in sales of Mac desktop systems and iPods. Americas Mac net sales decreased 6% due primarily to lower average selling prices, while Mac unit sales increased by 4% on a year-over-year basis. The increase in Mac unit sales was due primarily to strong demand for the MacBook Pro, which was updated in June 2009 and October 2008. The Americas segment represented approximately 44% of the Company s total net sales in both 2009 and 2008.

During 2008, net sales in the Americas segment increased $4.5 billion or 38% compared to 2007. The primary drivers of this growth were the significant year-over-year increase in sales of iPhone, iPod touch, Mac portable systems, and content from the iTunes Store. The Company began shipping iPhone in June 2007 and the growth in iPhone sales in 2008 resulted from a full year of iPhone shipments as well as stronger demand for iPhones in the fourth quarter of 2008. The increase in Mac net sales of $1.4 billion or 31% and Mac unit sales of 961 million or 32% is attributable to growth in sales of all of the Mac portable systems, particularly the MacBook, and higher sales of the iMac. Net sales of iPods increased due to a shift in product mix toward higher priced iPods, particularly the iPod touch, which was upgraded in June 2008. In 2008, the Americas segment represented 44% of the Company s total net sales as compared to 48% in 2007.

Europe

During 2009, net sales in Europe increased $2.6 billion or 28% compared to 2008. The increase in net sales was due mainly to increased iPhone revenue and strong sales of Mac portable systems, offset partially by lower net sales of Mac desktop systems, iPods, and a stronger U.S. dollar. Mac unit sales increased 13% in 2009 compared to 2008, which was driven primarily by increased sales of Mac portable systems, particularly MacBook Pro, while total Mac net sales declined as a result of lower average selling prices across all Mac products. Although iPod net sales decreased in Europe year-over-year as a result of lower average selling prices, iPod unit sales increased due to iPod touch and market share increases. The Europe segment represented 28% and 25% of total net sales in 2009 and 2008, respectively.

Europe s net sales increased $3.8 billion or 69% during 2008 compared to 2007. The main drivers of this growth were strong sales of iPhone, Mac portable systems and iMac, and increased sales from the iTunes Store. Also contributing to the increase in net sales were higher iPod net sales due primarily to the iPod touch, which was upgraded in June 2008. Sales of Mac portable products increased due to stronger demand for the MacBook Pro and the MacBook, both updated in February 2008, as well as sales of the MacBook Air, introduced in January 2008. Mac desktop sales also increased due primarily to the popularity of the iMac, which was updated in April 2008. The Europe segment represented 25% and 22% of total net sales in 2008 and 2007, respectively.

Japan

Japan s net sales increased $551 million or 32% in 2009 compared to 2008. The key contributors to this growth were increased iPhone revenue, stronger demand for certain Mac portable systems and iPods, and strength in the Japanese Yen, partially offset by decreased sales of Mac desktop systems. Net sales and unit sales of Mac portable systems increased during 2009 compared to 2008, driven primarily by stronger demand for MacBook Pro, which was updated in June 2009 and October 2008. Net sales and unit sales of iPods increased during 2009 compared to 2008, driven by strong demand for iPod touch and iPod nano.

Table of Contents

Japan net sales increased $644 million or 59% in 2008 compared to 2007. The primary contributors to the growth in net sales were increases in sales of iPhones, iPods, iMac, Mac portable systems, and strong sales from the iTunes Store. Net sales, unit sales and the average selling price of iPods increased during 2008 compared to 2007, driven by strong demand for iPod touch and iPod nano. Additionally, Mac net sales and unit sales grew 42% and 29%, respectively, in 2008 compared to 2007 due to increases in sales of iMac and Mac portable systems, particularly MacBook, as well as the introduction of MacBook Air in January 2008.

Retail

Retail net sales decreased $636 million or 9% during 2009 compared to 2008. The decline in net sales was driven largely by a decrease in net sales of iPhones, iPods and Mac desktop systems, offset partially by strong demand for Mac portable systems. The Company opened 26 new retail stores during 2009, including a total of 14 international stores, ending the year with 273 stores open. This compares to 247 stores open as of September 27, 2008 and 197 open stores as of September 29, 2007.

The year-over-year decline in Retail net sales is attributable to continued third-party channel expansion, particularly in the U.S. where most of the Company s stores are located, and also reflects the challenging consumer-spending environment. With an average of 254 stores and 211 stores opened during 2009 and 2008, respectively, average revenue per store decreased to $26.2 million for 2009 from $34.6 million in 2008.

The Retail segment s net sales grew by $2.9 billion or 67% during 2008 compared to 2007, due in large part to strong demand for the iPhone, increased sales of Mac portable and desktop systems, increased sales of iPod touch and new store openings. The Company opened 50 new retail stores during 2008, bringing the total number of open stores to 247 as of September 27, 2008. This compares to 197 open stores as of September 29, 2007. With an average of 211 stores and 178 stores opened during 2008 and 2007, respectively, average revenue per store increased to $34.6 million for 2008 from $24.5 million in 2007.

As measured by the Company s operating segment reporting, the Retail segment reported operating income of $1.7 billion during 2009 and 2008, and $876 million during 2007. Despite the year-over-year decline in Retail net sales, the Retail segment s operating income was flat at $1.7 billion in 2009 and 2008 due primarily to a higher gross margin percentage consistent with that experienced by the overall company. The Retail segment s operating income increased by $785 million during 2008 as compared to 2007 due primarily to the significant Retail net sales growth of 67% as compared to 2007.

Expansion of the Retail segment has required and will continue to require a substantial investment in fixed assets and related infrastructure, operating lease commitments, personnel, and other operating expenses. Capital asset purchases associated with the Retail segment were $369 million in 2009, bringing the total capital asset purchases since inception of the Retail segment to $1.8 billion. As of September 26, 2009, the Retail segment had approximately 16,500 full-time equivalent employees and had outstanding operating lease commitments associated with retail store space and related facilities of $1.5 billion. The Company would incur substantial costs if it were to close multiple retail stores. Such costs could adversely affect the Company s financial condition and operating results.

Other Segments

The Company s Other Segments, which consist of its Asia Pacific and FileMaker operations, experienced an increase in net sales of $482 million, or 17%, during 2009 as compared to 2008 reflecting strong growth in sales of iPhone and Mac portable systems offset partially by a decline in sales related to iPods and Mac desktop systems in the Asia Pacific region, as well as a strengthening of the U.S. dollar against the Australian dollar and other Asian currencies. Mac net sales and unit sales grew in the Asia Pacific region by 4% and 17%, respectively, due to increased sales of the MacBook Pro.

Table of Contents

The Company s Other Segments experienced an increase in net sales of $1.0 billion, or 59% during 2008 as compared to 2007. These increases are related primarily to strong growth in sales of iPhone, Mac portable systems, iPods and iMac in the Company s Asia Pacific region. Sales from the iTunes Store in the Company s Asia Pacific region grew 109% compared to 2007.

Gross Margin

Gross margin for the three years ended September 26, 2009, are as follows (in millions, except gross margin percentages):

	2009	2008	2007
Net sales	$ 42,905	$ 37,491	$ 24,578
Cost of sales	25,683	24,294	16,426
Gross margin	$ 17,222	$ 13,197	$ 8,152
Gross margin percentage	40.1%	35.2%	33.2%

The gross margin percentage in 2009 was 40.1% compared to 35.2% in 2008. The primary contributors of the increase in 2009 as compared to 2008 were a favorable sales mix toward products with higher gross margins and lower commodity and other product costs, which were partially offset by product price reductions.

The gross margin percentage in 2008 was 35.2% compared to 33.2% in 2007. The primary contributors of the increase in 2008 as compared to 2007 were a favorable sales mix toward products with higher gross margins and lower commodity costs, which were partially offset by higher other product costs. In 2007, gross margin was impacted by higher than expected costs associated with the initial iPhone product launch.

Operating Expenses

Operating expenses for the three years ended September 26, 2009, are as follows (in millions, except for percentages):

	2009	2008	2007
Research and development	$ 1,333	$ 1,109	$ 782
Percentage of net sales	3.1%	3.0%	3.2%
Selling, general and administrative	$ 4,149	$ 3,761	$ 2,963
Percentage of net sales	9.7%	10.0%	12.1%

Research and Development (R&D)

R&D expenditures increased 20% or $224 million to $1.3 billion in 2009 compared to 2008. These increases were due primarily to an increase in headcount in the current year to support expanded R&D activities and higher stock-based compensation expenses. In addition, $71 million of software development costs were capitalized related to Mac OS X Snow Leopard and excluded from R&D expense during 2009, compared to $11 million of software development costs capitalized during 2008. Although total R&D expense increased 20% during 2009, it remained relatively flat as a percentage of net sales given the 14% increase in revenue in 2009. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company s core business strategy. As such, the Company expects to make further investments in R&D to remain competitive.

Expenditures for R&D increased 42% or $327 million to $1.1 billion in 2008 compared to 2007. These increases were due primarily to an increase in headcount in 2008 and higher stock-based compensation expenses. In 2008, $11 million of software development costs were capitalized related to Mac OS X Snow Leopard and excluded

Table of Contents

from R&D expense, while R&D expense for 2007 excluded $75 million of capitalized software development costs related to Mac OS X Leopard and iPhone software. Although total R&D expense increased 42% during 2008, it remained relatively flat as a percentage of net sales given the 53% increase in revenue during 2008.

Selling, General and Administrative Expense (SG&A)

SG&A expenditures increased $388 million or 10% to $4.1 billion in 2009 compared to 2008. These increases are due primarily to the Company s continued expansion of its Retail segment in both domestic and international markets, higher stock-based compensation expenses and higher spending on marketing and advertising.

Expenditures for SG&A increased $798 million or 27% to $3.8 billion in 2008 compared to 2007. These increases are due primarily to higher stock-based compensation expenses, higher variable selling expenses resulting from the significant year-over-year increase in total net sales and the Company s continued expansion of its Retail segment in both domestic and international markets. In addition, the Company incurred higher spending on marketing and advertising during 2008 compared to 2007.

Other Income and Expense

Other income and expense for the three years ended September 26, 2009, are as follows (in millions):

	2009	2008	2007
Interest income	$ 407	$ 653	$ 647
Other income (expense), net	(81)	(33)	(48)
Total other income and expense	$ 326	$ 620	$ 599

Total other income and expense decreased $294 million or 47% to $326 million during 2009 compared to $620 million and $599 million in 2008 and 2007, respectively. The overall decrease in other income and expense is attributable to the significant decline in interest rates during 2009 compared to 2008 and 2007, partially offset by the Company s higher cash, cash equivalents and marketable securities balances. The weighted average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.43%, 3.44% and 5.27% during 2009, 2008 and 2007, respectively. During 2009, 2008 and 2007, the Company had no debt outstanding and accordingly did not incur any related interest expense.

The Company s investment portfolio had gross unrealized losses of $16 million and $121 million as of September 26, 2009 and September 27, 2008, respectively, which were offset by gross unrealized gains of $73 million and $4 million as of September 26, 2009 and September 27, 2008, respectively. The net unrealized gains as of September 26, 2009 and the net unrealized losses as of September 27, 2008 related primarily to long-term marketable securities. The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The unrealized losses on the Company s marketable securities were caused primarily by changes in market interest rates, specifically widening credit spreads. The Company does not have the intent to sell, nor is it more likely than not the Company will be required to sell, any investment before recovery of its amortized cost basis. Accordingly, no material declines in fair value were recognized in the Company s Consolidated Statements of Operations during 2009, 2008 and 2007. The Company may sell certain of its marketable securities prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. The Company recognized no material net gains or losses during 2009, 2008 and 2007 related to such sales.

Provision for Income Taxes

The Company s effective tax rates were 32%, 32% and 30% for 2009, 2008 and 2007, respectively. The Company s effective rates for these periods differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S. taxes are provided because such earnings are intended to be indefinitely reinvested outside the U.S.

Table of Contents

As of September 26, 2009, the Company had deferred tax assets arising from deductible temporary differences, tax losses, and tax credits of $1.9 billion before being offset against certain deferred liabilities of $2.8 billion for presentation on the Company s Consolidated Balance Sheet. Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the deferred tax assets. The Company will continue to evaluate the realizability of deferred tax assets quarterly by assessing the need for and amount of the valuation allowance.

The Internal Revenue Service (the IRS) has completed its field audit of the Company s federal income tax returns for the years 2002 through 2003 and proposed certain adjustments. The Company has contested certain of these adjustments through the IRS Appeals Office. All IRS audit issues for years prior to 2002 have been resolved. In addition, the Company is subject to audits by state, local, and foreign tax authorities. Management believes that adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

Recent Accounting Pronouncements

During the first quarter of 2009, the Company adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly referenced as Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*), which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. In February 2008, the FASB issued supplemental guidance that delays the effective date of this new fair value accounting standard to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) and will be adopted by the Company beginning in the first quarter of 2010. Although the Company will continue to evaluate the application of this accounting standard, management does not currently believe adoption of this accounting pronouncement will have a material impact on the Company s financial condition or operating results.

In December 2007, the FASB issued FASB ASC 805, *Business Combinations* (formerly referenced as SFAS No. 141 (revised 2007), *Business Combinations*), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree in a business combination. This new accounting standard also establishes principles regarding how goodwill acquired in a business combination or a gain from a bargain purchase should be recognized and measured, as well as provides guidelines on the disclosure requirements on the nature and financial impact of the business combination. In April 2009, the FASB amended this new accounting standard to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, if the fair value can be determined during the measurement period. This new business combination accounting standard is effective for fiscal years beginning on or after December 15, 2008 and will be adopted by the Company beginning in the first quarter of 2010 and will apply prospectively to any business combinations completed on or after that date. The effect of adoption of this new accounting pronouncement on the Company s financial condition or operating results will depend on the nature of acquisitions completed after the date of adoption.

Table of Contents

Liquidity and Capital Resources

The following table presents selected financial information and statistics as of and for the three years ended September 26, 2009 (in millions):

	2009	2008	2007
Cash, cash equivalents and marketable securities	$ 33,992	$ 24,490	$ 15,386
Accounts receivable, net	$ 3,361	$ 2,422	$ 1,637
Inventories	$ 455	$ 509	$ 346
Working capital	$ 20,049	$ 18,645	$ 12,595
Annual operating cash flow	$ 10,159	$ 9,596	$ 5,470

As of September 26, 2009, the Company had $34.0 billion in cash, cash equivalents and marketable securities, an increase of $9.5 billion from September 27, 2008. The principal component of this net increase was the cash generated by operating activities of $10.2 billion, which was partially offset by payments for acquisitions of property, plant and equipment of $1.1 billion.

The Company s marketable securities investment portfolio is invested primarily in highly rated securities, generally with a minimum rating of single-A or equivalent. As of September 26, 2009 and September 27, 2008, $17.4 billion and $11.3 billion, respectively, of the Company s cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. The Company believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations over the next 12 months.

Capital Assets

The Company s cash payments for capital asset purchases were $1.1 billion during 2009, consisting of $369 million for retail store facilities and $775 million for real estate acquisitions and corporate infrastructure including information systems enhancements. The Company anticipates utilizing approximately $1.9 billion for capital asset purchases during 2010, including approximately $400 million for Retail facilities and approximately $1.5 billion for corporate facilities, infrastructure, and product tooling and manufacturing process equipment.

Historically the Company has opened between 25 and 50 new retail stores per year. During 2010, the Company expects to open a number of new stores near the upper end of this range, over half of which are expected to be located outside of the U.S.

Off-Balance Sheet Arrangements and Contractual Obligations

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

Table of Contents

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of September 26, 2009 and excludes amounts already recorded on the Consolidated Balance Sheet as current liabilities (in millions):

	Total	Payments Due in Less Than 1 Year	Payments Due in 1-3 Years	Payments Due in 4-5 Years	Payments Due in More Than 5 Years
Operating leases	$ 1,922	$ 222	$ 462	$ 413	$ 825
Purchase obligations	4,581	4,581			
Asset retirement obligations	32	4	8	4	16
Other obligations	356	175	129	52	
Total	$ 6,891	$ 4,982	$ 599	$ 469	$ 841

Lease Commitments

As of September 26, 2009, the Company had total outstanding commitments on noncancelable operating leases of $1.9 billion, $1.5 billion of which related to the lease of retail space and related facilities. The Company s major facility leases are generally for terms of one to 20 years and generally provide renewal options for terms of one to five additional years. Leases for retail space are for terms of five to 20 years, the majority of which are for ten years, and often contain multi-year renewal options.

Purchase Commitments with Contract Manufacturers and Component Suppliers

The Company utilizes several contract manufacturers to manufacture sub-assemblies for the Company s products and to perform final assembly and test of finished products. These contract manufacturers acquire components and build product based on demand information supplied by the Company, which typically covers periods ranging from 30 to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. Such purchase commitments typically cover the Company s forecasted component and manufacturing requirements for periods ranging from 30 to 150 days. As of September 26, 2009, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of $4.6 billion.

The Company has entered into prepaid long-term supply agreements to secure the supply of certain inventory components. During the first quarter of 2009, a long-term supply agreement with Intel Corporation was terminated and the remaining prepaid balance of $167 million was repaid to the Company. During the second and fourth quarters of 2009, the Company made a prepayment of $500 million to LG Display for the purchase of LCD panels and a prepayment of $500 million to Toshiba to purchase NAND flash memory, respectively. As of September 26, 2009, the Company had a total of $1.2 billion of inventory component prepayments outstanding.

Asset Retirement Obligations

The Company s asset retirement obligations are associated with commitments to return property subject to operating leases to original condition upon lease termination. As of September 26, 2009, the Company estimated that gross expected future cash flows of $32 million would be required to fulfill these obligations.

Other Obligations

Other outstanding obligations were $356 million as of September 26, 2009, which related to advertising, research and development, Internet and telecommunications services and other obligations.

Table of Contents

As of September 26, 2009, the Company had gross unrecognized tax benefits of $971 million and an additional $291 million for gross interest and penalties classified as non-current liabilities in the Consolidated Balance Sheet. The Company believes it is reasonably possible that tax audit resolutions could reduce its unrecognized tax benefits by between $105 million and $145 million in the next 12 months. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the above contractual obligation table.

Indemnifications

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs as of either September 26, 2009 or September 27, 2008.

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

Table of Contents

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements	Page
Consolidated Balance Sheets as of September 26, 2009 and September 27, 2008	22
Consolidated Statements of Operations for the three years ended September 26, 2009	23
Consolidated Statements of Shareholders Equity for the three years ended September 26, 2009	24
Consolidated Statements of Cash Flows for the three years ended September 26, 2009	25
Notes to Consolidated Financial Statements	26
Selected Quarterly Financial Information (Unaudited)	62
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	67
Report of KPMG LLP, Independent Registered Public Accounting Firm	69

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Table of Contents

CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

	September 26, 2009		September 27, 2008	
ASSETS:				
Current assets:				
Cash and cash equivalents	$	5,263	$	11,875
Short-term marketable securities		18,201		10,236
Accounts receivable, less allowances of $52 and $47, respectively		3,361		2,422
Inventories		455		509
Deferred tax assets		1,135		1,044
Other current assets		3,140		3,920
Total current assets		31,555		30,006
Long-term marketable securities		10,528		2,379
Property, plant and equipment, net		2,954		2,455
Goodwill		206		207
Acquired intangible assets, net		247		285
Other assets		2,011		839
Total assets	$	47,501	$	36,171
LIABILITIES AND SHAREHOLDERS EQUITY:				
Current liabilities:				
Accounts payable	$	5,601	$	5,520
Accrued expenses		3,852		4,224
Deferred revenue		2,053		1,617
Total current liabilities		11,506		11,361
Deferred revenue non-current		853		768
Other non-current liabilities		3,502		1,745
Total liabilities		15,861		13,874
Commitments and contingencies				
Shareholders equity:				
Common stock, no par value; 1,800,000,000 shares authorized; 899,805,500 and 888,325,973 shares issued and outstanding, respectively		8,210		7,177
Retained earnings		23,353		15,129
Accumulated other comprehensive income/(loss)		77		(9)
Total shareholders equity		31,640		22,297
Total liabilities and shareholders equity	$	47,501	$	36,171

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except share amounts which are reflected in thousands and per share amounts)

Three years ended September 26, 2009	**2009**	**2008**	**2007**
Net sales	$ 42,905	$ 37,491	$ 24,578
Cost of sales	25,683	24,294	16,426
Gross margin	17,222	13,197	8,152
Operating expenses:			
Research and development	1,333	1,109	782
Selling, general and administrative	4,149	3,761	2,963
Total operating expenses	5,482	4,870	3,745
Operating income	11,740	8,327	4,407
Other income and expense	326	620	599
Income before provision for income taxes	12,066	8,947	5,006
Provision for income taxes	3,831	2,828	1,511
Net income	$ 8,235	$ 6,119	$ 3,495
Earnings per common share:			
Basic	$ 9.22	$ 6.94	$ 4.04
Diluted	$ 9.08	$ 6.78	$ 3.93
Shares used in computing earnings per share:			
Basic	893,016	881,592	864,595
Diluted	907,005	902,139	889,292

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in millions, except share amounts which are reflected in thousands)

	Common Stock			Accum- ulated Other Compre- hensive Income	Total Share- holders Equity
	Shares	Amount	Retained Earnings		
Balances as of September 30, 2006	855,263	$ 4,355	$ 5,607	$ 22	$ 9,984
Components of comprehensive income:					
Net income			3,495		3,495
Change in foreign currency translation				51	51
Change in unrealized loss on available-for-sale securities, net of tax				(7)	(7)
Change in unrealized gain on derivative instruments, net of tax				(3)	(3)
Total comprehensive income					3,536
Stock-based compensation		251			251
Common stock issued under stock plans, net of shares withheld for employee taxes	17,066	364	(2)		362
Tax benefit from employee stock plan awards		398			398
Balances as of September 29, 2007	872,329	5,368	9,100	63	14,531
Cumulative effect of change in accounting principle		45	11		56
Components of comprehensive income:					
Net income			6,119		6,119
Change in foreign currency translation				(28)	(28)
Change in unrealized loss on available-for-sale securities, net of tax				(63)	(63)
Change in unrealized gain on derivative instruments, net of tax				19	19
Total comprehensive income					6,047
Stock-based compensation		513			513
Common stock issued under stock plans, net of shares withheld for employee taxes	15,888	460	(101)		359
Issuance of common stock in connection with an asset acquisition	109	21			21
Tax benefit from employee stock plan awards		770			770
Balances as of September 27, 2008	888,326	7,177	15,129	(9)	22,297
Components of comprehensive income:					
Net income			8,235		8,235
Change in foreign currency translation				(14)	(14)
Change in unrealized loss on available-for-sale securities, net of tax				118	118
Change in unrealized gain on derivative instruments, net of tax				(18)	(18)
Total comprehensive income					8,321
Stock-based compensation		707			707
Common stock issued under stock plans, net of shares withheld for employee taxes	11,480	404	(11)		393
Tax benefit from employee stock plan awards, including transfer pricing adjustments		(78)			(78)

Balances as of September 26, 2009	899,806	$ 8,210	$ 23,353	$ 77	$ 31,640

See accompanying Notes to Consolidated Financial Statements.

24

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

Three years ended September 26, 2009	2009	2008	2007
Cash and cash equivalents, beginning of the year	$ 11,875	$ 9,352	$ 6,392
Operating Activities:			
Net income	8,235	6,119	3,495
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation, amortization and accretion	734	496	327
Stock-based compensation expense	710	516	242
Deferred income tax expense	1,040	398	73
Loss on disposition of property, plant and equipment	26	22	12
Changes in operating assets and liabilities:			
Accounts receivable, net	(939)	(785)	(385)
Inventories	54	(163)	(76)
Other current assets	749	(274)	(1,279)
Other assets	(902)	289	285
Accounts payable	92	596	1,494
Deferred revenue	521	718	566
Other liabilities	(161)	1,664	716
Cash generated by operating activities	10,159	9,596	5,470
Investing Activities:			
Purchases of marketable securities	(46,724)	(22,965)	(11,719)
Proceeds from maturities of marketable securities	19,790	11,804	6,483
Proceeds from sales of marketable securities	10,888	4,439	2,941
Purchases of other long-term investments	(101)	(38)	(17)
Payments made in connection with business acquisitions, net of cash acquired		(220)	
Payment for acquisition of property, plant and equipment	(1,144)	(1,091)	(735)
Payment for acquisition of intangible assets	(69)	(108)	(251)
Other	(74)	(10)	49
Cash used in investing activities	(17,434)	(8,189)	(3,249)
Financing Activities:			
Proceeds from issuance of common stock	475	483	365
Excess tax benefits from stock-based compensation	270	757	377
Cash used to net share settle equity awards	(82)	(124)	(3)
Cash generated by financing activities	663	1,116	739
(Decrease)/increase in cash and cash equivalents	(6,612)	2,523	2,960
Cash and cash equivalents, end of the year	$ 5,263	$ 11,875	$ 9,352
Supplemental cash flow disclosures:			
Cash paid for income taxes, net	$ 2,997	$ 1,267	$ 863

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively Apple or the Company) design, manufacture, and market personal computers, mobile communication devices, and portable digital music and video players and sell a variety of related software, third-party digital content and applications, services, peripherals, and networking solutions. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, and third-party wholesalers, resellers and value-added resellers. In addition, the Company sells a variety of third-party Macintosh (Mac), iPhone and iPod compatible products including application software, printers, storage devices, speakers, headphones, and various other accessories and supplies through its online and retail stores. The Company sells to consumer, small and mid-sized business (SMB), education, enterprise, government and creative customers.

Basis of Presentation and Preparation

The accompanying consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Certain prior year amounts in the consolidated financial statements and notes thereto have been reclassified to conform to the current year s presentation. During the first quarter of 2009, the Company reclassified $2.4 billion of certain fixed-income securities from short-term marketable securities to long-term marketable securities in the September 27, 2008 Consolidated Balance Sheet. The reclassification resulted from a change in accounting presentation for certain investments based on contractual maturity dates, which more closely reflects the Company s assessment of the timing of when such securities will be converted to cash. As a result of this change, marketable securities with maturities less than 12 months are classified as short-term and marketable securities with maturities greater than 12 months are classified as long-term. There have been no changes in the Company s investment policies or practices associated with this change in accounting presentation. See Note 3, Financial Instruments of this Form 10-K for additional information.

The Company s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company s fiscal years 2009, 2008 and 2007 ended on September 26, 2009, September 27, 2008 and September 29, 2007, respectively, and included 52 weeks each. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters. Unless otherwise stated, references to particular years or quarters refer to the Company s fiscal years ended in September and the associated quarters of those fiscal years.

In May 2009, the Financial Accounting Standards Board (FASB) established general accounting standards and disclosure for subsequent events. The Company adopted FASB Accounting Standards Codification (ASC) 855, *Subsequent Events* (formerly referenced as Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events*), during the third quarter of 2009. The Company has evaluated subsequent events through the date and time the financial statements were originally issued on October 27, 2009. The Company has further evaluated subsequent events for disclosure only through the date and time the financial statements were reissued on January 25, 2010.

Retrospective Adoption of New Accounting Principles

In September 2009, the FASB amended the accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements (new accounting principles). The Company adopted the new accounting principles on a retrospective basis during the first quarter of 2010.

Table of Contents

Under the historical accounting principles, the Company was required to account for sales of both iPhone and Apple TV using subscription accounting because the Company indicated it might from time-to-time provide future unspecified software upgrades and features for those products free of charge. Under subscription accounting, revenue and associated product cost of sales for iPhone and Apple TV were deferred at the time of sale and recognized on a straight-line basis over each product s estimated economic life. This resulted in the deferral of significant amounts of revenue and cost of sales related to iPhone and Apple TV.

The new accounting principles generally require the Company to account for the sale of both iPhone and Apple TV as two deliverables. The first deliverable is the hardware and software essential to the functionality of the hardware device delivered at the time of sale, and the second deliverable is the right included with the purchase of iPhone and Apple TV to receive on a when-and-if-available basis future unspecified software upgrades and features relating to the product s essential software. The new accounting principles result in the recognition of substantially all of the revenue and product costs from the sales of iPhone and Apple TV at the time of sale. Additionally, the Company is required to estimate a standalone selling price for the unspecified software upgrade rights included with the sale of iPhone and Apple TV and recognizes that amount ratably over the 24-month estimated life of the related hardware device.

The financial statements and notes to the financial statements presented herein have been adjusted to reflect the retrospective adoption of the new accounting principles. Refer to the Explanatory Note immediately preceding Part II, Item 6 and Note 2, Retrospective Adoption of New Accounting Principles in this Form 10-K for additional information on the impact of adoption.

Financial Instruments

Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company s debt and marketable equity securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument s underlying contractual maturity date. Marketable securities with maturities of less than 12 months are classified as short-term and marketable securities with maturities greater than 12 months are classified as long-term. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of shareholders equity. The cost of securities sold is based upon the specific identification method.

Derivative Financial Instruments

During the second quarter of 2009, the Company adopted FASB ASC 815, *Derivatives and Hedging* (formerly referenced as SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*), which requires additional disclosures about the Company s objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedged item affect the financial statements.

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivatives that are not defined as hedges must be adjusted to fair value through earnings.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in shareholders equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in current earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. For derivative instruments that hedge the exposure to changes in the fair value of an asset or a liability and that are designated as fair value hedges, the net gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings in the current period. The Company did not have a net gain or loss on these derivative instruments during 2009, 2008 and 2007. The net gain or loss on the effective portion of a derivative instrument that is designated as an economic hedge of the foreign currency translation exposure of the net investment in a foreign operation is reported in the same manner as a foreign currency translation adjustment. For forward exchange contracts designated as net investment hedges, the Company excludes changes in fair value relating to changes in the forward carry component from its definition of effectiveness. Accordingly, any gains or losses related to this component are recognized in current earnings.

Fair Value Measurements

During the first quarter of 2009, the Company adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly referenced as SFAS No. 157, *Fair Value Measurements*), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. This new accounting standard does not require any new fair value measurements. The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

During the first quarter of 2009, the Company adopted FASB ASC 825, *Financial Instruments* (formerly referenced as SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*), which allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. The Company has not elected the fair value option for any eligible financial instruments.

Inventories

Inventories are stated at the lower of cost, computed using the first-in, first-out method, or market. If the cost of the inventories exceeds their market value, provisions are made currently for the difference between the cost and the market value. The Company s inventories consist primarily of finished goods for all periods presented.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, which for buildings is the lesser of 30 years or the remaining life of the underlying building, up to five years for equipment, and the shorter of lease terms or ten years for leasehold improvements. The Company capitalizes eligible costs to acquire or develop internal-use software that are incurred subsequent to the preliminary project stage. Capitalized costs related to internal-use software are amortized using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Depreciation and amortization expense on property and equipment was $606 million, $387 million and $259 million during 2009, 2008 and 2007, respectively.

Table of Contents

Asset Retirement Obligations

The Company records obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company reviews legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. If it is determined that a legal obligation exists, the fair value of the liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The difference between the gross expected future cash flow and its present value is accreted over the life of the related lease as an operating expense. All of the Company s existing asset retirement obligations are associated with commitments to return property subject to operating leases to original condition upon lease termination. The Company s asset retirement liability was $25 million and $21 million as of September 26, 2009 and September 27, 2008, respectively.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

The Company reviews property, plant and equipment and certain identifiable intangibles, excluding goodwill, for impairment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If property, plant and equipment and certain identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair market value. The Company did not record any material impairments during 2009, 2008 and 2007.

The Company does not amortize goodwill and intangible assets with indefinite useful lives, rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company performs its goodwill and intangible asset impairment tests on or about August 31 of each year. The Company did not recognize any goodwill or intangible asset impairment charges in 2009, 2008 and 2007. The Company established reporting units based on its current reporting structure. For purposes of testing goodwill for impairment, goodwill has been allocated to these reporting units to the extent it relates to each reporting unit.

The Company amortizes its intangible assets with definite lives over their estimated useful lives and reviews these assets for impairment. The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from one to ten years.

Foreign Currency Translation and Remeasurement

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are credited or charged to foreign currency translation included in accumulated other comprehensive income in shareholders equity. The Company s subsidiaries that use the U.S. dollar as their functional currency remeasure monetary assets and liabilities at exchange rates in effect at the end of each period, and inventories, property, and nonmonetary assets and liabilities at historical rates. Gains and losses from these remeasurements were insignificant and have been included in the Company s results of operations.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, peripherals, and service and support contracts. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been

Table of Contents

transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company legally retains a portion of the risk of loss on these sales during transit. The Company recognizes revenue from the sale of hardware products (e.g., Mac computers, iPhones, iPods and peripherals), software bundled with hardware that is essential to the functionality of the hardware, and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

Revenue from service and support contracts is deferred and recognized ratably over the service coverage periods. These contracts typically include extended phone support, repair services, web-based support resources, diagnostic tools, and extend the service coverage offered under the Company s standard limited warranty.

The Company sells software and peripheral products obtained from other companies. The Company generally establishes its own pricing and retains related inventory risk, is the primary obligor in sales transactions with its customers, and assumes the credit risk for amounts billed to its customers. Accordingly, the Company generally recognizes revenue for the sale of products obtained from other companies based on the gross amount billed.

The Company records reductions to revenue for estimated commitments related to price protection and for customer incentive programs, including reseller and end-user rebates, and other sales programs and volume-based incentives. The estimated cost of these programs is accrued as a reduction to revenue in the period the Company has sold the product and committed to a plan. The Company also records reductions to revenue for expected future product returns based on the Company s historical experience. Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Revenue Recognition for Arrangements with Multiple Deliverables

For multi-element arrangements that include tangible products that contain software that is essential to the tangible product s functionality and undelivered software elements that relate to the tangible product s essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the new accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable.

For both iPhone and Apple TV, the Company has indicated it may from time-to-time provide future unspecified software upgrades and features free of charge to customers. The Company has identified two deliverables generally contained in arrangements involving the sale of iPhone and Apple TV. The first deliverable is the hardware and software essential to the functionality of the hardware device delivered at the time of sale, and the second deliverable is the right included with the purchase of iPhone and Apple TV to receive on a when-and-if-available basis future unspecified software upgrades and features relating to the product s essential software. The Company has allocated revenue between these two deliverables using the relative selling price method. Because the Company has neither VSOE nor TPE for the two deliverables the allocation of revenue has been based on the Company s ESPs. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of sale provided the other conditions for revenue recognition have been met. Amounts allocated to the unspecified software upgrade rights are deferred and recognized on a straight-line basis over the 24-month estimated life of the related hardware. All product cost of sales, including estimated warranty costs, are generally recognized at the time of sale. Costs for engineering and sales and marketing are expensed as incurred.

Table of Contents

For all periods presented, the Company s ESP for the software upgrade right included with each iPhone and Apple TV sold is $25 and $10, respectively. The Company s process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. The Company believes its customers, particularly consumers, would be reluctant to buy unspecified software upgrade rights related to iPhone and Apple TV. This view is primarily based on the fact that upgrade rights do not obligate the Company to provide upgrades at a particular time or at all, and do not specify to customers which upgrades or features will be delivered in the future. Therefore, the Company has concluded that if it were to sell upgrade rights on a standalone basis, such as those included with iPhone and Apple TV, the selling price would be relatively low. Key factors considered by the Company in developing the ESPs for iPhone and Apple TV upgrade rights include prices charged by the Company for similar offerings, the Company s historical pricing practices, the nature of the upgrade rights (e.g., unspecified and when-and-if-available), and the relative ESP of the upgrade rights as compared to the total selling price of the product. In addition, when developing ESPs for products other than iPhone and Apple TV, the Company may consider other factors as appropriate including the pricing of competitive alternatives if they exist, and product-specific business objectives.

The Company accounts for multiple element arrangements that consist only of software or software-related products, including the sale of upgrades to previously sold software, in accordance with industry specific accounting guidance for software and software-related transactions. For such transactions, revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element, and fair value is generally determined by VSOE. If the Company cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, but fair value exists for the undelivered elements, the Company uses the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Except as described for iPhone and Apple TV, the Company generally does not offer specified or unspecified upgrade rights to its customers in connection with software sales or the sale of extended warranty and support contracts. A limited number of the Company s software products are available with maintenance agreements that grant customers rights to unspecified future upgrades over the maintenance term on a when and if available basis. Revenue associated with such maintenance is recognized ratably over the maintenance term.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company s customers, current economic conditions, and other factors that may affect customers ability to pay.

Shipping Costs

For all periods presented, amounts billed to customers related to shipping and handling are classified as revenue, and the Company s shipping and handling costs are included in cost of sales.

Warranty Expense

The Company generally provides for the estimated cost of hardware and software warranties at the time the related revenue is recognized. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Table of Contents

Software Development Costs

Research and development costs are expensed as incurred. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product s technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company s products are released soon after technological feasibility has been established. Therefore, costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally most software development costs have been expensed.

In 2009 and 2008, the Company capitalized $71 million and $11 million, respectively, of costs associated with the development of Mac OS X Version 10.6 Snow Leopard (Mac OS X Snow Leopard), which was released during the fourth quarter of 2009. During 2007, the Company capitalized $75 million of costs associated with the development of Mac OS X Version 10.5 Leopard (Mac OS X Leopard) and iPhone software. The capitalized costs are being amortized to cost of sales on a straight-line basis over a three year estimated useful life of the underlying technology.

Total amortization related to capitalized software development costs was $25 million, $27 million and $13 million in 2009, 2008 and 2007, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $501 million, $486 million and $467 million for 2009, 2008 and 2007, respectively.

Stock-Based Compensation

The Company accounts for stock-based payment transactions in which the Company receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. Stock-based compensation cost for restricted stock units (RSUs) is measured based on the closing fair market value of the Company s common stock on the date of grant. Stock-based compensation cost for stock options is estimated at the grant date based on each option s fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The Company recognizes stock-based compensation cost as expense ratably on a straight-line basis over the requisite service period. The Company will recognize a benefit from stock-based compensation in equity if an incremental tax benefit is realized by following the ordering provisions of the tax law. In addition, the Company accounts for the indirect effects of stock-based compensation on the research tax credit, the foreign tax credit and the domestic manufacturing deduction through the income statement. Further information regarding stock-based compensation can be found in Note 8, Shareholders Equity and Stock-Based Compensation of this Form 10-K.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

During 2008, the Company adopted FASB Accounting Standards Codification (ASC) 740, *Income Taxes* (formerly referenced as FASB Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109)*, which changed the framework for accounting for uncertainty in income taxes. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. See Note 7, Income Taxes of this Form 10-K for additional information, including the effects of adoption on the Company s consolidated financial statements.

Earnings Per Common Share

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

The following table sets forth the computation of basic and diluted earnings per common share for the three years ended September 26, 2009 (in thousands, except net income in millions and per share amounts):

	2009	2008	2007
Numerator:			
Net income	$ 8,235	$ 6,119	$ 3,495
Denominator:			
Weighted-average shares outstanding	893,016	881,592	864,595
Effect of dilutive securities	13,989	20,547	24,697
Weighted-average shares diluted	907,005	902,139	889,292
Basic earnings per common share	$ 9.22	$ 6.94	$ 4.04
Diluted earnings per common share	$ 9.08	$ 6.78	$ 3.93

Potentially dilutive securities representing 12.6 million, 10.3 million and 13.7 million shares of common stock for 2009, 2008 and 2007, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been antidilutive.

Comprehensive Income

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

Segment Information

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company s reportable segments. Information about the Company s products, major customers and geographic areas on a company-wide basis is also disclosed.

Table of Contents

Note 2 Retrospective Adoption of New Accounting Principles

In September 2009, the FASB amended the accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements. In the first quarter of 2010, the Company adopted the new accounting principles on a retrospective basis. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users, is more consistent with the information the Company s management uses to evaluate its business, and better reflects the underlying economic performance of the Company. The financial statements and notes to the financial statements presented herein have been adjusted to reflect the retrospective adoption of the new accounting principles. Note 1, Summary of Significant Accounting Policies under the subheadings *Basis of Presentation and Preparation* and *Revenue Recognition* of this Form 10-K provides additional information on the Company s change in accounting resulting from the adoption of the new accounting principles and the Company s revenue recognition accounting policy.

The following tables present the effects of the retrospective adoption of the new accounting principles to the Company s previously reported Consolidated Balance Sheets as of September 26, 2009 and September 27, 2008 (in millions, except share amounts):

		September 26, 2009	
	As Reported	**Adjustments**	**As Amended**
Current assets:			
Cash and cash equivalents	$ 5,263	$	$ 5,263
Short-term marketable securities	18,201		18,201
Accounts receivable, less allowance of $52	3,361		3,361
Inventories	455		455
Deferred tax assets	2,101	(966)	1,135
Other current assets	6,884	(3,744)	3,140
Total current assets	36,265	(4,710)	31,555
Long-term marketable securities	10,528		10,528
Property, plant and equipment, net	2,954		2,954
Goodwill	206		206
Acquired intangible assets, net	247		247
Other assets	3,651	(1,640)	2,011
Total assets	$ 53,851	$ (6,350)	$ 47,501
Current liabilities:			
Accounts payable	$ 5,601	$	$ 5,601
Accrued expenses	3,376	476	3,852
Deferred revenue	10,305	(8,252)	2,053
Total current liabilities	19,282	(7,776)	11,506
Deferred revenue non-current	4,485	(3,632)	853
Other non-current liabilities	2,252	1,250	3,502
Total liabilities	26,019	(10,158)	15,861
Commitments and contingencies			
Shareholders equity:			
Common stock, no par value; 1,800,000,000 shares authorized; 899,805,500 shares issued and outstanding	8,210		8,210
Retained earnings	19,538	3,815	23,353
Accumulated other comprehensive income	84	(7)	77
Total shareholders equity	27,832	3,808	31,640

Total liabilities and shareholders equity	$	53,851	$	(6,350)	$	47,501

Table of Contents

	September 27, 2008		
	As Reported	Adjustments	As Amended
Current assets:			
Cash and cash equivalents	$ 11,875	$	$ 11,875
Short-term marketable securities	10,236		10,236
Accounts receivable, less allowance of $47	2,422		2,422
Inventories	509		509
Deferred tax assets	1,447	(403)	1,044
Other current assets	5,822	(1,902)	3,920
Total current assets	32,311	(2,305)	30,006
Long-term marketable securities	2,379		2,379
Property, plant and equipment, net	2,455		2,455
Goodwill	207		207
Acquired intangible assets, net	285		285
Other assets	1,935	(1,096)	839
Total assets	$ 39,572	$ (3,401)	$ 36,171
Current liabilities:			
Accounts payable	$ 5,520	$	$ 5,520
Accrued expenses	3,719	505	4,224
Deferred revenue	4,853	(3,236)	1,617
Total current liabilities	14,092	(2,731)	11,361
Deferred revenue non-current	3,029	(2,261)	768
Other non-current liabilities	1,421	324	1,745
Total liabilities	18,542	(4,668)	13,874
Commitments and contingencies			
Shareholders equity:			
Common stock, no par value; 1,800,000,000 shares authorized; 888,325,973 shares issued and outstanding	7,177		7,177
Retained earnings	13,845	1,284	15,129
Accumulated other comprehensive income/(loss)	8	(17)	(9)
Total shareholders equity	21,030	1,267	22,297
Total liabilities and shareholders equity	$ 39,572	$ (3,401)	$ 36,171

35

Table of Contents

The following tables present the effects of the retrospective adoption of the new accounting principles to the Company s previously reported Consolidated Statements of Operations for the years ended September 26, 2009, September 27, 2008, and September 29, 2007 (in millions, except share amounts):

	Fiscal Year Ended September 26, 2009		
	As Reported	**Adjustments**	**As Amended**
Net sales	$ 36,537	$ 6,368	$ 42,905
Cost of sales	23,397	2,286	25,683
Gross margin	13,140	4,082	17,222
Operating expenses:			
Research and development	1,333		1,333
Selling, general and administrative	4,149		4,149
Total operating expenses	5,482		5,482
Operating income	7,658	4,082	11,740
Other income and expense	326		326
Income before provision for income taxes	7,984	4,082	12,066
Provision for income taxes	2,280	1,551	3,831
Net income	$ 5,704	$ 2,531	$ 8,235
Earnings per common share:			
Basic	$ 6.39	$ 2.83	$ 9.22
Diluted	$ 6.29	$ 2.79	$ 9.08
Shares used in computing earnings per share:			
Basic	893,016		893,016
Diluted	907,005		907,005

	Fiscal Year Ended September 27, 2008		
	As Reported	**Adjustments**	**As Amended**
Net sales	$ 32,479	$ 5,012	$ 37,491
Cost of sales	21,334	2,960	24,294
Gross margin	11,145	2,052	13,197
Operating expenses:			
Research and development	1,109		1,109
Selling, general and administrative	3,761		3,761
Total operating expenses	4,870		4,870
Operating income	6,275	2,052	8,327
Other income and expense	620		620
Income before provision for income taxes	6,895	2,052	8,947
Provision for income taxes	2,061	767	2,828

Net income	$	4,834	$	1,285	$	6,119
Earnings per common share:						
Basic	$	5.48	$	1.46	$	6.94
Diluted	$	5.36	$	1.42	$	6.78
Shares used in computing earnings per share:						
Basic		881,592				881,592
Diluted		902,139				902,139

Table of Contents

	Fiscal Year Ended September 29, 2007		
	As Reported	Adjustments	As Amended
Net sales	$ 24,006	$ 572	$ 24,578
Cost of sales	15,852	574	16,426
Gross margin	8,154	(2)	8,152
Operating expenses:			
Research and development	782		782
Selling, general and administrative	2,963		2,963
Total operating expenses	3,745		3,745
Operating income	4,409	(2)	4,407
Other income and expense	599		599
Income before provision for income taxes	5,008	(2)	5,006
Provision for income taxes	1,512	(1)	1,511
Net income	$ 3,496	$ (1)	$ 3,495
Earnings per common share:			
Basic	$ 4.04	$	$ 4.04
Diluted	$ 3.93	$	$ 3.93
Shares used in computing earnings per share:			
Basic	864,595		864,595
Diluted	889,292		889,292

Table of Contents

Note 3 Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following table summarizes the fair value of the Company s cash and available-for-sale securities held in its marketable securities investment portfolio, recorded as cash and cash equivalents or short-term or long-term marketable securities as of September 26, 2009 and September 27, 2008 (in millions):

	September 26, 2009	September 27, 2008
Cash	$ 1,139	$ 368
Money market funds	1,608	1,536
U.S. Treasury securities	289	118
U.S. agency securities	273	2,798
Certificates of deposit and time deposits	572	2,560
Commercial paper	1,381	4,429
Corporate securities		66
Municipal securities	1	
Total cash equivalents	4,124	11,507
U.S. Treasury securities	2,843	343
U.S. agency securities	8,582	5,823
Non-U.S. government securities	219	83
Certificates of deposit and time deposits	1,142	486
Commercial paper	2,816	1,254
Corporate securities	2,466	2,247
Municipal securities	133	
Total short-term marketable securities	18,201	10,236
U.S. Treasury securities	484	100
U.S. agency securities	2,252	751
Non-U.S. government securities	102	
Certificates of deposit and time deposits		32
Corporate securities	7,320	1,496
Municipal securities	370	
Total long-term marketable securities	10,528	2,379
Total cash, cash equivalents and marketable securities	$ 33,992	$ 24,490

During the first quarter of 2009, the Company changed its accounting presentation for certain fixed-income investments, which resulted in the reclassification of certain investments from short-term marketable securities to long-term marketable securities. As a result, prior year balances have been reclassified to conform to the current year s presentation. The Company classifies its marketable securities as either short-term or long-term based on each instrument s underlying contractual maturity date, while its prior classifications were based on the nature of the securities and their availability for use in current operations. As a result of this change, marketable securities with maturities of less than 12 months are classified as short-term and marketable securities with maturities greater than 12 months are classified as long-term. The Company s long-term marketable securities maturities range from one year to five years**.** The Company believes this new presentation is preferable as it more closely reflects the Company s assessment of the timing of when such securities will be converted to cash. Accordingly, certain fixed-income investments totaling $2.4 billion have been reclassified from short-term marketable securities to long-term marketable securities in the September 27, 2008 Consolidated Balance Sheet to conform to the current year s financial statement presentation. There have been no changes in the Company s investment policies or practices associated with this change in accounting presentation.

Table of Contents

The following tables summarize the Company s available-for-sale securities adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category as of September 26, 2009 and September 27, 2008 (in millions):

	September 26, 2009			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	$ 1,608	$	$	$ 1,608
U.S. Treasury securities	3,610	6		3,616
U.S. agency securities	11,085	22		11,107
Non-U.S. government securities	320	1		321
Certificates of deposit and time deposits	1,714			1,714
Commercial paper	4,197			4,197
Corporate securities	9,760	42	(16)	9,786
Municipal securities	502	2		504
Total cash equivalents and marketable securities	$ 32,796	$ 73	$ (16)	$ 32,853

	September 27, 2008			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	$ 1,536	$	$	$ 1,536
U.S. Treasury securities	559	2		561
U.S. agency securities	9,383	2	(13)	9,372
Non-U.S. government securities	83			83
Certificates of deposit and time deposits	3,078			3,078
Commercial paper	5,683			5,683
Corporate securities	3,917		(108)	3,809
Total cash equivalents and marketable securities	$ 24,239	$ 4	$ (121)	$ 24,122

The Company had net unrealized gains on its investment portfolio of $57 million as of September 26, 2009 and net unrealized losses on its investment portfolio of $117 million as of September 27, 2008. The net unrealized gains as of September 26, 2009 and the net unrealized losses as of September 27, 2008 related primarily to long-term marketable securities. The Company may sell certain of its marketable securities prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. The Company recognized no material net gains or losses during 2009, 2008 and 2007 related to such sales.

The following tables show the gross unrealized losses and fair value for investments in an unrealized loss position as of September 26, 2009 and September 27, 2008, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in millions):

	September 26, 2009					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Loss
Corporate securities	$ 1,667	$ (3)	$ 719	$ (13)	$ 2,386	$ (16)
Total	$ 1,667	$ (3)	$ 719	$ (13)	$ 2,386	$ (16)

Table of Contents

	September 27, 2008					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Loss
U.S. agency securities	$ 6,822	$ (13)	$	$	$ 6,822	$ (13)
Corporate securities	2,147	(31)	1,148	(77)	3,295	(108)
Total	$ 8,969	$ (44)	$ 1,148	$ (77)	$ 10,117	$ (121)

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The unrealized losses on the Company s marketable securities were caused primarily by changes in market interest rates, specifically, widening credit spreads. The Company typically invests in highly-rated securities, and its policy generally limits the amount of credit exposure to any one issuer. The Company s investment policy requires investments to be investment grade, primarily rated single-A or better, with the objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s amortized cost basis. During the years ended September 26, 2009 and September 27, 2008, the Company did not recognize any material impairment charges. As of September 26, 2009, the Company does not consider any of its investments to be other-than-temporarily impaired.

Derivative Financial Instruments

The Company uses derivatives to partially offset its business exposure to foreign currency exchange risk. The Company may enter into foreign currency forward and option contracts to offset some of the foreign exchange risk of expected future cash flows on certain forecasted revenue and cost of sales, of net investments in certain foreign subsidiaries, and on certain existing assets and liabilities. To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company s subsidiaries whose functional currency is the U.S. dollar, hedge a portion of forecasted foreign currency revenue. The Company s subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies, may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries functional currencies. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases for three to six months. To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates. The Company may also enter into foreign currency forward and option contracts to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Company s accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments. The Company records all derivatives on the Consolidated Balance Sheets at fair value. The effective portions of cash flow hedges are recorded in other comprehensive income until the hedged item is recognized in earnings. The effective portions of net investment hedges are recorded in other comprehensive income as a part of the cumulative translation adjustment. Derivatives that are not designated as hedging instruments and the ineffective portions of cash flow hedges and net investment hedges are adjusted to fair value through earnings in other income and expense.

The Company had a net deferred gain associated with cash flow hedges of approximately $1 million and $19 million, net of taxes, recorded in other comprehensive income as of September 26, 2009 and September 27, 2008, respectively. Other comprehensive income associated with cash flow hedges of foreign currency revenue is recognized as a component of net sales in the same period as the related revenue is recognized, and other comprehensive income related to cash flow hedges of inventory purchases is recognized as a component of cost of sales in the same period as the related costs are recognized. As of September 26, 2009, the hedged transactions are expected to occur within six months.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two month time period. Deferred gains and losses in other comprehensive income associated with such derivative instruments are reclassified immediately into earnings through other income and expense. Any subsequent changes in fair value of such derivative instruments also are reflected in current earnings unless they are re-designated as hedges of other transactions. The Company did not recognize any material net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during 2009, 2008 and 2007.

The Company had an unrealized net loss on net investment hedges of $2 million and $1 million, net of taxes, included in the cumulative translation adjustment account of accumulated other comprehensive income (AOCI) as of September 26, 2009 and September 27, 2008, respectively. The ineffective portions and amounts excluded from the effectiveness test of net investment hedges are recorded in current earnings in other income and expense.

The Company recognized in earnings a net gain of $133 million on foreign currency forward and option contracts not designated as hedging instruments during the year ended September 26, 2009.

The following table shows the notional principal and credit risk amounts of the Company s derivative instruments outstanding as of September 26, 2009 and September 27, 2008 (in millions):

	2009		2008	
	Notional Principal	**Credit Risk Amounts**	**Notional Principal**	**Credit Risk Amounts**
Instruments qualifying as accounting hedges:				
Foreign exchange contracts	$ 4,422	$ 31	$ 5,902	$ 107
Instruments other than accounting hedges:				
Foreign exchange contracts	$ 3,416	$ 10	$ 2,868	$ 8

The notional principal amounts for derivative instruments provide one measure of the transaction volume outstanding as of September 26, 2009, and do not represent the amount of the Company s exposure to credit or market loss. The credit risk amounts represent the Company s gross exposure to potential accounting loss on these transactions if all counterparties failed to perform according to the terms of the contract, based on then-current currency exchange rates at each respective date. The Company s gross exposure on these transactions may be further mitigated by collateral received from certain counterparties. The Company s exposure to credit loss and market risk will vary over time as a function of currency exchange rates. Although the table above reflects the notional principal and credit risk amounts of the Company s foreign exchange instruments, it does not reflect the gains or losses associated with the exposures and transactions that the foreign exchange instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received when the net fair value of certain financial instruments exceeds contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values. The Company did not record a material amount of cash collateral related to the derivative instruments under its master netting arrangements as of September 26, 2009. The Company did not have any derivative instruments with credit risk-related contingent features that would require it to post additional collateral as of September 26, 2009.

The estimates of fair value are based on applicable and commonly used pricing models and prevailing financial market information as of September 26, 2009. Refer to Note 4, Fair Value Measurements of this Form 10-K, for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities, that are measured at fair value in the consolidated financial statements on a recurring basis. The following tables shows the Company s derivative instruments measured at gross fair value as reflected in the Consolidated Balance Sheets as of September 26, 2009 and September 27, 2008 (in millions):

	September 26, 2009		
	Fair Value of Derivatives Designated as Hedge Instruments	**Fair Value of Derivatives Not Designated as Hedge Instruments**	**Total Fair Value**
Derivative assets (a):			
Foreign exchange contracts	$ 27	$ 10	$ 37
Derivative liabilities (b):			
Foreign exchange contracts	$ 24	$ 1	$ 25

	September 27, 2008		
	Fair Value of Derivatives Designated as Hedge Instruments	**Fair Value of Derivatives Not Designated as Hedge Instruments**	**Total Fair Value**
Derivative assets (a):			
Foreign exchange contracts	$ 107	$ 8	$ 115
Derivative liabilities (b):			
Foreign exchange contracts	$ 68	$ 2	$ 70

(a) All derivative assets are recorded as other current assets in the Consolidated Balance Sheets.
(b) All derivative liabilities are recorded as accrued expenses in the Consolidated Balance Sheets.

Table of Contents

The following table shows the effect of the Company s derivative instruments designated as cash flow and net investment hedges in the Consolidated Statements of Operations for the year ended September 26, 2009 (in millions):

	Year Ended September 26, 2009				
	Gain or (Loss) Recognized in OCI - Effective Portion (a)	Location of Gain or (Loss) Reclassified from AOCI into Income - Effective Portion	Gain or (Loss) Reclassified from AOCI into Income - Effective Portion (a)	Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing
Cash flow hedges:					
Foreign exchange contracts	$ 283	Net sales	$ 302	Other income and expense	$ (83)
Foreign exchange contracts	55	Cost of sales	68	Other income and expense	(14)
Net investment hedges:					
Foreign exchange contracts	(44)	Other income and expense		Other income and expense	3
Total	$ 294		$ 370		$ (94)

(a) Refer to Note 8, Shareholders Equity and Stock-Based Compensation of this Form 10-K, which summarizes the activity in accumulated other comprehensive income related to derivatives.

Accounts Receivable

Trade Receivables

The Company distributes its products through third-party distributors, cellular network carriers, and resellers and directly to certain education, consumer and enterprise customers. The Company generally does not require collateral from its customers; however, the Company will require collateral in certain instances to limit credit risk. In addition, when possible, the Company attempts to limit credit risk on trade receivables with credit insurance for certain customers in Latin America, Europe, Asia, and Australia, or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit risk sharing related to any of these arrangements. However, considerable trade receivables not covered by collateral, third-party financing arrangements, or credit insurance are outstanding with the Company s distribution and retail channel partners. Trade receivables from one of the Company s customers accounted for 16% of trade receivables as of September 26, 2009 and two of the Company s customers accounted for 15% and 10%, respectively, of trade receivables as of September 27, 2008.

The following table summarizes the activity in the allowance for doubtful accounts for the three years ended September 26, 2009 (in millions):

	2009	2008	2007
Beginning allowance balance	$ 47	$ 47	$ 52
Charged to costs and expenses	25	3	12
Deductions	(20)	(3)	(17)
Ending allowance balance	$ 52	$ 47	$ 47

Table of Contents

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of raw material components to these manufacturing vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these raw material components directly from suppliers. These non-trade receivables, which are included in the Consolidated Balance Sheets in other current assets, totaled \$1.7 billion and \$2.3 billion as of September 26, 2009 and September 27, 2008, respectively. Vendor non-trade receivables from two of the Company s vendors accounted for 40% and 36%, respectively, of non-trade receivables as of September 26, 2009 and two of the Company s vendors accounted for 47% and 38%, respectively, of non-trade receivables as of September 27, 2008. The Company does not reflect the sale of these components in net sales and does not recognize any profits on these sales until the related products are sold by the Company, at which time any profit is recognized as a reduction of cost of sales.

Note 4 Fair Value Measurements

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

The Company s valuation techniques used to measure the fair value of money market funds and certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data.

Table of Contents

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of September 26, 2009 (in millions):

	September 26, 2009			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total (a)
Assets:				
Money market funds	$ 1,608	$	$	$ 1,608
U.S. Treasury securities		3,616		3,616
U.S. agency securities		11,107		11,107
Non-U.S. government securities		321		321
Certificates of deposit and time deposits		1,714		1,714
Commercial paper		4,197		4,197
Corporate securities		9,786		9,786
Municipal securities		504		504
Marketable equity securities	61			61
Derivative assets		37		37
Total assets measured at fair value	$ 1,669	$ 31,282	$	$ 32,951
Liabilities:				
Derivative liabilities	$	$ 25	$	$ 25
Total liabilities measured at fair value	$	$ 25	$	$ 25

(a) The total fair value amounts for assets and liabilities also represent the related carrying amounts.

The following table summarizes the Company s assets and liabilities measured at fair value on a recurring basis as presented in the Company s Consolidated Balance Sheet as of September 26, 2009 (in millions):

	September 26, 2009			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total (a)
Assets:				
Cash equivalents	$ 1,608	$ 2,516	$	$ 4,124

Short-term marketable securities		18,201		18,201
Long-term marketable securities		10,528		10,528
Other current assets		37		37
Other assets	61			61
Total assets measured at fair value	$ 1,669	$ 31,282	$	$ 32,951
Liabilities:				
Other current liabilities	$	$ 25	$	$ 25
Total liabilities measured at fair value	$	$ 25	$	$ 25

(a) The total fair value amounts for assets and liabilities also represent the related carrying amounts.

Table of Contents

Note 5 Consolidated Financial Statement Details

The following tables show the Company s consolidated financial statement details as of September 26, 2009 and September 27, 2008 (in millions):

Other Current Assets

	2009	2008
Vendor non-trade receivables	$ 1,696	$ 2,282
Inventory component prepayments current	309	475
Other current assets	1,135	1,163
Total other current assets	$ 3,140	$ 3,920

Property, Plant and Equipment

	2009	2008
Land and buildings	$ 955	$ 810
Machinery, equipment and internal-use software	1,932	1,491
Office furniture and equipment	115	122
Leasehold improvements	1,665	1,324
Gross property, plant and equipment	4,667	3,747
Accumulated depreciation and amortization	(1,713)	(1,292)
Net property, plant and equipment	$ 2,954	$ 2,455

Other Assets

	2009	2008
Inventory component prepayments non-current	$ 844	$ 208
Deferred tax assets non-current	163	104
Capitalized software development costs, net	106	67
Other assets	898	460
Total other assets	$ 2,011	$ 839

Accrued Expenses

	2009	2008
Accrued warranty and related costs	$ 577	$ 671
Accrued marketing and distribution	359	329
Accrued compensation and employee benefits	357	320
Income taxes payable	430	506
Deferred margin on component sales	225	681

Other current liabilities	1,904	1,717
Total accrued expenses	$ 3,852	$ 4,224

Non-Current Liabilities

	2009	2008
Deferred tax liabilities	$ 2,216	$ 999
Other non-current liabilities	1,286	746
Total other non-current liabilities	$ 3,502	$ 1,745

Table of Contents

Note 6 Goodwill and Other Intangible Assets

The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from one to ten years. The following table summarizes the components of gross and net intangible asset balances as of September 26, 2009 and September 27, 2008 (in millions):

	2009			2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite lived and amortizable acquired technology	$ 323	$ (176)	$ 147	$ 308	$ (123)	$ 185
Indefinite lived and unamortizable trademarks	100		100	100		100
Total acquired intangible assets	$ 423	$ (176)	$ 247	$ 408	$ (123)	$ 285
Goodwill	$ 206	$	$ 206	$ 207	$	$ 207

In 2008, the Company completed an acquisition of a business for total cash consideration, net of cash acquired, of $220 million, of which $169 million has been allocated to goodwill, $51 million to deferred tax assets and $7 million to acquired intangible assets.

The Company s goodwill is allocated primarily to the America s reportable operating segment. Amortization expense related to acquired intangible assets was $53 million, $46 million and $35 million in 2009, 2008 and 2007, respectively. As of September 26, 2009 and September 27, 2008, the remaining weighted-average amortization period for acquired technology was 7.2 years and 7.0 years, respectively.

Expected annual amortization expense related to acquired technology as of September 26, 2009, is as follows (in millions):

Years	
2010	$ 40
2011	37
2012	28
2013	13
2014	10
Thereafter	19
Total	$ 147

Table of Contents

Note 7 Income Taxes

The provision for income taxes for the three years ended September 26, 2009, consisted of the following (in millions):

	2009	2008	2007
Federal:			
Current	$ 2,166	$ 1,945	$ 1,223
Deferred	1,077	498	80
	3,243	2,443	1,303
State:			
Current	280	210	112
Deferred	(2)	(25)	9
	278	185	121
Foreign:			
Current	345	275	103
Deferred	(35)	(75)	(16)
	310	200	87
Provision for income taxes	$ 3,831	$ 2,828	$ 1,511

The foreign provision for income taxes is based on foreign pretax earnings of $6.6 billion, $4.6 billion and $2.2 billion in 2009, 2008 and 2007, respectively. As of September 26, 2009 and September 27, 2008, $17.4 billion and $11.3 billion, respectively, of the Company s cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The Company s consolidated financial statements provide for any related tax liability on amounts that may be repatriated, aside from undistributed earnings of certain of the Company s foreign subsidiaries that are intended to be indefinitely reinvested in operations outside the U.S. U.S. income taxes have not been provided on a cumulative total of $5.1 billion of such earnings. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

Deferred tax assets and liabilities reflect the effects of tax losses, credits, and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

As of September 26, 2009 and September 27, 2008, the significant components of the Company s deferred tax assets and liabilities were (in millions):

	2009	2008
Deferred tax assets:		
Accrued liabilities and other reserves	$ 1,030	$ 1,003
Basis of capital assets and investments	180	173
Accounts receivable and inventory reserves	172	126
Other	470	415
Total deferred tax assets	1,852	1,717
Less valuation allowance		

Deferred tax assets, net of valuation allowance	1,852	1,717
Deferred tax liabilities - Unremitted earnings of foreign subsidiaries	2,774	1,569
Net deferred tax (liabilities)/assets	$ (922)	$ 148

Table of Contents

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (35% in 2009, 2008 and 2007) to income before provision for income taxes for the three years ended September 26, 2009, is as follows (in millions):

	2009	2008	2007
Computed expected tax	$ 4,223	$ 3,131	$ 1,752
State taxes, net of federal effect	339	217	140
Indefinitely invested earnings of foreign subsidiaries	(647)	(500)	(297)
Nondeductible executive compensation	13	6	6
Research and development credit, net	(84)	(21)	(54)
Other	(13)	(5)	(36)
Provision for income taxes	$ 3,831	$ 2,828	$ 1,511
Effective tax rate	32%	32%	30%

The Company s income taxes payable have been reduced by the tax benefits from employee stock plan awards. For stock options, the Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of the exercise and the option price, tax effected. The Company had net tax benefits from employee stock plan awards of $246 million, $770 million and $398 million in 2009, 2008 and 2007, respectively, which were reflected as increases to common stock.

On October 3, 2008, the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 was signed into law. This bill, among other things, retroactively extended the expired research and development tax credit. As a result, the Company recorded a tax benefit of $42 million in the first quarter of 2009 to account for the retroactive effects of the research credit extension.

Uncertain Tax Positions

As discussed in Note 1, Summary of Significant Accounting Policies the Company adopted new accounting principles on accounting for uncertain tax positions in 2008. Under these new principles, tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Upon adoption of these new principles, the Company s cumulative effect of a change in accounting principle resulted in an increase to retained earnings of $11 million. The Company had historically classified interest and penalties and unrecognized tax benefits as current liabilities. Beginning with the adoption of these new principles, the Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheets. The total amount of gross unrecognized tax benefits as of the date of adoption was $475 million, of which $209 million, if recognized, would affect the Company s effective tax rate.

The Company s total gross unrecognized tax benefits are classified as non-current liabilities in the Consolidated Balance Sheets. As of September 26, 2009, the total amount of gross unrecognized tax benefits was $971 million, of which $307 million, if recognized, would affect the Company s effective tax rate. As of September 27, 2008, the total amount of gross unrecognized tax benefits was $506 million, of which $253 million, if recognized, would affect the Company s effective tax rate.

On May 27, 2009, the United States Court of Appeals for the Ninth Circuit issued its ruling in the case of *Xilinx, Inc. v. Commissioner*, holding that stock-based compensation is required to be included in certain transfer pricing arrangements between a U.S. company and its offshore subsidiary. As a result of the ruling in this case, the Company increased its liability for unrecognized tax benefits by approximately $86 million and decreased shareholders equity by approximately $78 million in the year ended September 26, 2009.

Table of Contents

The aggregate changes in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for the two years ended September 26, 2009, is as follows (in millions):

Balance as of September 30, 2007	$ 475
Increases related to tax positions taken during a prior period	27
Decreases related to tax positions taken during a prior period	(70)
Increases related to tax positions taken during the current period	85
Decreases related to settlements with taxing authorities	
Decreases related to expiration of statute of limitations	(11)
Balance as of September 27, 2008	506
Increases related to tax positions taken during a prior period	341
Decreases related to tax positions taken during a prior period	(24)
Increases related to tax positions taken during the current period	151
Decreases related to settlements with taxing authorities	
Decreases related to expiration of statute of limitations	(3)
Balance as of September 26, 2009	$ 971

The Company s policy to include interest and penalties related to unrecognized tax benefits within the provision for income taxes did not change as a result of adopting the new accounting principles on accounting for uncertain tax positions in 2008. As of the date of adoption, the Company had accrued $203 million for the gross interest and penalties relating to unrecognized tax benefits. As of September 26, 2009 and September 27, 2008, the total amount of gross interest and penalties accrued was $291 million and $219 million, respectively, which is classified as non-current liabilities in the Consolidated Balance Sheets. In 2009 and 2008, the Company recognized interest expense in connection with tax matters of $64 million and $16 million, respectively.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. For U.S. federal income tax purposes, all years prior to 2002 are closed. The years 2002-2003 have been examined by the Internal Revenue Service (the IRS) and disputed issues have been taken to administrative appeals. The IRS is currently examining the 2004-2006 years. In addition, the Company is also subject to audits by state, local and foreign tax authorities. In major states and major foreign jurisdictions, the years subsequent to 1988 and 2000, respectively, generally remain open and could be subject to examination by the taxing authorities.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that tax audit resolutions could reduce its unrecognized tax benefits by between $105 million and $145 million in the next 12 months.

Note 8 Shareholders Equity and Stock-Based Compensation

Preferred Stock

The Company has five million shares of authorized preferred stock, none of which is issued or outstanding. Under the terms of the Company s Restated Articles of Incorporation, the Board of Directors is authorized to determine or alter the rights, preferences, privileges and restrictions of the Company s authorized but unissued shares of preferred stock.

Table of Contents

Comprehensive Income

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

The following table summarizes the components of accumulated other comprehensive income, net of taxes, as of the three years ended September 26, 2009 (in millions):

	2009	2008	2007
Net unrealized gains/losses on available-for-sale securities	$ 48	$ (70)	$ (7)
Net unrecognized gains on derivative instruments	1	19	
Cumulative foreign currency translation	28	42	70
Accumulated other comprehensive income/(loss)	$ 77	$ (9)	$ 63

The change in fair value of available-for-sale securities included in other comprehensive income was $118 million, $(63) million and $(7) million, net of taxes in 2009, 2008 and 2007, respectively. The tax effect related to the change in unrealized gains/losses on available-for-sale securities was $(78) million, $42 million and $4 million for 2009, 2008 and 2007, respectively.

The following table summarizes activity in other comprehensive income related to derivatives, net of taxes, held by the Company during the three years ended September 26, 2009 (in millions):

	2009	2008	2007
Changes in fair value of derivatives	$ 204	$ 7	$ (1)
Adjustment for net gains/losses realized and included in net income	(222)	12	(2)
Change in unrecognized gains/losses on derivative instruments	$ (18)	$ 19	$ (3)

The tax effect related to the changes in fair value of derivatives was $(135) million, $(5) million and $1 million for 2009, 2008 and 2007, respectively. The tax effect related to derivative gains/losses reclassified from other comprehensive income to net income was $149 million, $(9) million and $2 million for 2009, 2008 and 2007, respectively.

Employee Benefit Plans

2003 Employee Stock Plan

The 2003 Employee Stock Plan (the 2003 Plan) is a shareholder approved plan that provides for broad-based equity grants to employees, including executive officers. The 2003 Plan permits the granting of incentive stock options, nonstatutory stock options, RSUs, stock appreciation rights, stock purchase rights and performance-based awards. Based on the terms of individual option grants, options granted under the 2003 Plan generally expire seven to ten years after the grant date and generally become exercisable over a period of four years, based on continued employment, with either annual, semi-annual or quarterly vesting. In general, RSUs granted under the 2003 Plan vest over two to four years, are subject to the employees continued employment and do not have an expiration date. As of September 26, 2009, approximately 37 million shares were reserved for future issuance under the 2003 Plan.

1997 Employee Stock Option Plan

In August 1997, the Company s Board of Directors approved the 1997 Employee Stock Option Plan (the 1997 Plan), a non-shareholder approved plan for grants of stock options to employees who are not officers of the Company. Based on the terms of individual option grants, options granted under the 1997 Plan generally expire seven to ten years after the grant date. All stock options granted under the 1997 Plan are fully vested. In October 2003, the Company terminated the 1997 Plan, and no new options can be granted from this plan.

1997 Director Stock Option Plan

In August 1997, the Company s Board of Directors adopted a Director Stock Option Plan (the Director Plan) for non-employee directors of the Company, which was approved by shareholders in 1998. Pursuant to the Director Plan, the Company s non-employee directors are granted an option to acquire 30,000 shares of common stock upon their initial election to the Board (Initial Options). The Initial Options vest and become exercisable in three equal annual installments on each of the first through third anniversaries of the grant date. On the fourth anniversary of a non-employee director s initial election to the Board and on each subsequent anniversary thereafter, the director will be entitled to receive an option to acquire 10,000 shares of common stock (Annual Options). Annual Options are fully vested and immediately exercisable on their date of grant. Options granted under the Director Plan expire ten years after the grant date. As of September 26, 2009, approximately 240,000 shares were reserved for future issuance under the Director Plan.

Rule 10b5-1 Trading Plans

As of October 16, 2009, executive officers Timothy D. Cook, Ronald B. Johnson, Peter Oppenheimer, Philip W. Schiller and Bertrand Serlet have entered into trading plans pursuant to Rule 10b5-1(c)(1) of the Securities Exchange Act of 1934, as amended (the Exchange Act). A trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company s stock including the exercise and sale of employee stock options and shares acquired pursuant to the Company s employee stock purchase plan and upon vesting of RSUs.

Employee Stock Purchase Plan

The Company has a shareholder approved employee stock purchase plan (the Purchase Plan), under which substantially all employees may purchase common stock through payroll deductions at a price equal to 85% of the lower of the fair market values as of the beginning and end of six-month offering periods. Stock purchases under the Purchase Plan are limited to 10% of an employee s compensation, up to a maximum of $25,000 in any calendar year. The number of shares authorized to be purchased in any calendar year is limited to a total of 3 million shares. As of September 26, 2009, approximately 4.7 million shares were reserved for future issuance under the Purchase Plan.

Employee Savings Plan

The Company has an employee savings plan (the Savings Plan) qualifying as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limit ($16,500 for calendar year 2009). The Company matches 50% to 100% of each employee s contributions, depending on length of service, up to a maximum 6% of the employee s eligible earnings. The Company s matching contributions to the Savings Plan were $59 million, $50 million and $39 million in 2009, 2008 and 2007, respectively.

Table of Contents

Restricted Stock Units

Historically, the Company used equity awards in the form of stock options as one of the means for recruiting and retaining highly skilled talent. In conjunction with the Company s 2009 equity compensation program changes, it began issuing primarily RSUs rather than stock options for eligible employees as the primary type of long-term equity-based award. A summary of the Company s RSU activity and related information for the three years ended September 26, 2009, is as follows (in thousands, except per share amounts):

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Balance at September 30, 2006	3,410	$ 39.62	
Restricted stock units granted	1,320	$ 88.51	
Restricted stock units vested	(45)	$ 46.57	
Restricted stock units cancelled	(10)	$ 86.14	
Balance at September 29, 2007	4,675	$ 52.98	
Restricted stock units granted	4,917	$ 162.61	
Restricted stock units vested	(2,195)	$ 25.63	
Restricted stock units cancelled	(357)	$ 119.12	
Balance at September 27, 2008	7,040	$ 134.91	
Restricted stock units granted	7,786	$ 111.80	
Restricted stock units vested	(1,935)	$ 124.87	
Restricted stock units cancelled	(628)	$ 121.28	
Balance at September 26, 2009	12,263	$ 122.52	$ 2,236,305

The fair value as of the vesting date of RSUs that vested was $221 million, $320 million and $6 million for 2009, 2008 and 2007, respectively. Upon vesting, the RSUs are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The majority of RSUs vested in 2009, 2008 and 2007, were net-share settled such that the Company withheld shares with value equivalent to the employees minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were approximately 707,000, 857,000 and 20,000 for 2009, 2008 and 2007, respectively, and were based on the value of the RSUs on their vesting date as determined by the Company s closing stock price. Total payments for the employees tax obligations to the taxing authorities were $82 million, $124 million and $3 million in 2009, 2008 and 2007, respectively, and are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

Table of Contents

Stock Option Activity

A summary of the Company s stock option and RSU activity and related information for the three years ended September 26, 2009, is as follows (in thousands, except per share amounts and contractual term in years):

		Outstanding Options			
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at September 30, 2006	54,994	52,982	$ 23.23		
Additional shares authorized	28,000		$		
Restricted stock units granted	(2,640)		$		
Options granted	(14,010)	14,010	$ 94.52		
Options cancelled	1,471	(1,471)	$ 55.38		
Restricted stock units cancelled	20		$		
Options exercised		(15,770)	$ 18.32		
Plan shares expired	(8)		$		
Balance at September 29, 2007	67,827	49,751	$ 43.91		
Restricted stock units granted	(9,834)		$		
Options granted	(9,359)	9,359	$ 171.36		
Options cancelled	1,236	(1,236)	$ 98.40		
Restricted stock units cancelled	714		$		
Options exercised		(13,728)	$ 27.88		
Plan shares expired	(12)		$		
Balance at September 27, 2008	50,572	44,146	$ 74.39		
Restricted stock units granted	(15,572)		$		
Options granted	(234)	234	$ 106.84		
Options cancelled	1,241	(1,241)	$ 122.98		
Restricted stock units cancelled	1,256		$		
Options exercised		(8,764)	$ 41.78		
Plan shares expired	(2)		$		
Balance at September 26, 2009	37,261	34,375	$ 81.17	3.52	$ 3,482,530
Exercisable at September 26, 2009		24,685	$ 60.62	3.01	$ 3,006,829
Expected to vest after September 26, 2009		9,479	$ 133.28	4.82	$ 465,321

Aggregate intrinsic value represents the value of the Company s closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price multiplied by the number of options outstanding or exercisable. The aggregate intrinsic value excludes the effect of stock options that have a zero or negative intrinsic value. Total intrinsic value of options at time of exercise was $827 million, $2.0 billion and $1.3 billion for 2009, 2008 and 2007, respectively.

RSUs granted are deducted from the shares available for grant under the Company s stock option plans utilizing a factor of two times the number of RSUs granted. Similarly, RSUs cancelled are added back to the shares available for grant under the Company s stock option plans utilizing a factor of two times the number of RSUs cancelled. Outstanding RSU balances are not included in the outstanding options balances in the stock option activity table.

Stock-Based Compensation

Stock-based compensation cost for RSUs is measured based on the closing fair market value of the Company s common stock on the date of grant. Stock-based compensation cost for stock options is estimated at the grant date based on each option s fair-value as calculated by the BSM option-pricing model. The BSM option-pricing

Table of Contents

model incorporates various assumptions including expected volatility, expected life and interest rates. The expected volatility is based on the historical volatility of the Company s common stock over the most recent period commensurate with the estimated expected life of the Company s stock options and other relevant factors including implied volatility in market traded options on the Company s common stock. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock awards it grants to employees. The Company recognizes stock-based compensation cost as expense ratably on a straight-line basis over the requisite service period.

The weighted-average assumptions used for the three years ended September 26, 2009, and the resulting estimates of weighted-average fair value per share of options granted and of employee stock purchase plan rights (stock purchase rights) during those periods are as follows:

	2009	2008	2007
Expected life of stock options	4.54 years(a)	3.41 years	3.46 years
Expected life of stock purchase rights	6 months	6 months	6 months
Interest rate - stock options	2.04%(a)	3.40%	4.61%
Interest rate - stock purchase rights	0.58%	3.48%	5.13%
Volatility - stock options	50.98%(a)	45.64%	38.13%
Volatility - stock purchase rights	52.16%	38.51%	39.22%
Dividend yields			
Weighted-average fair value of stock options granted during the year	$ 46.71	$ 62.73	$ 31.86
Weighted-average fair value of employee stock purchase plan rights during the year	$ 30.62	$ 42.27	$ 20.90

(a) In conjunction with the Company s 2009 equity compensation program changes, it began issuing primarily RSUs rather than stock options to employees, although the Company continues to grant stock options to non-employee directors. Accordingly the weighted average expected life of stock options was influenced by non-employee director stock option grants, which had a ten-year expected life. The weighted average expected life of stock options also affects the resulting interest rate and expected volatility assumptions.

The following table provides a summary of the stock-based compensation expense included in the Consolidated Statements of Operations for the three years ended September 26, 2009 (in millions):

	2009	2008	2007
Cost of sales	$ 114	$ 80	$ 35
Research and development	258	185	77
Selling, general and administrative	338	251	130
Total stock-based compensation expense	$ 710	$ 516	$ 242

Stock-based compensation expense capitalized as software development costs was not significant as of September 26, 2009 or September 27, 2008. The income tax benefit related to stock-based compensation expense was $266 million, $169 million and $81 million for 2009, 2008 and 2007, respectively. The total unrecognized compensation cost related to stock options and RSUs expected to vest was $1.4 billion as of September 26, 2009, which is expected to be recognized over a weighted-average period of 2.53 years.

Note 9 Commitments and Contingencies

Lease Commitments

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are generally for terms of one to 20 years and generally provide renewal options for terms of

Table of Contents

one to five additional years. Leases for retail space are for terms of five to 20 years, the majority of which are for ten years, and often contain multi-year renewal options. As of September 26, 2009, the Company s total future minimum lease payments under noncancelable operating leases were $1.9 billion, of which $1.5 billion related to leases for retail space.

Rent expense under all operating leases, including both cancelable and noncancelable leases, was $231 million, $207 million and $151 million in 2009, 2008 and 2007, respectively. Future minimum lease payments under noncancelable operating leases having remaining terms in excess of one year as of September 26, 2009, are as follows (in millions):

Years	
2010	$ 222
2011	234
2012	228
2013	214
2014	199
Thereafter	825
Total minimum lease payments	$ 1,922

Accrued Warranty and Indemnifications

The Company offers a basic limited parts and labor warranty on its hardware products. The basic warranty period for hardware products is typically one year from the date of purchase by the end-user. The Company also offers a 90-day basic warranty for its service parts used to repair the Company s hardware products. The Company provides currently for the estimated cost that may be incurred under its basic limited product warranties at the time related revenue is recognized. Factors considered in determining appropriate accruals for product warranty obligations include the size of the installed base of products subject to warranty protection, historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company s typical experience. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates.

The Company periodically provides updates to its applications and system software to maintain the software s compliance with published specifications. The estimated cost to develop such updates is accounted for as warranty costs that are recognized at the time related software revenue is recognized. Factors considered in determining appropriate accruals related to such updates include the number of units delivered, the number of updates expected to occur, and the historical cost and estimated future cost of the resources necessary to develop these updates.

The following table reconciles changes in the Company s accrued warranties and related costs for the three years ended September 26, 2009 (in millions):

	2009	**2008**	**2007**
Beginning accrued warranty and related costs	$ 671	$ 363	$ 284
Cost of warranty claims	(534)	(493)	(289)
Accruals for product warranties	440	801	368
Ending accrued warranty and related costs	$ 577	$ 671	$ 363

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a potential liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs as of either September 26, 2009 or September 27, 2008.

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

Concentrations in the Available Sources of Supply of Materials and Product

Although most components essential to the Company s business are generally available from multiple sources, certain key components including but not limited to microprocessors, enclosures, certain liquid crystal displays (LCDs), certain optical drives and application-specific integrated circuits (ASICs) are currently obtained by the Company from single or limited sources, which subjects the Company to significant supply and pricing risks. Many of these and other key components that are available from multiple sources including but not limited to NAND flash memory, dynamic random access memory (DRAM) and certain LCDs, are subject at times to industry-wide shortages and significant commodity pricing fluctuations. In addition, the Company has entered into certain agreements for the supply of key components including but not limited to microprocessors, NAND flash memory, DRAM and LCDs at favorable pricing, but there is no guarantee that the Company will be able to extend or renew these agreements on similar favorable terms, or at all, upon expiration or otherwise obtain favorable pricing in the future. Therefore, the Company remains subject to significant risks of supply shortages and/or price increases that can materially adversely affect its financial condition and operating results.

The Company and other participants in the personal computer, mobile communication and consumer electronics industries also compete for various components with other industries that have experienced increased demand for their products. In addition, the Company uses some custom components that are not common to the rest of the personal computer, mobile communication and consumer electronics industries, and new products introduced by the Company often utilize custom components available from only one source until the Company has evaluated whether there is a need for, and subsequently qualifies, additional suppliers. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers yields have matured or manufacturing capacity has increased. If the Company s supply of a key single-sourced component for a new or existing product were delayed or constrained, if such components were available only at significantly higher prices, or if a key manufacturing vendor delayed shipments of completed products to the Company, the Company s financial condition and operating results could be materially adversely affected. The Company s business and financial performance could also be adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet the Company s requirements.

Significant portions of the Company s Mac computers, iPhones, iPods, logic boards and other assembled products are now manufactured by outsourcing partners, primarily in various parts of Asia. A significant concentration of this outsourced manufacturing is currently performed by only a few of the Company s outsourcing partners, often in single locations. Certain of these outsourcing partners are the sole-sourced supplier

Table of Contents

of components and manufacturing outsourcing for many of the Company s key products including but not limited to final assembly of substantially all of the Company s portable Mac computers, iPhones, iPods and most of the Company s desktop products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company s operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company s purchase commitments typically cover its requirements for periods ranging from 30 to 150 days.

Long-Term Supply Agreements

The Company has entered into prepaid long-term supply agreements to secure the supply of certain inventory components. During the first quarter of 2009, a long-term supply agreement with Intel Corporation was terminated and the remaining prepaid balance of $167 million was repaid to the Company. During the second and fourth quarters of 2009, the Company made a prepayment of $500 million to LG Display for the purchase of LCD panels and a prepayment of $500 million to Toshiba to purchase NAND flash memory, respectively. As of September 26, 2009, the Company had a total of $1.2 billion of inventory component prepayments outstanding.

Contingencies

The Company is subject to certain other legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated, which are discussed in Part I, Item 3 of this Form 10-K under the heading Legal Proceedings. In the opinion of management, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. If the Company failed to prevail in any of these legal matters or if several of these legal matters were resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

Production and marketing of products in certain states and countries may subject the Company to environmental, product safety and other regulations including, in some instances, the requirement to provide customers the ability to return product at the end of its useful life, and place responsibility for environmentally safe disposal or recycling with the Company. Such laws and regulations have been passed in several jurisdictions in which the Company operates, including various countries within Europe and Asia and certain states and provinces within North America. Although the Company does not anticipate any material adverse effects in the future based on the nature of its operations and the thrust of such laws, there is no assurance that such existing laws or future laws will not materially adversely affect the Company s financial condition or operating results.

Note 10 Segment Information and Geographic Data

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

The Company manages its business primarily on a geographic basis. Accordingly, the Company determined its operating segments, which are generally based on the nature and location of its customers, to be the Americas, Europe, Japan, Asia-Pacific, Retail and FileMaker operations. The Company s reportable operating segments consist of Americas, Europe, Japan and Retail operations. Other operating segments include Asia Pacific, which encompasses Australia and Asia except for Japan and the Company s FileMaker, Inc. subsidiary. The Americas, Europe, Japan and Asia Pacific segments exclude activities related to the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Retail segment operates Apple-owned retail stores in the U.S. and in international markets. Each reportable operating segment provides similar hardware and software products and similar services to the same types of customers. The accounting policies of the various segments are the same as those described in Note 1, Summary of Significant Accounting Policies.

Table of Contents

The Company evaluates the performance of its operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers, while Retail segment net sales are based on sales from the Company s retail stores. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the operating segments. Costs excluded from segment operating income include various corporate expenses, such as manufacturing costs and variances not included in standard costs, research and development, corporate marketing expenses, stock-based compensation expense, income taxes, various nonrecurring charges, and other separately managed general and administrative costs. The Company does not include intercompany transfers between segments for management reporting purposes. Segment assets exclude corporate assets, such as cash, short-term and long-term investments, manufacturing and corporate facilities, miscellaneous corporate infrastructure, goodwill and other acquired intangible assets. Except for the Retail segment, capital asset purchases for long-lived assets are not reported to management by segment. Cash payments for capital asset purchases by the Retail segment were $369 million, $389 million and $294 million for 2009, 2008 and 2007, respectively.

The Company has certain retail stores that have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company s more typical retail stores. The Company allocates certain operating expenses associated with its high-profile stores to corporate marketing expense to reflect the estimated Company-wide benefit. The allocation of these operating costs to corporate expense is based on the amount incurred for a high-profile store in excess of that incurred by a more typical Company retail location. The Company had opened a total of 11 high-profile stores as of September 26, 2009. Expenses allocated to corporate marketing resulting from the operations of high-profile stores were $65 million, $53 million and $39 million for 2009, 2008 and 2007, respectively.

Summary information by operating segment for the three years ended September 26, 2009 is as follows (in millions):

	2009	2008	2007
Americas:			
Net sales	$ 18,887	$ 16,447	$ 11,907
Operating income	$ 6,637	$ 4,874	$ 2,998
Depreciation, amortization and accretion	$ 11	$ 9	$ 9
Segment assets (a)	$ 1,882	$ 1,678	$ 1,250
Europe:			
Net sales	$ 11,810	$ 9,233	$ 5,469
Operating income	$ 4,296	$ 3,022	$ 1,350
Depreciation, amortization and accretion	$ 7	$ 6	$ 6
Segment assets	$ 1,352	$ 1,069	$ 586
Japan:			
Net sales	$ 2,279	$ 1,728	$ 1,084
Operating income	$ 961	$ 549	$ 233
Depreciation, amortization and accretion	$ 2	$ 2	$ 3
Segment assets	$ 483	$ 272	$ 158
Retail:			
Net sales	$ 6,656	$ 7,292	$ 4,362
Operating income	$ 1,677	$ 1,661	$ 876
Depreciation, amortization and accretion (b)	$ 146	$ 108	$ 88
Segment assets (b)	$ 1,344	$ 1,139	$ 908
Other Segments (c):			
Net sales	$ 3,273	$ 2,791	$ 1,756
Operating income	$ 1,121	$ 775	$ 389
Depreciation, amortization and accretion	$ 4	$ 4	$ 3
Segment assets	$ 543	$ 405	$ 249

Table of Contents

(a) The Americas asset figures do not include fixed assets held in the U.S. Such fixed assets are not allocated specifically to the Americas segment and are included in the corporate assets figures below.
(b) Retail segment depreciation and asset figures reflect the cost and related depreciation of its retail stores and related infrastructure.
(c) Other Segments include Asia-Pacific and FileMaker.

A reconciliation of the Company s segment operating income and assets to the consolidated financial statements for the three years ended September 26, 2009 is as follows (in millions):

	2009	2008	2007
Segment operating income	$ 14,692	$ 10,881	$ 5,846
Other corporate expenses, net (a)	(2,242)	(2,038)	(1,197)
Stock-based compensation expense	(710)	(516)	(242)
Total operating income	$ 11,740	$ 8,327	$ 4,407
Segment assets	$ 5,604	$ 4,563	$ 3,151
Corporate assets	41,897	31,608	21,727
Consolidated assets	$ 47,501	$ 36,171	$ 24,878
Segment depreciation, amortization and accretion	$ 170	$ 129	$ 109
Corporate depreciation, amortization and accretion	564	367	218
Consolidated depreciation, amortization and accretion	$ 734	$ 496	$ 327

(a) Other corporate expenses include research and development, corporate marketing expenses, manufacturing costs and variances not included in standard costs, and other separately managed general and administrative expenses, including certain corporate expenses associated with support of the Retail segment.

No single country outside of the U.S. accounted for more than 10% of net sales in 2009, 2008 or 2007. One of the Company s customers accounted for 11% of net sales in 2009; there was no single customer that accounted for more than 10% of net sales in 2008 or 2007. Net sales and long-lived assets related to the U.S. and international operations for the three years ended September 26, 2009, are as follows (in millions):

	2009	2008	2007
Net sales:			
U.S.	$ 22,325	$ 20,893	$ 14,683
International	20,580	16,598	9,895
Total net sales	$ 42,905	$ 37,491	$ 24,578
Long-lived assets:			
U.S.	$ 2,698	$ 2,269	$ 1,752
International	495	410	260
Total long-lived assets	$ 3,193	$ 2,679	$ 2,012

Table of Contents

Information regarding net sales by product for the three years ended September 26, 2009, is as follows (in millions):

	2009	2008	2007
Net sales:			
Desktops (a)	$ 4,324	$ 5,622	$ 4,023
Portables (b)	9,535	8,732	6,313
Total Mac net sales	13,859	14,354	10,336
iPod	8,091	9,153	8,305
Other music related products and services (c)	4,036	3,340	2,496
iPhone and related products and services (d)	13,033	6,742	630
Peripherals and other hardware (e)	1,475	1,694	1,303
Software, service and other net sales (f)	2,411	2,208	1,508
Total net sales	$ 42,905	$ 37,491	$ 24,578

(a) Includes iMac, Mac mini, Mac Pro and Xserve product lines.
(b) Includes MacBook, MacBook Air and MacBook Pro product lines.
(c) Consists of iTunes Store sales and iPod services, and Apple-branded and third-party iPod accessories.
(d) Derived from handset sales, carrier agreements, and Apple-branded and third-party iPhone accessories.
(e) Includes sales of displays, wireless connectivity and networking solutions, and other hardware accessories.
(f) Includes sales of Apple-branded operating system and application software, third-party software, AppleCare and Internet services.

Note 11 Related Party Transactions and Certain Other Transactions

The Company entered into a Reimbursement Agreement with its CEO, Steve Jobs, for the reimbursement of expenses incurred by Mr. Jobs in the operation of his private plane when used for Apple business. The Company recognized a total of approximately $4,000, $871,000 and $776,000 in expenses pursuant to the Reimbursement Agreement during 2009, 2008 and 2007, respectively. All expenses recognized pursuant to the Reimbursement Agreement have been included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Table of Contents

Note 12 Selected Quarterly Financial Information (Unaudited)

The following tables set forth a summary of the Company s quarterly financial information for each of the four quarters ended September 26, 2009, September 27, 2008 and September 29, 2007 (in millions, except per share amounts in thousands):

2009	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Net sales	$ 12,207	$ 9,734	$ 9,084	$ 11,880
Cost of sales	7,102	5,751	5,457	7,373
Gross margin	5,105	3,983	3,627	4,507
Operating expenses:				
Research and development	358	341	319	315
Selling, general and administrative	1,063	1,010	985	1,091
Total operating expenses	1,421	1,351	1,304	1,406
Operating income	3,684	2,632	2,323	3,101
Other income and expense	45	60	63	158
Income before provision for income taxes	3,729	2,692	2,386	3,259
Provision for income taxes	1,197	864	766	1,004
Net income	$ 2,532	$ 1,828	$ 1,620	$ 2,255
Earnings per common share:				
Basic	$ 2.82	$ 2.05	$ 1.82	$ 2.54
Diluted	$ 2.77	$ 2.01	$ 1.79	$ 2.50
Shares used in computing earnings per share:				
Basic	898,032	893,712	891,180	889,142
Diluted	914,374	909,160	902,993	901,494

2008	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Net sales	$ 11,520	$ 7,561	$ 7,980	$ 10,430
Cost of sales	7,077	4,818	5,373	7,026
Gross margin	4,443	2,743	2,607	3,404
Operating expenses:				
Research and development	298	292	273	246
Selling, general and administrative	999	916	886	960
Total operating expenses	1,297	1,208	1,159	1,206
Operating income	3,146	1,535	1,448	2,198
Other income and expense	140	118	162	200
Income before provision for income taxes	3,286	1,653	1,610	2,398
Provision for income taxes	1,039	522	509	758
Net income	$ 2,247	$ 1,131	$ 1,101	$ 1,640

Earnings per common share:								
Basic	$	2.53	$	1.28	$	1.25	$	1.87
Diluted	$	2.48	$	1.25	$	1.22	$	1.82
Shares used in computing earnings per share:								
Basic		887,110		883,738		879,546		875,860
Diluted		904,786		903,167		899,329		900,054

Table of Contents

2007	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales	$ 6,606	$ 5,563	$ 5,286	$ 7,123
Cost of sales	4,561	3,530	3,435	4,900
Gross margin	2,045	2,033	1,851	2,223
Operating expenses:				
Research and development	207	208	183	184
Selling, general and administrative	823	746	680	714
Total operating expenses	1,030	954	863	898
Operating income	1,015	1,079	988	1,325
Other income and expense	170	155	148	126
Income before provision for income taxes	1,185	1,234	1,136	1,451
Provision for income taxes	315	394	362	440
Net income	$ 870	$ 840	$ 774	$ 1,011
Earnings per common share:				
Basic	$ 1.00	$ 0.97	$ 0.90	$ 1.18
Diluted	$ 0.97	$ 0.94	$ 0.87	$ 1.14
Shares used in computing earnings per share:				
Basic	870,881	866,806	863,003	857,691
Diluted	895,666	890,671	886,653	883,297

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

Table of Contents

The following tables present the effects of the retrospective adoption of the new accounting principles on the Company s previously reported quarterly financial information as of September 26, 2009, September 27, 2008 and September 29, 2007 (in millions, expect per share amounts in thousands):

	Three Months Ended September 26, 2009			Three Months Ended June 27, 2009		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Net sales	$ 9,870	$ 2,337	$ 12,207	$ 8,337	$ 1,397	$ 9,734
Cost of sales	6,256	846	7,102	5,314	437	5,751
Gross margin	3,614	1,491	5,105	3,023	960	3,983
Operating expenses:						
Research and development	358		358	341		341
Selling, general and administrative	1,063		1,063	1,010		1,010
Total operating expenses	1,421		1,421	1,351		1,351
Operating income	2,193	1,491	3,684	1,672	960	2,632
Other income and expense	45		45	60		60
Income before provision for income taxes	2,238	1,491	3,729	1,732	960	2,692
Provision for income taxes	573	624	1,197	503	361	864
Net income	$ 1,665	$ 867	$ 2,532	$ 1,229	$ 599	$ 1,828
Earnings per common share:						
Basic	$ 1.85	$ 0.97	$ 2.82	$ 1.38	$ 0.67	$ 2.05
Diluted	$ 1.82	$ 0.95	$ 2.77	$ 1.35	$ 0.66	$ 2.01
Shares used in computing earnings per share:						
Basic	898,032		898,032	893,712		893,712
Diluted	914,374		914,374	909,160		909,160

	Three Months Ended March 28, 2009			Three Months Ended December 27, 2008		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Net sales	$ 8,163	$ 921	$ 9,084	$ 10,167	$ 1,713	$ 11,880
Cost of sales	5,192	265	5,457	6,635	738	7,373
Gross margin	2,971	656	3,627	3,532	975	4,507
Operating expenses:						
Research and development	319		319	315		315
Selling, general and administrative	985		985	1,091		1,091
Total operating expenses	1,304		1,304	1,406		1,406
Operating income	1,667	656	2,323	2,126	975	3,101
Other income and expense	63		63	158		158
Income before provision for income taxes	1,730	656	2,386	2,284	975	3,259

Provision for income taxes	525	241	766	679	325	1,004
Net income	$ 1,205	$ 415	$ 1,620	$ 1,605	$ 650	$ 2,255
Earnings per common share:						
Basic	$ 1.35	$ 0.47	$ 1.82	$ 1.81	$ 0.73	$ 2.54
Diluted	$ 1.33	$ 0.46	$ 1.79	$ 1.78	$ 0.72	$ 2.50
Shares used in computing earnings per share:						
Basic	891,180		891,180	889,142		889,142
Diluted	902,993		902,993	901,494		901,494

Table of Contents

	Three Months Ended September 27, 2008			Three Months Ended June 28, 2008		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Net sales	$ 7,895	$ 3,625	$ 11,520	$ 7,464	$ 97	$ 7,561
Cost of sales	5,156	1,921	7,077	4,864	(46)	4,818
Gross margin	2,739	1,704	4,443	2,600	143	2,743
Operating expenses:						
Research and development	298		298	292		292
Selling, general and administrative	999		999	916		916
Total operating expenses	1,297		1,297	1,208		1,208
Operating income	1,442	1,704	3,146	1,392	143	1,535
Other income and expense	140		140	118		118
Income before provision for income taxes	1,582	1,704	3,286	1,510	143	1,653
Provision for income taxes	446	593	1,039	438	84	522
Net income	$ 1,136	$ 1,111	$ 2,247	$ 1,072	$ 59	$ 1,131
Earnings per common share:						
Basic	$ 1.28	$ 1.25	$ 2.53	$ 1.21	$ 0.07	$ 1.28
Diluted	$ 1.26	$ 1.22	$ 2.48	$ 1.19	$ 0.06	$ 1.25
Shares used in computing earnings per share:						
Basic	887,110		887,110	883,738		883,738
Diluted	904,786		904,786	903,167		903,167

	Three Months Ended March 29, 2008			Three Months Ended December 29, 2007		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Net sales	$ 7,512	$ 468	$ 7,980	$ 9,608	$ 822	$ 10,430
Cost of sales	5,038	335	5,373	6,276	750	7,026
Gross margin	2,474	133	2,607	3,332	72	3,404
Operating expenses:						
Research and development	273		273	246		246
Selling, general and administrative	886		886	960		960
Total operating expenses	1,159		1,159	1,206		1,206
Operating income	1,315	133	1,448	2,126	72	2,198
Other income and expense	162		162	200		200
Income before provision for income taxes	1,477	133	1,610	2,326	72	2,398
Provision for income taxes	432	77	509	745	13	758
Net income	$ 1,045	$ 56	$ 1,101	$ 1,581	$ 59	$ 1,640
Earnings per common share:						
Basic	$ 1.19	$ 0.06	$ 1.25	$ 1.81	$ 0.06	$ 1.87

Diluted	$	1.16	$	0.06	$	1.22	$	1.76	$	0.06	$	1.82
Shares used in computing earnings per share:												
Basic		879,546				879,546		875,860				875,860
Diluted		899,329				899,329		900,054				900,054

65

Table of Contents

	Three Months Ended September 29, 2007			Three Months Ended June 30, 2007		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Net sales	$ 6,217	$ 389	$ 6,606	$ 5,410	$ 153	$ 5,563
Cost of sales	4,127	434	4,561	3,415	115	3,530
Gross margin	2,090	(45)	2,045	1,995	38	2,033
Operating expenses:						
Research and development	207		207	208		208
Selling, general and administrative	823		823	746		746
Total operating expenses	1,030		1,030	954		954
Operating income	1,060	(45)	1,015	1,041	38	1,079
Other income and expense	170		170	155		155
Income before provision for income taxes	1,230	(45)	1,185	1,196	38	1,234
Provision for income taxes	326	(11)	315	378	16	394
Net income	$ 904	$ (34)	$ 870	$ 818	$ 22	$ 840
Earnings per common share:						
Basic	$ 1.04	$ (0.04)	$ 1.00	$ 0.94	$ 0.03	$ 0.97
Diluted	$ 1.01	$ (0.04)	$ 0.97	$ 0.92	$ 0.02	$ 0.94
Shares used in computing earnings per share:						
Basic	870,881		870,881	866,806		866,806
Diluted	895,666		895,666	890,671		890,671

	Three Months Ended March 31, 2007			Three Months Ended December 30, 2006		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Net sales	$ 5,264	$ 22	$ 5,286	$ 7,115	$ 8	$ 7,123
Cost of sales	3,415	20	3,435	4,895	5	4,900
Gross margin	1,849	2	1,851	2,220	3	2,223
Operating expenses:						
Research and development	183		183	184		184
Selling, general and administrative	680		680	714		714
Total operating expenses	863		863	898		898
Operating income	986	2	988	1,322	3	1,325
Other income and expense	148		148	126		126
Income before provision for income taxes	1,134	2	1,136	1,448	3	1,451
Provision for income taxes	364	(2)	362	444	(4)	440
Net income	$ 770	$ 4	$ 774	$ 1,004	$ 7	$ 1,011
Earnings per common share:						

Basic	$	0.89	$	0.01	$	0.90	$	1.17	$	0.01	$	1.18
Diluted	$	0.87	$	0.00	$	0.87	$	1.14	$	0.00	$	1.14
Shares used in computing earnings per share:												
Basic		863,003				863,003		857,691				857,691
Diluted		886,653				886,653		883,297				883,297

Table of Contents

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Apple Inc.

We have audited the accompanying consolidated balance sheet of Apple Inc. as of September 26, 2009, and the related consolidated statements of operations, shareholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Apple Inc. at September 26, 2009, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Apple Inc. s internal control over financial reporting as of September 26, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 27, 2009 expressed an unqualified opinion thereon.

As discussed in Notes 1 and 2 to the consolidated financial statements, Apple Inc. has retrospectively adopted the Financial Accounting Standards Board s amended accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements.

/s/ Ernst & Young LLP

San Jose, California

October 27, 2009, except for the retrospective adoption of the amended accounting standards discussed in Notes 1 and 2 to the consolidated financial statements, as to which the date is January 25, 2010

Table of Contents

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Apple Inc.

We have audited Apple Inc. s internal control over financial reporting as of September 26, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Apple Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Apple Inc. maintained, in all material respects, effective internal control over financial reporting as of September 26, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Apple Inc. as of and for the year ended September 26, 2009 and our report dated October 27, 2009, except for the retrospective adoption of the amended accounting standards discussed in Notes 1 and 2 to the consolidated financial statements, as to which the date is January 25, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California

October 27, 2009

Table of Contents

REPORT OF KPMG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Apple Inc.:

We have audited the accompanying consolidated balance sheet of Apple Inc. and subsidiaries (the Company) as of September 27, 2008, and the related consolidated statements of operations, shareholders equity, and cash flows for the years ended September 27, 2008 and September 29, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apple Inc. and subsidiaries as of September 27, 2008 and the results of their operations and their cash flows for the years ended September 27, 2008 and September 29, 2007 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective September 30, 2007, the Company adopted the Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.*

As discussed in Notes 1 and 2, the consolidated financial statements as of September 27, 2008 and for the years ended September 27, 2008 and September 29, 2007 have been restated to give effect to the retroactive adoption of the Financial Accounting Standards Board s amended accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements.

/s/ KPMG LLP

Mountain View, California

November 4, 2008, except as to Notes 1 and 2, which are as of January 25, 2010.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

(1) All financial statements

Index to Consolidated Financial Statements	Page
Consolidated Balance Sheets as of September 26, 2009 and September 27, 2008	22
Consolidated Statements of Operations for the three years ended September 26, 2009	23
Consolidated Statements of Shareholders Equity for the three years ended September 26, 2009	24
Consolidated Statements of Cash Flows for the three years ended September 26, 2009	25
Notes to Consolidated Financial Statements	26
Selected Quarterly Financial Information (Unaudited)	62
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	67
Report of KPMG LLP, Independent Registered Public Accounting Firm	69

(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(b) Exhibits required by Item 601 of Regulation S-K

The information required by this Item is set forth on the exhibit index that follows the signature page of this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 25th day of January 2010.

APPLE INC.

By: /s/ Peter Oppenheimer
Peter Oppenheimer

Senior Vice President,

Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
3.1	Restated Articles of Incorporation, filed with the Secretary of State of the State of California on July 10, 2009.	10-Q	6/27/09
3.2	By-Laws of the Registrant, as amended through May 27, 2009.	8-K	6/2/09
4.1	Form of Stock Certificate of the Registrant.	10-Q	12/30/06
10.1*	Employee Stock Purchase Plan, as amended through May 10, 2007.	8-K	5/16/07
10.2*	Form of Indemnification Agreement between the Registrant and each director and executive officer of the Registrant.	10-Q	6/27/09
10.3*	1997 Employee Stock Option Plan, as amended through October 19, 2001.	10-K	9/28/02
10.4*	1997 Director Stock Option Plan, as amended through May 10, 2007.	8-K	5/16/07
10.5*	2003 Employee Stock Plan, as amended through May 10, 2007.	8-K	5/16/07
10.6*	Reimbursement Agreement dated as of May 25, 2001 by and between the Registrant and Steven P. Jobs.	10-Q	6/29/02
10.7*	Form of Option Agreement.	10-K	9/24/05
10.8*	Form of Restricted Stock Unit Award Agreement effective as of August 28, 2007.	10-K	9/29/07
10.9*	Form of Restricted Stock Unit Award Agreement effective as of November 11, 2008.	10-Q	12/27/08
10.10*	Transition Agreement and Settlement Agreement and Release dated as of November 3, 2008 by and between the Registrant and Anthony Fadell.	10-Q	12/27/08
14.1	Business Conduct Policy of the Registrant dated February 2009.	10-Q	3/28/09
21.1	Subsidiaries of the Registrant.	10-K	9/26/09
23.1**	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.		
23.2**	Consent of KPMG LLP, Independent Registered Public		

	Accounting Firm.		
24.1	Power of Attorney.	10-K	9/26/09
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.		
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.		
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.		

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
101.INS****	XBRL Instance Document		
101.SCH****	XBRL Taxonomy Extension Schema Document		
101.CAL****	XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF****	XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB****	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE****	XBRL Taxonomy Extension Presentation Linkbase Document		

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

**** Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.