

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 26, 2020

or

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

For the transition period from _____ to _____.

Commission File Number: 001-36743



Apple Inc.

(Exact name of Registrant as specified in its charter)

California

(State or other jurisdiction
of incorporation or organization)

One Apple Park Way
Cupertino, California

(Address of principal executive offices)

94-2404110

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

95014

(Zip Code)

(408) 996-1010

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 par value per share	AAPL	The Nasdaq Stock Market LLC
1.000% Notes due 2022	—	The Nasdaq Stock Market LLC
1.375% Notes due 2024	—	The Nasdaq Stock Market LLC
0.000% Notes due 2025	—	The Nasdaq Stock Market LLC
0.875% Notes due 2025	—	The Nasdaq Stock Market LLC
1.625% Notes due 2026	—	The Nasdaq Stock Market LLC
2.000% Notes due 2027	—	The Nasdaq Stock Market LLC
1.375% Notes due 2029	—	The Nasdaq Stock Market LLC
3.050% Notes due 2029	—	The Nasdaq Stock Market LLC
0.500% Notes due 2031	—	The Nasdaq Stock Market LLC
3.600% Notes due 2042	—	The Nasdaq Stock Market LLC

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

Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

16,788,096,000 shares of common stock were issued and outstanding as of January 15, 2021.

Apple Inc.
Form 10-Q
For the Fiscal Quarter Ended December 26, 2020
TABLE OF CONTENTS

	<u>Page</u>
<u>Part I</u>	
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	29
Item 4. Controls and Procedures	29
<u>Part II</u>	
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	29
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 3. Defaults Upon Senior Securities	30
Item 4. Mine Safety Disclosures	30
Item 5. Other Information	30
Item 6. Exhibits	31

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Three Months Ended	
	December 26, 2020	December 28, 2019
Net sales:		
Products	\$ 95,678	\$ 79,104
Services	15,761	12,715
Total net sales	111,439	91,819
Cost of sales:		
Products	62,130	52,075
Services	4,981	4,527
Total cost of sales	67,111	56,602
Gross margin	44,328	35,217
Operating expenses:		
Research and development	5,163	4,451
Selling, general and administrative	5,631	5,197
Total operating expenses	10,794	9,648
Operating income	33,534	25,569
Other income/(expense), net	45	349
Income before provision for income taxes	33,579	25,918
Provision for income taxes	4,824	3,682
Net income	\$ 28,755	\$ 22,236
Earnings per share:		
Basic	\$ 1.70	\$ 1.26
Diluted	\$ 1.68	\$ 1.25
Shares used in computing earnings per share:		
Basic	16,935,119	17,660,160
Diluted	17,113,688	17,818,417

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

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

	Three Months Ended	
	December 26, 2020	December 28, 2019
Net income	\$ 28,755	\$ 22,236
Other comprehensive income/(loss):		
Change in foreign currency translation, net of tax	549	202
Change in unrealized gains/losses on derivative instruments, net of tax:		
Change in fair value of derivatives	(304)	111
Adjustment for net (gains)/losses realized and included in net income	(183)	(398)
Total change in unrealized gains/losses on derivative instruments	(487)	(287)
Change in unrealized gains/losses on marketable debt securities, net of tax:		
Change in fair value of marketable debt securities	628	125
Adjustment for net (gains)/losses realized and included in net income	(105)	(10)
Total change in unrealized gains/losses on marketable debt securities	523	115
Total other comprehensive income/(loss)	585	30
Total comprehensive income	\$ 29,340	\$ 22,266

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions, except number of shares which are reflected in thousands and par value)

	December 26, 2020	September 26, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 36,010	\$ 38,016
Marketable securities	40,816	52,927
Accounts receivable, net	27,101	16,120
Inventories	4,973	4,061
Vendor non-trade receivables	31,519	21,325
Other current assets	13,687	11,264
Total current assets	154,106	143,713
Non-current assets:		
Marketable securities	118,745	100,887
Property, plant and equipment, net	37,933	36,766
Other non-current assets	43,270	42,522
Total non-current assets	199,948	180,175
Total assets	\$ 354,054	\$ 323,888
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 63,846	\$ 42,296
Other current liabilities	48,504	42,684
Deferred revenue	7,395	6,643
Commercial paper	5,000	4,996
Term debt	7,762	8,773
Total current liabilities	132,507	105,392
Non-current liabilities:		
Term debt	99,281	98,667
Other non-current liabilities	56,042	54,490
Total non-current liabilities	155,323	153,157
Total liabilities	287,830	258,549
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,823,263 and 16,976,763 shares issued and outstanding, respectively	51,744	50,779
Retained earnings	14,301	14,966
Accumulated other comprehensive income/(loss)	179	(406)
Total shareholders' equity	66,224	65,339
Total liabilities and shareholders' equity	\$ 354,054	\$ 323,888

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(In millions, except per share amounts)

	Three Months Ended	
	December 26, 2020	December 28, 2019
Total shareholders' equity, beginning balances	\$ 65,339	\$ 90,488
Common stock and additional paid-in capital:		
Beginning balances	50,779	45,174
Common stock issued	—	2
Common stock withheld related to net share settlement of equity awards	(1,101)	(951)
Share-based compensation	2,066	1,747
Ending balances	51,744	45,972
Retained earnings:		
Beginning balances	14,966	45,898
Net income	28,755	22,236
Dividends and dividend equivalents declared	(3,547)	(3,485)
Common stock withheld related to net share settlement of equity awards	(1,873)	(536)
Common stock repurchased	(24,000)	(20,000)
Cumulative effect of change in accounting principle	—	(136)
Ending balances	14,301	43,977
Accumulated other comprehensive income/(loss):		
Beginning balances	(406)	(584)
Other comprehensive income/(loss)	585	30
Cumulative effect of change in accounting principle	—	136
Ending balances	179	(418)
Total shareholders' equity, ending balances	\$ 66,224	\$ 89,531
Dividends and dividend equivalents declared per share or RSU	\$ 0.205	\$ 0.1925

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Three Months Ended	
	December 26, 2020	December 28, 2019
Cash, cash equivalents and restricted cash, beginning balances	\$ 39,789	\$ 50,224
Operating activities:		
Net income	28,755	22,236
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	2,666	2,816
Share-based compensation expense	2,020	1,710
Deferred income tax benefit	(58)	(349)
Other	25	(142)
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,945)	2,015
Inventories	(950)	(28)
Vendor non-trade receivables	(10,194)	3,902
Other current and non-current assets	(3,526)	(7,054)
Accounts payable	21,670	(1,089)
Deferred revenue	1,341	985
Other current and non-current liabilities	7,959	5,514
Cash generated by operating activities	38,763	30,516
Investing activities:		
Purchases of marketable securities	(39,800)	(37,416)
Proceeds from maturities of marketable securities	25,177	19,740
Proceeds from sales of marketable securities	9,344	7,280
Payments for acquisition of property, plant and equipment	(3,500)	(2,107)
Payments made in connection with business acquisitions, net	(9)	(958)
Other	204	(207)
Cash used in investing activities	(8,584)	(13,668)
Financing activities:		
Proceeds from issuance of common stock	—	2
Payments for taxes related to net share settlement of equity awards	(2,861)	(1,379)
Payments for dividends and dividend equivalents	(3,613)	(3,539)
Repurchases of common stock	(24,775)	(20,706)
Proceeds from issuance of term debt, net	—	2,210
Repayments of term debt	(1,000)	(1,000)
Proceeds from/(Repayments of) commercial paper, net	22	(979)
Other	(22)	(16)
Cash used in financing activities	(32,249)	(25,407)
Decrease in cash, cash equivalents and restricted cash	(2,070)	(8,559)
Cash, cash equivalents and restricted cash, ending balances	\$ 37,719	\$ 41,665
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	\$ 1,787	\$ 4,393
Cash paid for interest	\$ 619	\$ 771

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation and Preparation

The condensed consolidated financial statements include the accounts of Apple Inc. and its wholly owned subsidiaries (collectively “Apple” or the “Company”). Intercompany accounts and transactions have been eliminated. In the opinion of the Company’s management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these condensed consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ materially from those estimates. Certain prior period amounts in the consolidated financial statements and accompanying notes have been reclassified to conform to the current period’s presentation. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and accompanying notes included in its Annual Report on Form 10-K for the fiscal year ended September 26, 2020 (the “2020 Form 10-K”).

The Company’s fiscal year is the 52- or 53-week period that ends on the last Saturday of September. An additional week is included in the first fiscal quarter every five or six years to realign the Company’s fiscal quarters with calendar quarters. The Company’s fiscal years 2021 and 2020 span 52 weeks each. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company’s fiscal years ended in September and the associated quarters, months and periods of those fiscal years.

Common Stock Split

On August 28, 2020, the Company effected a four-for-one stock split to shareholders of record as of August 24, 2020. All share, restricted stock unit (“RSU”) and per share or per RSU information has been retroactively adjusted to reflect the stock split.

Recently Adopted Accounting Pronouncements

Financial Instruments – Credit Losses

At the beginning of the first quarter of 2021, the Company adopted the Financial Accounting Standards Board’s Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which modifies the measurement of expected credit losses on certain financial instruments. The Company adopted ASU 2016-13 utilizing the modified retrospective transition method. The adoption of ASU 2016-13 did not have a material impact on the Company’s condensed consolidated financial statements.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three months ended December 26, 2020 and December 28, 2019 (net income in millions and shares in thousands):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Numerator:		
Net income	\$ 28,755	\$ 22,236
Denominator:		
Weighted-average basic shares outstanding	16,935,119	17,660,160
Effect of dilutive securities	178,569	158,257
Weighted-average diluted shares	17,113,688	17,818,417
Basic earnings per share	\$ 1.70	\$ 1.26
Diluted earnings per share	\$ 1.68	\$ 1.25

Note 2 – Revenue Recognition

Net sales consist of revenue from the sale of iPhone®, Mac®, iPad®, Services and other products. The Company recognizes revenue at the amount to which it expects to be entitled when control of the products or services is transferred to its customers. Control is generally transferred when the Company has a present right to payment and title and the significant risks and rewards of ownership of products or services are transferred to its customers. For most of the Company's Products net sales, control transfers when products are shipped. For the Company's Services net sales, control transfers over time as services are delivered. Payment for Products and Services net sales is collected within a short period following transfer of control or commencement of delivery of services, as applicable.

The Company records reductions to Products net sales related to future product returns, price protection and other customer incentive programs based on the Company's expectations and historical experience.

For arrangements with multiple performance obligations, which represent promises within an arrangement that are distinct, the Company allocates revenue to all distinct performance obligations based on their relative stand-alone selling prices ("SSPs"). When available, the Company uses observable prices to determine SSPs. When observable prices are not available, SSPs are established that reflect the Company's best estimates of what the selling prices of the performance obligations would be if they were sold regularly on a stand-alone basis. The Company's process for estimating SSPs without observable prices considers multiple factors that may vary depending upon the unique facts and circumstances related to each performance obligation including, where applicable, prices charged by the Company for similar offerings, market trends in the pricing for similar offerings, product-specific business objectives and the estimated cost to provide the performance obligation.

The Company has identified up to three performance obligations regularly included in arrangements involving the sale of iPhone, Mac, iPad and certain other products. The first performance obligation, which represents the substantial portion of the allocated sales price, is the hardware and bundled software delivered at the time of sale. The second performance obligation is the right to receive certain product-related bundled services, which include iCloud®, Siri® and Maps. The third performance obligation is the right to receive, on a when-and-if-available basis, future unspecified software upgrades relating to the software bundled with each device. The Company allocates revenue and any related discounts to these performance obligations based on their relative SSPs. Because the Company lacks observable prices for the undelivered performance obligations, the allocation of revenue is based on the Company's estimated SSPs. Revenue allocated to the delivered hardware and bundled software is recognized when control has transferred to the customer, which generally occurs when the product is shipped. Revenue allocated to the product-related bundled services and unspecified software upgrade rights is deferred and recognized on a straight-line basis over the estimated period they are expected to be provided. Cost of sales related to delivered hardware and bundled software, including estimated warranty costs, are recognized at the time of sale. Costs incurred to provide product-related bundled services and unspecified software upgrade rights are recognized as cost of sales as incurred.

For certain long-term service arrangements, the Company has performance obligations for services it has not yet delivered. For these arrangements, the Company does not have a right to bill for the undelivered services. The Company has determined that any unbilled consideration relates entirely to the value of the undelivered services. Accordingly, the Company has not recognized revenue, and has elected not to disclose amounts, related to these undelivered services.

For the sale of third-party products where the Company obtains control of the product before transferring it to the customer, the Company recognizes revenue based on the gross amount billed to customers. The Company considers multiple factors when determining whether it obtains control of third-party products including, but not limited to, evaluating if it can establish the price of the product, retains inventory risk for tangible products or has the responsibility for ensuring acceptability of the product. For third-party applications sold through the App Store® and certain digital content sold through the Company's other digital content stores, the Company does not obtain control of the product before transferring it to the customer. Therefore, the Company accounts for such sales on a net basis by recognizing in Services net sales only the commission it retains.

The Company has elected to record revenue net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded within other current liabilities until remitted to the relevant government authority.

Deferred Revenue

As of December 26, 2020 and September 26, 2020, the Company had total deferred revenue of \$11.6 billion and \$10.2 billion, respectively. As of December 26, 2020, the Company expects 64% of total deferred revenue to be realized in less than a year, 26% within one-to-two years, 8% within two-to-three years and 2% in greater than three years.

Disaggregated Revenue

Net sales disaggregated by significant products and services for the three months ended December 26, 2020 and December 28, 2019 were as follows (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
iPhone ⁽¹⁾	\$ 65,597	\$ 55,957
Mac ⁽¹⁾	8,675	7,160
iPad ⁽¹⁾	8,435	5,977
Wearables, Home and Accessories ⁽¹⁾⁽²⁾	12,971	10,010
Services ⁽³⁾	15,761	12,715
Total net sales ⁽⁴⁾	\$ 111,439	\$ 91,819

- (1) Products net sales include amortization of the deferred value of unspecified software upgrade rights, which are bundled in the sales price of the respective product.
- (2) Wearables, Home and Accessories net sales include sales of AirPods®, Apple TV®, Apple Watch®, Beats® products, HomePod®, iPod touch® and Apple-branded and third-party accessories.
- (3) Services net sales include sales from the Company's advertising, AppleCare®, digital content and other services. Services net sales also include amortization of the deferred value of Maps, Siri, and free iCloud storage and Apple TV+SM services, which are bundled in the sales price of certain products.
- (4) Includes \$2.5 billion of revenue recognized in the three months ended December 26, 2020 that was included in deferred revenue as of September 26, 2020 and \$1.9 billion of revenue recognized in the three months ended December 28, 2019 that was included in deferred revenue as of September 28, 2019.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 11, "Segment Information and Geographic Data" for the three months ended December 26, 2020 and December 28, 2019.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash and marketable securities by significant investment category as of December 26, 2020 and September 26, 2020 (in millions):

	December 26, 2020						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Non-Current Marketable Securities
Cash	\$ 18,729	\$ —	\$ —	\$ 18,729	\$ 18,729	\$ —	\$ —
Level 1 ⁽¹⁾ : Money market funds	6,312	—	—	6,312	6,312	—	—
Level 2 ⁽²⁾ :							
U.S. Treasury securities	21,939	270	(6)	22,203	3,227	8,527	10,449
U.S. agency securities	8,698	9	(1)	8,706	1,000	3,319	4,387
Non-U.S. government securities	20,185	395	(67)	20,513	100	2,874	17,539
Certificates of deposit and time deposits	8,002	—	—	8,002	5,009	2,623	370
Commercial paper	8,620	—	—	8,620	1,632	6,988	—
Corporate debt securities	83,042	2,155	(44)	85,153	1	16,117	69,035
Municipal securities	1,004	20	—	1,024	—	94	930
Mortgage- and asset-backed securities	16,051	281	(23)	16,309	—	274	16,035
Subtotal	167,541	3,130	(141)	170,530	10,969	40,816	118,745
Total ⁽³⁾	\$ 192,582	\$ 3,130	\$ (141)	\$ 195,571	\$ 36,010	\$ 40,816	\$ 118,745

September 26, 2020

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Non-Current Marketable Securities
Cash	\$ 17,773	\$ —	\$ —	\$ 17,773	\$ 17,773	\$ —	\$ —
Level 1 ⁽¹⁾ : Money market funds	2,171	—	—	2,171	2,171	—	—
Level 2 ⁽²⁾ :							
U.S. Treasury securities	28,439	331	—	28,770	8,580	11,972	8,218
U.S. agency securities	8,604	8	—	8,612	2,009	3,078	3,525
Non-U.S. government securities	19,361	275	(186)	19,450	255	3,329	15,866
Certificates of deposit and time deposits	10,399	—	—	10,399	4,043	6,246	110
Commercial paper	11,226	—	—	11,226	3,185	8,041	—
Corporate debt securities	76,937	1,834	(175)	78,596	—	19,687	58,909
Municipal securities	1,001	22	—	1,023	—	139	884
Mortgage- and asset-backed securities	13,520	314	(24)	13,810	—	435	13,375
Subtotal	169,487	2,784	(385)	171,886	18,072	52,927	100,887
Total ⁽³⁾	<u>\$ 189,431</u>	<u>\$ 2,784</u>	<u>\$ (385)</u>	<u>\$ 191,830</u>	<u>\$ 38,016</u>	<u>\$ 52,927</u>	<u>\$ 100,887</u>

(1) Level 1 fair value estimates are based on quoted prices in active markets for identical assets or liabilities.

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

(3) As of December 26, 2020 and September 26, 2020, total marketable securities included \$19.5 billion and \$18.6 billion, respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes") and other agreements.

The Company may sell certain of its marketable debt securities prior to their stated maturities for reasons including, but not limited to, managing liquidity, credit risk, duration and asset allocation. The maturities of the Company's non-current marketable debt securities generally range from one to five years.

The Company typically invests in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer. Fair values were determined for each individual security in the investment portfolio.

Non-Marketable Securities

The Company holds non-marketable equity securities of certain privately held companies without readily determinable fair values. As of December 26, 2020 and September 26, 2020, the Company's non-marketable equity securities had a carrying value of \$2.5 billion and \$2.8 billion, respectively.

Restricted Cash

A reconciliation of the Company's cash and cash equivalents in the Condensed Consolidated Balance Sheets to cash, cash equivalents and restricted cash in the Condensed Consolidated Statements of Cash Flows as of December 26, 2020 and September 26, 2020 is as follows (in millions):

	December 26, 2020	September 26, 2020
Cash and cash equivalents	\$ 36,010	\$ 38,016
Restricted cash	1,709	1,773
Cash, cash equivalents and restricted cash	<u>\$ 37,719</u>	<u>\$ 39,789</u>

The Company's restricted cash primarily consisted of cash to support the Company's iPhone Upgrade Program. Substantially all of the Company's restricted cash was included in other non-current assets in the Condensed Consolidated Balance Sheets.

Derivative Financial Instruments

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

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

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

To protect the Company's foreign currency-denominated term debt or marketable securities from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, cross-currency swaps or other instruments. These instruments may offset a portion of the foreign currency remeasurement gains or losses, or changes in fair value. The Company may designate these instruments as either cash flow or fair value hedges. As of December 26, 2020, the Company's hedged term debt- and marketable securities-related foreign currency transactions are expected to be recognized within 22 years.

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

To protect the Company's foreign currency-denominated term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. These instruments may offset a portion of the changes in interest income or expense, or changes in fair value. The Company designates these instruments as either cash flow or fair value hedges. As of December 26, 2020, the Company's hedged interest rate transactions are expected to be recognized within seven years.

Cash Flow Hedges

Cash flow hedge amounts that are included in the assessment of hedge effectiveness are deferred in accumulated other comprehensive income/(loss) ("AOCI") until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized in other income/(expense), net ("OI&E") in the same period as the related income or expense is recognized. For options designated as cash flow hedges, the time value is excluded from the assessment of hedge effectiveness and recognized in the financial statement line item to which the hedge relates on a straight-line basis over the life of the hedge. Changes in the fair value of amounts excluded from the assessment of hedge effectiveness are recognized in other comprehensive income/(loss) ("OCI").

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

Net Investment Hedges

Net investment hedge amounts that are included in the assessment of hedge effectiveness are recorded in OCI as a part of the cumulative translation adjustment. For foreign exchange forward contracts designated as net investment hedges, the forward carry component is excluded from the assessment of hedge effectiveness and recognized in OCI on a straight-line basis over the life of the hedge. Changes in the fair value of amounts excluded from the assessment of hedge effectiveness are recognized in OCI.

Fair Value Hedges

Fair value hedge gains and losses related to amounts that are included in the assessment of hedge effectiveness are recognized in earnings along with a corresponding loss or gain related to the change in value of the hedged item in the same line in the Condensed Consolidated Statements of Operations. For foreign exchange forward contracts designated as fair value hedges, the forward carry component is excluded from the assessment of hedge effectiveness and recognized in OI&E on a straight-line basis over the life of the hedge. Amounts excluded from the effectiveness assessment of fair value hedges and recognized in OI&E were gains of \$82 million and \$128 million for the three months ended December 26, 2020 and December 28, 2019, respectively. Changes in the fair value of amounts excluded from the assessment of hedge effectiveness are recognized in OCI.

Non-Designated Derivatives

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

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of December 26, 2020 and September 26, 2020 (in millions):

	December 26, 2020		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	\$ 524	\$ 780	\$ 1,304
Interest rate contracts	\$ 1,443	\$ —	\$ 1,443
Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	\$ 2,332	\$ 1,314	\$ 3,646

	September 26, 2020		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	\$ 749	\$ 303	\$ 1,052
Interest rate contracts	\$ 1,557	\$ —	\$ 1,557
Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	\$ 1,561	\$ 485	\$ 2,046

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

(2) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is included in other current liabilities and other non-current liabilities in the Condensed Consolidated Balance Sheets.

The Company classifies cash flows related to derivative financial instruments as operating activities in its Condensed Consolidated Statements of Cash Flows.

The following table shows the pre-tax gains and losses of the Company's derivative and non-derivative instruments designated as cash flow and net investment hedges in OCI and the Condensed Consolidated Statements of Operations for the three months ended December 26, 2020 and December 28, 2019 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Gains/(Losses) recognized in OCI – included in effectiveness assessment:		
Cash flow hedges:		
Foreign exchange contracts	\$ (191)	\$ 271
Interest rate contracts	54	—
Total	<u>\$ (137)</u>	<u>\$ 271</u>
Net investment hedges:		
Foreign currency debt	\$ —	\$ 24
Gains/(Losses) reclassified from AOCI into net income – included in effectiveness assessment:		
Cash flow hedges:		
Foreign exchange contracts	\$ 314	\$ 491
Interest rate contracts	(3)	(2)
Total	<u>\$ 311</u>	<u>\$ 489</u>

Amounts excluded from the effectiveness assessment of the Company's hedges and recognized in OCI were losses of \$138 million and \$89 million for the three months ended December 26, 2020 and December 28, 2019, respectively.

The following tables show information about the Company's derivative instruments designated as fair value hedges and the related hedged items for the three months ended December 26, 2020 and December 28, 2019 and as of December 26, 2020 and September 26, 2020 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Gains/(Losses) on derivative instruments ⁽¹⁾ :		
Foreign exchange contracts	\$ (753)	\$ (183)
Interest rate contracts	(167)	(162)
Total	<u>\$ (920)</u>	<u>\$ (345)</u>
Gains/(Losses) related to hedged items ⁽¹⁾ :		
Marketable securities	\$ 752	\$ 183
Fixed-rate debt	167	162
Total	<u>\$ 919</u>	<u>\$ 345</u>

	December 26, 2020	September 26, 2020
Carrying amounts of hedged assets/(liabilities):		
Marketable securities ⁽²⁾	\$ 17,009	\$ 16,270
Fixed-rate debt ⁽³⁾	\$ (20,866)	\$ (21,033)
Cumulative hedging adjustments included in the carrying amounts of hedged items:		
Marketable securities carrying amount increases/(decreases)	\$ 956	\$ 493
Fixed-rate debt carrying amount (increases)/decreases	\$ (1,374)	\$ (1,541)

(1) Gains and losses related to fair value hedges are included in OI&E in the Condensed Consolidated Statements of Operations.

(2) The carrying amounts of marketable securities that are designated as hedged items in fair value hedges are included in current marketable securities and non-current marketable securities in the Condensed Consolidated Balance Sheets

(3) The carrying amounts of fixed-rate debt instruments that are designated as hedged items in fair value hedges are included in current term debt and non-current term debt in the Condensed Consolidated Balance Sheets.

The following table shows the notional amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of December 26, 2020 and September 26, 2020 (in millions):

	December 26, 2020		September 26, 2020	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
Instruments designated as accounting hedges:				
Foreign exchange contracts	\$ 71,191	\$ 524	\$ 57,410	\$ 749
Interest rate contracts	\$ 20,900	\$ 1,443	\$ 20,700	\$ 1,557
Instruments not designated as accounting hedges:				
Foreign exchange contracts	\$ 123,267	\$ 780	\$ 88,636	\$ 303

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

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values in its Condensed Consolidated Balance Sheets. As of December 26, 2020, the net cash collateral posted by the Company related to derivative instruments under its collateral security arrangements was \$215 million. As of September 26, 2020, the net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was \$875 million. The Company includes gross collateral posted and received in other current assets and other current liabilities in the Condensed Consolidated Balance Sheets, respectively.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. As of December 26, 2020 and September 26, 2020, the potential effects of these rights of set-off associated with the Company's derivative contracts, including the effects of collateral, would be a reduction to both derivative assets and derivative liabilities of \$3.5 billion and \$2.8 billion, respectively, resulting in net derivative liabilities of \$684 million and \$312 million, respectively.

Accounts Receivable

Trade Receivables

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, resellers, small and mid-sized businesses and education, enterprise and government customers. The Company generally does not require collateral from its customers; however, the Company will require collateral or third-party credit support 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 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.

As of both December 26, 2020 and September 26, 2020, the Company had no customers that individually represented 10% or more of total trade receivables. The Company's cellular network carriers accounted for 41% of total trade receivables as of December 26, 2020.

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of December 26, 2020, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 61% and 14%. As of September 26, 2020, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 57% and 11%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of December 26, 2020 and September 26, 2020 (in millions):

Property, Plant and Equipment, Net

	December 26, 2020	September 26, 2020
Land and buildings	\$ 18,885	\$ 17,952
Machinery, equipment and internal-use software	76,224	75,291
Leasehold improvements	10,384	10,283
Gross property, plant and equipment	105,493	103,526
Accumulated depreciation and amortization	(67,560)	(66,760)
Total property, plant and equipment, net	\$ 37,933	\$ 36,766

Other Non-Current Liabilities

	December 26, 2020	September 26, 2020
Long-term taxes payable	\$ 28,170	\$ 28,170
Other non-current liabilities	27,872	26,320
Total other non-current liabilities	\$ 56,042	\$ 54,490

Other Income/(Expense), Net

The following table shows the detail of OI&E for the three months ended December 26, 2020 and December 28, 2019 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Interest and dividend income	\$ 747	\$ 1,045
Interest expense	(638)	(785)
Other income/(expense), net	(64)	89
Total other income/(expense), net	\$ 45	\$ 349

Note 5 – Income Taxes

Uncertain Tax Positions

As of December 26, 2020, the total amount of gross unrecognized tax benefits was \$17.1 billion, of which \$9.0 billion, if recognized, would impact the Company's effective tax rate. The Company had accrued \$1.6 billion of gross interest and penalties related to income tax matters as of December 26, 2020.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and many state and foreign jurisdictions. The U.S. Internal Revenue Service concluded its review of the years 2013 through 2015 in 2018, and all years before 2016 are closed. Tax years after 2014 remain open in certain major foreign jurisdictions and are subject to examination by the taxing authorities. The Company 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 inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although the timing of resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease in the next 12 months by as much as \$4.1 billion.

European Commission State Aid Decision

On August 30, 2016, the European Commission announced its decision that Ireland granted state aid to the Company by providing tax opinions in 1991 and 2007 concerning the tax allocation of profits of the Irish branches of two subsidiaries of the Company (the "State Aid Decision"). The State Aid Decision ordered Ireland to calculate and recover additional taxes from the Company for the period June 2003 through December 2014. Irish legislative changes, effective as of January 2015, eliminated the application of the tax opinions from that date forward. The recovery amount was calculated to be €13.1 billion, plus interest of €1.2 billion. The Company and Ireland appealed the State Aid Decision to the General Court of the Court of Justice of the European Union (the "General Court"). On July 15, 2020, the General Court annulled the State Aid Decision. On September 25, 2020, the European Commission appealed the General Court's decision to the European Court of Justice. The Company believes that any incremental Irish corporate income taxes potentially due related to the State Aid Decision would be creditable against U.S. taxes, subject to any foreign tax credit limitations in the U.S. Tax Cuts and Jobs Act of 2017.

On an annual basis, the Company may request approval from the Irish Minister for Finance to reduce the recovery amount for certain taxes paid to other countries. As of December 26, 2020, the adjusted recovery amount was €12.9 billion, excluding interest. The adjusted recovery amount plus interest is funded into escrow, where it will remain restricted from general use pending the conclusion of all legal proceedings. Refer to the Cash, Cash Equivalents and Marketable Securities section of Note 3, "Financial Instruments" for more information.

Note 6 – Debt

Commercial Paper

The Company issues unsecured short-term promissory notes (“Commercial Paper”) pursuant to a commercial paper program. The Company uses net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of both December 26, 2020 and September 26, 2020, the Company had \$5.0 billion of Commercial Paper outstanding, with maturities generally less than nine months. The weighted-average interest rate of the Company’s Commercial Paper was 0.10% and 0.62% as of December 26, 2020 and September 26, 2020, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the three months ended December 26, 2020 and December 28, 2019 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Maturities 90 days or less:		
Proceeds from/(Repayments of) commercial paper, net	\$ 1,439	\$ (175)
Maturities greater than 90 days:		
Proceeds from commercial paper	780	1,317
Repayments of commercial paper	(2,197)	(2,121)
Repayments of commercial paper, net	(1,417)	(804)
Total proceeds from/(repayments of) commercial paper, net	\$ 22	\$ (979)

Term Debt

As of December 26, 2020, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$105.9 billion (collectively the “Notes”). The Notes are senior unsecured obligations and interest is payable in arrears. The following table provides a summary of the Company’s term debt as of December 26, 2020 and September 26, 2020:

	Maturities (calendar year)	December 26, 2020		September 26, 2020	
		Amount (in millions)	Effective Interest Rate	Amount (in millions)	Effective Interest Rate
2013 – 2020 debt issuances:					
Floating-rate notes	2021 – 2022	\$ 2,250	0.56% – 1.34%	\$ 2,250	0.60% – 1.39%
Fixed-rate 0.000% – 4.650% notes	2021 – 2060	103,613	0.03% – 4.78%	103,828	0.03% – 4.78%
Total term debt		105,863		106,078	
Unamortized premium/(discount) and issuance costs, net		(305)		(314)	
Hedge accounting fair value adjustments		1,485		1,676	
Less: Current portion of term debt		(7,762)		(8,773)	
Total non-current portion of term debt		\$ 99,281		\$ 98,667	

To manage interest rate risk on certain of its U.S. dollar–denominated fixed- or floating-rate notes, the Company has entered into interest rate swaps to effectively convert the fixed interest rates to floating interest rates or the floating interest rates to fixed interest rates on a portion of these notes. Additionally, to manage foreign currency risk on certain of its foreign currency–denominated notes, the Company has entered into foreign currency swaps to effectively convert these notes to U.S. dollar–denominated notes.

The effective interest rates for the Notes include the interest on the Notes, amortization of the discount or premium and, if applicable, adjustments related to hedging. The Company recognized \$628 million and \$757 million of interest cost on its term debt for the three months ended December 26, 2020 and December 28, 2019, respectively.

As of December 26, 2020 and September 26, 2020, the fair value of the Company’s Notes, based on Level 2 inputs, was \$117.2 billion and \$117.1 billion, respectively.

Note 7 – Shareholders' Equity

Share Repurchase Program

As of December 26, 2020, the Company was authorized to purchase up to \$225 billion of the Company's common stock under a share repurchase program, of which \$192.6 billion had been utilized. During the three months ended December 26, 2020, the Company repurchased 200 million shares of its common stock for \$24.0 billion. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Note 8 – Comprehensive Income

The Company's OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as hedges, and unrealized gains and losses on marketable debt securities classified as available-for-sale.

The following table shows the pre-tax amounts reclassified from AOCI into the Condensed Consolidated Statements of Operations, and the associated financial statement line items, for the three months ended December 26, 2020 and December 28, 2019 (in millions):

Comprehensive Income Components	Financial Statement Line Items	Three Months Ended	
		December 26, 2020	December 28, 2019
Unrealized (gains)/losses on derivative instruments:			
Foreign exchange contracts	Total net sales	\$ 104	\$ (97)
	Total cost of sales	245	(171)
	Other income/(expense), net	(628)	(223)
Interest rate contracts	Other income/(expense), net	3	2
		(276)	(489)
Unrealized (gains)/losses on marketable debt securities	Other income/(expense), net	(118)	(13)
Total amounts reclassified from AOCI		<u>\$ (394)</u>	<u>\$ (502)</u>

The following table shows the changes in AOCI by component for the three months ended December 26, 2020 (in millions):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Debt Securities	Total
Balances as of September 26, 2020	\$ (1,375)	\$ (877)	\$ 1,846	\$ (406)
Other comprehensive income/(loss) before reclassifications	549	(294)	708	963
Amounts reclassified from AOCI	—	(276)	(118)	(394)
Tax effect	—	83	(67)	16
Other comprehensive income/(loss)	549	(487)	523	585
Balances as of December 26, 2020	<u>\$ (826)</u>	<u>\$ (1,364)</u>	<u>\$ 2,369</u>	<u>\$ 179</u>

Note 9 – Benefit Plans

Stock Plans

The Company had 713 million shares reserved for future issuance under its stock plans as of December 26, 2020. RSUs granted under the Company's stock plans generally vest over four years, based on continued employment, and are settled upon vesting in shares of the Company's common stock on a one-for-one basis. RSUs granted under the Company's stock plans reduce the number of shares available for grant under the plans by a factor of two times the number of RSUs granted. RSUs canceled and shares withheld to satisfy tax withholding obligations increase the number of shares available for grant under the plans utilizing a factor of two times the number of RSUs canceled or shares withheld.

Rule 10b5-1 Trading Plans

During the three months ended December 26, 2020, Section 16 officers Katherine L. Adams, Timothy D. Cook, Chris Kondo, Luca Maestri, Deirdre O'Brien and Jeffrey Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under the Exchange Act. An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including shares acquired under the Company's employee and director equity plans.

Restricted Stock Units

A summary of the Company's RSU activity and related information for the three months ended December 26, 2020 is as follows:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value Per RSU	Aggregate Fair Value (in millions)
Balance as of September 26, 2020	310,778	\$ 51.58	
RSUs granted	75,959	\$ 112.75	
RSUs vested	(68,565)	\$ 44.91	
RSUs canceled	(2,819)	\$ 61.05	
Balance as of December 26, 2020	315,353	\$ 67.68	\$ 41,617

The fair value as of the respective vesting dates of RSUs was \$8.5 billion and \$4.2 billion for the three months ended December 26, 2020 and December 28, 2019, respectively.

Share-Based Compensation

The following table shows share-based compensation expense and the related income tax benefit included in the Condensed Consolidated Statements of Operations for the three months ended December 26, 2020 and December 28, 2019 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Share-based compensation expense	\$ 2,020	\$ 1,710
Income tax benefit related to share-based compensation expense	\$ (1,624)	\$ (758)

As of December 26, 2020, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$18.2 billion, which the Company expects to recognize over a weighted-average period of 2.9 years.

Note 10 – Commitments and Contingencies

Accrued Warranty and Guarantees

The following table shows changes in the Company's accrued warranties and related costs for the three months ended December 26, 2020 and December 28, 2019 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Beginning accrued warranty and related costs	\$ 3,354	\$ 3,570
Cost of warranty claims	(723)	(915)
Accruals for product warranty	1,493	1,218
Ending accrued warranty and related costs	\$ 4,124	\$ 3,873

The Company offers an iPhone Upgrade Program, which is available to customers who purchase a qualifying iPhone in the U.S., the U.K. and China mainland. The iPhone Upgrade Program provides customers the right to trade in that iPhone for a specified amount when purchasing a new iPhone, provided certain conditions are met. The Company accounts for the trade-in right as a guarantee liability and recognizes arrangement revenue net of the fair value of such right, with subsequent changes to the guarantee liability recognized within net sales.

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 components are currently obtained from single or limited sources. The Company also competes for various components with other participants in the markets for smartphones, personal computers, tablets and other electronic devices. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant commodity pricing fluctuations.

The Company uses some custom components that are not commonly used by its competitors, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or their manufacturing capacities have increased. The continued availability of these components at acceptable prices, or at all, may be affected if suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements.

The Company has entered into agreements for the supply of many components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia, with some Mac computers manufactured in the U.S. and Ireland.

Unconditional Purchase Obligations

The Company has entered into certain off-balance sheet commitments that require the future purchase of goods or services ("unconditional purchase obligations"). The Company's unconditional purchase obligations primarily consist of payments for content creation, Internet and telecommunications services and supplier arrangements. As of December 26, 2020, the Company's total future payments under noncancelable unconditional purchase obligations having a remaining term in excess of one year were \$8.1 billion.

Contingencies

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and that have not been fully resolved. The outcome of litigation is inherently uncertain. When a loss related to a legal proceeding or claim is probable and reasonably estimable, the Company accrues its best estimate for the ultimate resolution of the matter. If one or more legal matters were resolved against the Company in a reporting period for amounts above management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss greater than a recorded accrual, concerning loss contingencies for asserted legal and other claims, except for the following matters:

VirnetX

VirnetX, Inc. ("VirnetX") filed a lawsuit against the Company alleging that certain of the Company's products infringe on patents owned by VirnetX. On April 11, 2018, a jury returned a verdict against the Company in the U.S. District Court for the Eastern District of Texas (the "Eastern Texas District Court"). The Company appealed the verdict to the U.S. Court of Appeals for the Federal Circuit, which remanded the case back to the Eastern Texas District Court, where a re-trial was held in October 2020. The jury returned a verdict against the Company and awarded damages of \$503 million, which the Company intends to appeal. The Company has challenged the validity of the patents at issue in the re-trial at the U.S. Patent and Trademark Office (the "PTO"), and the PTO has declared the patents invalid, subject to further appeal by VirnetX.

iOS Performance Management Cases

Various civil litigation matters have been filed in state and federal courts in the U.S. and in various international jurisdictions alleging violation of consumer protection laws, fraud, computer intrusion and other causes of action related to the Company's performance management feature used in its iPhone operating systems, introduced to certain iPhones in iOS updates 10.2.1 and 11.2. The claims seek monetary damages and other non-monetary relief. On April 5, 2018, several U.S. federal actions were consolidated through a Multidistrict Litigation process into a single action in the U.S. District Court for the Northern District of California (the "Northern California District Court"). On February 28, 2020, the parties in the Multidistrict Litigation reached a settlement to resolve the U.S. federal and California state class actions. Under the terms of the settlement, which the Northern California District Court preliminarily approved in May 2020, the Company has agreed to pay up to \$500 million in the aggregate to certain U.S. owners of iPhones if certain conditions are met. The final amount of the settlement will be determined based on the number of consumers who file valid claims and the attorneys' fee award. However, the Company has agreed to pay at least \$310 million to settle the claims. In addition to civil litigation, the Company is also responding to governmental investigations and requests for information relating to the performance management feature. On November 18, 2020, the Company reached a settlement with a multi-state group of attorneys general. Under the terms of the settlement, the Company has agreed to pay an aggregate amount of \$113 million to resolve civil, statutory claims. The Company continues to believe that its iPhones were not defective, that the performance management feature introduced with iOS updates 10.2.1 and 11.2 was intended to, and did, improve customers' user experience, and that the Company did not make any misleading statements or fail to disclose any material information.

French Competition Authority

On March 16, 2020, the French Competition Authority ("FCA") announced its decision that aspects of the Company's sales and distribution practices in France violate French competition law and issued a fine of €1.1 billion. The Company strongly disagrees with the FCA's decision and has appealed.

Optis

Optis Wireless Technology, LLC and related entities ("Optis") filed a lawsuit in the U.S. District Court for the Eastern District of Texas against the Company alleging that certain of the Company's products infringe on patents owned by Optis. On August 11, 2020, a jury returned a verdict against the Company and awarded damages of \$506 million. The Company has asked the court to set aside the verdict, where the case remains pending.

Note 11 – Segment Information and Geographic Data

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

The Company manages its business primarily on a geographic basis. The Company's reportable segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. Americas includes both North and South America. Europe includes European countries, as well as India, the Middle East and Africa. Greater China includes China mainland, Hong Kong and Taiwan. Rest of Asia Pacific includes Australia and those Asian countries not included in the Company's other reportable segments. Although the reportable segments provide similar hardware and software products and similar services, each one is managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. The accounting policies of the various segments are the same as those described in Note 1, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2020 Form 10-K.

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

The following table shows information by reportable segment for the three months ended December 26, 2020 and December 28, 2019 (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Americas:		
Net sales	\$ 46,310	\$ 41,367
Operating income	\$ 15,785	\$ 13,092
Europe:		
Net sales	\$ 27,306	\$ 23,273
Operating income	\$ 9,589	\$ 7,719
Greater China:		
Net sales	\$ 21,313	\$ 13,578
Operating income	\$ 8,530	\$ 5,363
Japan:		
Net sales	\$ 8,285	\$ 6,223
Operating income	\$ 3,503	\$ 2,778
Rest of Asia Pacific:		
Net sales	\$ 8,225	\$ 7,378
Operating income	\$ 2,953	\$ 2,731

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three months ended December 26, 2020 and December 28, 2019 is as follows (in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Segment operating income	\$ 40,360	\$ 31,683
Research and development expense	(5,163)	(4,451)
Other corporate expenses, net	(1,663)	(1,663)
Total operating income	\$ 33,534	\$ 25,569

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. For example, statements in this Form 10-Q regarding the potential future impact of the COVID-19 pandemic on the Company's business and results of operations are forward-looking statements. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended September 26, 2020 (the "2020 Form 10-K") under the heading "Risk Factors." The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Unless otherwise stated, all information presented herein is based on the Company's fiscal calendar, and references to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "Apple" as used herein refers collectively to Apple Inc. and its wholly owned subsidiaries, unless otherwise stated.

The following discussion should be read in conjunction with the 2020 Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") and the condensed consolidated financial statements and accompanying notes included in Part I, Item 1 of this Form 10-Q.

Available Information

The Company periodically provides certain information for investors on its corporate website, www.apple.com, and its investor relations website, investor.apple.com. This includes press releases and other information about financial performance, information on corporate governance and details related to the Company's annual meeting of shareholders. The information contained on the websites referenced in this Form 10-Q is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

Quarterly Highlights

Business Seasonality and Product Introductions

The Company has historically experienced higher net sales in its first quarter compared to other quarters in its fiscal year due in part to seasonal holiday demand. Additionally, new product and service introductions can significantly impact net sales, cost of sales and operating expenses. The timing of product introductions can also impact the Company's net sales to its indirect distribution channels as these channels are filled with new inventory following a product launch, and channel inventory of an older product often declines as the launch of a newer product approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction.

COVID-19 Update

The COVID-19 pandemic has prompted governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of businesses, and quarantines and shelter-in-place orders. The COVID-19 pandemic has significantly curtailed global economic activity and caused significant volatility and disruption in global financial markets. The COVID-19 pandemic and the measures taken by many countries in response have affected and could in the future materially impact the Company's business, results of operations, financial condition and stock price.

During the first quarter of 2021, aspects of the Company's business continued to be affected by the COVID-19 pandemic, with many of the Company's retail stores, as well as channel partner points of sale, temporarily closed at various times, and the vast majority of the Company's employees working remotely. The Company has reopened some of its offices and retail stores, subject to operating restrictions to protect public health and the health and safety of employees and customers, and it continues to work on safely reopening the remainder of its offices and retail stores, subject to local rules and regulations.

The full extent of the future impact of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the imposition of protective public safety measures; and the impact of the pandemic on the global economy and demand for consumer products. Refer to Part I, Item 1A of the 2020 Form 10-K under the heading "Risk Factors," for more information.

The Company believes its existing balances of cash, cash equivalents and marketable securities, along with commercial paper and other short-term liquidity arrangements, will be sufficient to satisfy its working capital needs, capital asset purchases, dividends, share repurchases, debt repayments and other liquidity requirements associated with its existing operations.

First Quarter Fiscal 2021 Highlights

Total net sales increased 21% or \$19.6 billion during the first quarter of 2021 compared to the same quarter in 2020, driven by higher net sales in all Products and Services categories. Additionally, net sales in all of the Company's geographic reportable segments grew during the first quarter of 2021.

During the first quarter of 2021, the Company released the following products and services:

- iPhone 12, iPhone 12 mini, iPhone 12 Pro and iPhone 12 Pro Max, all with 5G technology;
- MacBook Air®, 13-inch MacBook Pro® and Mac mini®, all powered by M1, the Company's first chip designed specifically for the Mac;
- An all-new iPad Air®;
- AirPods Max™, new over-ear wireless headphones, and HomePod mini™; and
- Apple Fitness+SM, a fitness subscription service.

The Company repurchased \$24.0 billion of its common stock and paid dividends and dividend equivalents of \$3.6 billion during the first quarter of 2021.

Products and Services Performance

The following table shows net sales by category for the three months ended December 26, 2020 and December 28, 2019 (dollars in millions):

	Three Months Ended		
	December 26, 2020	December 28, 2019	Change
Net sales by category:			
iPhone ⁽¹⁾	\$ 65,597	\$ 55,957	17 %
Mac ⁽¹⁾	8,675	7,160	21 %
iPad ⁽¹⁾	8,435	5,977	41 %
Wearables, Home and Accessories ⁽¹⁾⁽²⁾	12,971	10,010	30 %
Services ⁽³⁾	15,761	12,715	24 %
Total net sales	\$ 111,439	\$ 91,819	21 %

(1) Products net sales include amortization of the deferred value of unspecified software upgrade rights, which are bundled in the sales price of the respective product.

(2) Wearables, Home and Accessories net sales include sales of AirPods, Apple TV, Apple Watch, Beats products, HomePod, iPod touch and Apple-branded and third-party accessories.

(3) Services net sales include sales from the Company's advertising, AppleCare, digital content and other services. Services net sales also include amortization of the deferred value of Maps, Siri, and free iCloud storage and Apple TV+ services, which are bundled in the sales price of certain products.

iPhone

iPhone net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales from the successful launch of the Company's four new iPhone models and a favorable mix of iPhone sales.

Mac

Mac net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of MacBook Air and MacBook Pro.

iPad

iPad net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of iPad Air and iPad Pro®.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of Apple Watch, accessories and AirPods.

Services

Services net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales from the App Store, advertising and cloud services.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. Americas includes both North and South America. Europe includes European countries, as well as India, the Middle East and Africa. Greater China includes China mainland, Hong Kong and Taiwan. Rest of Asia Pacific includes Australia and those Asian countries not included in the Company's other reportable segments. Although the reportable segments provide similar hardware and software products and similar services, each one is managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. Further information regarding the Company's reportable segments can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 11, "Segment Information and Geographic Data."

The following table shows net sales by reportable segment for the three months ended December 26, 2020 and December 28, 2019 (dollars in millions):

	Three Months Ended		
	December 26, 2020	December 28, 2019	Change
Net sales by reportable segment:			
Americas	\$ 46,310	\$ 41,367	12 %
Europe	27,306	23,273	17 %
Greater China	21,313	13,578	57 %
Japan	8,285	6,223	33 %
Rest of Asia Pacific	8,225	7,378	11 %
Total net sales	<u>\$ 111,439</u>	<u>\$ 91,819</u>	21 %

Americas

Americas net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of Services, iPhone and Wearables, Home and Accessories.

Europe

Europe net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of Wearables, Home and Accessories, iPhone and iPad.

Greater China

Greater China net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of iPhone, iPad and Wearables, Home and Accessories. The strength of the Chinese renminbi relative to the U.S. dollar had a favorable impact on Greater China net sales during the first quarter of 2021.

Japan

Japan net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of iPhone, Services and iPad. The strength of the Japanese yen relative to the U.S. dollar had a favorable impact on Japan net sales during the first quarter of 2021.

Rest of Asia Pacific

Rest of Asia Pacific net sales increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher net sales of Services, iPad and Wearables, Home and Accessories. The movement of foreign currencies in the Rest of Asia Pacific relative to the U.S. dollar had a net favorable impact on net sales during the first quarter of 2021.

Gross Margin

Products and Services gross margin and gross margin percentage for the three months ended December 26, 2020 and December 28, 2019 were as follows (dollars in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Gross margin:		
Products	\$ 33,548	\$ 27,029
Services	10,780	8,188
Total gross margin	<u>\$ 44,328</u>	<u>\$ 35,217</u>
Gross margin percentage:		
Products	35.1 %	34.2 %
Services	68.4 %	64.4 %
Total gross margin percentage	39.8 %	38.4 %

Products Gross Margin

Products gross margin increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher Products volume and a different Products mix. Products gross margin percentage increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher leverage.

Services Gross Margin

Services gross margin increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to higher Services net sales and a different Services mix. Services gross margin percentage increased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to a different Services mix and higher leverage, partially offset by higher Services costs.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of the 2020 Form 10-K under the heading "Risk Factors." As a result, the Company believes, in general, gross margins will be subject to volatility and remain under downward pressure.

Operating Expenses

Operating expenses for the three months ended December 26, 2020 and December 28, 2019 were as follows (dollars in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Research and development	\$ 5,163	\$ 4,451
Percentage of total net sales	5 %	5 %
Selling, general and administrative	\$ 5,631	\$ 5,197
Percentage of total net sales	5 %	6 %
Total operating expenses	\$ 10,794	\$ 9,648
Percentage of total net sales	10 %	11 %

Research and Development

The growth in research and development (“R&D”) expense during the first quarter of 2021 compared to the same quarter in 2020 was driven primarily by increases in headcount-related expenses. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace, and to the development of new and updated products and services that are central to the Company’s core business strategy.

Selling, General and Administrative

The growth in selling, general and administrative expense during the first quarter of 2021 compared to the same quarter in 2020 was driven primarily by increases in headcount-related expenses and higher variable selling expenses.

Other Income/(Expense), Net

Other income/(expense), net (“OI&E”) for the three months ended December 26, 2020 and December 28, 2019 was as follows (dollars in millions):

	Three Months Ended		
	December 26, 2020	December 28, 2019	Change
Interest and dividend income	\$ 747	\$ 1,045	
Interest expense	(638)	(785)	
Other income/(expense), net	(64)	89	
Total other income/(expense), net	\$ 45	\$ 349	(87) %

OI&E decreased during the first quarter of 2021 compared to the same quarter in 2020 due primarily to lower interest income and an adjustment to the carrying value of a non-marketable security, partially offset by lower interest expense. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.49% and 2.08% in the first quarter of 2021 and 2020, respectively.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for the three months ended December 26, 2020 and December 28, 2019 were as follows (dollars in millions):

	Three Months Ended	
	December 26, 2020	December 28, 2019
Provision for income taxes	\$ 4,824	\$ 3,682
Effective tax rate	14.4 %	14.2 %
Statutory federal income tax rate	21 %	21 %

The Company’s effective tax rate for the first quarter of 2021 was lower than the statutory federal income tax rate due primarily to lower tax rates on foreign earnings and tax benefits from share-based compensation.

The Company’s effective tax rate for the first quarter of 2021 was relatively flat compared to the same quarter in 2020.

Liquidity and Capital Resources

The following tables present selected financial information and statistics as of December 26, 2020 and September 26, 2020 and for the first three months of 2021 and 2020 (in millions):

	December 26, 2020	September 26, 2020
Cash, cash equivalents and marketable securities ⁽¹⁾	\$ 195,571	\$ 191,830
Property, plant and equipment, net	\$ 37,933	\$ 36,766
Commercial paper	\$ 5,000	\$ 4,996
Total term debt	\$ 107,043	\$ 107,440
Working capital	\$ 21,599	\$ 38,321

	Three Months Ended	
	December 26, 2020	December 28, 2019
Cash generated by operating activities	\$ 38,763	\$ 30,516
Cash used in investing activities	\$ (8,584)	\$ (13,668)
Cash used in financing activities	\$ (32,249)	\$ (25,407)

(1) As of December 26, 2020 and September 26, 2020, total marketable securities included \$19.5 billion and \$18.6 billion, respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes" in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q) and other agreements.

The Company believes its existing balances of cash, cash equivalents and marketable securities, along with commercial paper and other short-term liquidity arrangements, will be sufficient to satisfy its working capital needs, capital asset purchases, dividends, share repurchases, debt repayments and other liquidity requirements associated with its existing operations over the next 12 months.

In connection with the State Aid Decision, as of December 26, 2020, the adjusted recovery amount of €12.9 billion plus interest of €1.2 billion was funded into escrow, where it will remain restricted from general use pending the conclusion of all legal proceedings. Further information regarding the State Aid Decision can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 5, "Income Taxes."

The Company's marketable securities investment portfolio is primarily invested in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer.

During the three months ended December 26, 2020, cash generated by operating activities of \$38.8 billion was a result of \$28.8 billion of net income, non-cash adjustments to net income of \$4.7 billion and an increase in the net change in operating assets and liabilities of \$5.4 billion. Cash used in investing activities of \$8.6 billion during the three months ended December 26, 2020 consisted primarily of cash used for purchases of marketable securities, net of maturities and sales, of \$5.3 billion and cash used to acquire property, plant and equipment of \$3.5 billion. Cash used in financing activities of \$32.2 billion during the three months ended December 26, 2020 consisted primarily of cash used to repurchase common stock of \$24.8 billion, cash used to pay dividends and dividend equivalents of \$3.6 billion, cash used for taxes related to net share settlement of equity awards of \$2.9 billion, and cash used to repay term debt of \$1.0 billion.

During the three months ended December 28, 2019, cash generated by operating activities of \$30.5 billion was a result of \$22.2 billion of net income, non-cash adjustments to net income of \$4.0 billion and an increase in the net change in operating assets and liabilities of \$4.2 billion. Cash used in investing activities of \$13.7 billion during the three months ended December 28, 2019 consisted primarily of cash used for purchases of marketable securities, net of sales and maturities, of \$10.4 billion and cash used to acquire property, plant and equipment of \$2.1 billion. Cash used in financing activities of \$25.4 billion during the three months ended December 28, 2019 consisted primarily of cash used to repurchase common stock of \$20.7 billion, cash used to pay dividends and dividend equivalents of \$3.5 billion and cash used to repay term debt of \$1.0 billion, partially offset by net proceeds from the issuance of term debt of \$2.2 billion.

Debt

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses the net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of December 26, 2020, the Company had \$5.0 billion of Commercial Paper outstanding, with a weighted-average interest rate of 0.10% and maturities generally less than nine months.

As of December 26, 2020, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$105.9 billion (collectively the "Notes"). During the first three months of 2021, the Company repaid \$1.0 billion of Notes. The Company has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on the Notes. In addition, the Company has entered, and in the future may enter, into foreign currency swaps to manage foreign currency risk on the Notes.

Further information regarding the Company's debt issuances and related hedging activity can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 3, "Financial Instruments" and Note 6, "Debt."

Capital Return Program

As of December 26, 2020, the Company was authorized to purchase up to \$225 billion of the Company's common stock under a share repurchase program, of which \$192.6 billion had been utilized. During the three months ended December 26, 2020, the Company repurchased 200 million shares of its common stock for \$24.0 billion. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

As of December 26, 2020, the Company's quarterly cash dividend was \$0.205 per share. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Contractual Obligations

Leases

The Company has lease arrangements for certain equipment and facilities, including retail, corporate, manufacturing and data center space. The Company's retail store and other facility leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options. The Company's total fixed lease payment obligation of \$13.0 billion as of December 26, 2020 included future payments under leases that had commenced as of December 26, 2020, and were therefore recorded on the Company's Condensed Consolidated Balance Sheet, as well as leases that had been signed but not yet commenced as of December 26, 2020.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. As of December 26, 2020, the Company expects to pay \$45.8 billion under manufacturing-related supplier arrangements, which are primarily noncancelable.

Other Purchase Obligations

The Company's other purchase obligations primarily consist of noncancelable obligations to acquire capital assets, including product tooling and manufacturing process equipment, and noncancelable obligations related to advertising, content creation and Internet and telecommunications services. As of December 26, 2020, the Company had other purchase obligations of \$7.8 billion.

Deemed Repatriation Tax Payable

As of December 26, 2020, the balance of the deemed repatriation tax payable imposed by the U.S. Tax Cuts and Jobs Act (the "Act") was \$29.9 billion, of which \$28.1 billion was included in other non-current liabilities in the Company's Condensed Consolidated Balance Sheet. The Company pays the deemed repatriation tax payable in installments in accordance with the Act.

Other Non-Current Liabilities

The Company's remaining other non-current liabilities primarily consist of items for which the Company is unable to make a reasonably reliable estimate of the timing or amount of payments.

Critical Accounting Policies and Estimates

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

Note 1, "Summary of Significant Accounting Policies" in Part I, Item 1 of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2020 Form 10-K, and "Critical Accounting Policies and Estimates" in Part II, Item 7 of the 2020 Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's condensed consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates since the 2020 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's market risk during the first three months of 2021. For a discussion of the Company's exposure to market risk, refer to the Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the 2020 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of December 26, 2020 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the first quarter of 2021, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company's material legal proceedings are described in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies."

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts above management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. The Company settled certain matters during the first quarter of 2021 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results.

Item 1A. Risk Factors

The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of the 2020 Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price. There have been no material changes to the Company's risk factors since the 2020 Form 10-K.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share repurchase activity during the three months ended December 26, 2020 was as follows (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
September 27, 2020 to October 31, 2020:				
Open market and privately negotiated purchases	25,810	\$ 116.23	25,810	
November 1, 2020 to November 28, 2020:				
Open market and privately negotiated purchases	87,247	\$ 117.48	87,247	
November 29, 2020 to December 26, 2020:				
Open market and privately negotiated purchases	86,632	\$ 124.09	86,632	
Total	<u>199,689</u>			<u>\$ 32,353</u>

- (1) As of December 26, 2020, the Company was authorized to purchase up to \$225 billion of the Company's common stock under a share repurchase program announced on April 30, 2020, of which \$192.6 billion had been utilized. The remaining \$32.4 billion in the table represents the amount available to repurchase shares under the authorized repurchase program as of December 26, 2020. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.1*	Form of CEO Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of September 27, 2020.			
10.2*	Form of CEO Performance Award Agreement under 2014 Employee Stock Plan effective as of September 27, 2020.			
31.1*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.			
31.2*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.			
32.1**	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.			
101*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.			
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set.			

* Filed herewith.

** Furnished herewith.

APPLE INC.
2014 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

NOTICE OF GRANT

Name: (the "Participant")

Employee ID:

Grant Number:

No. of Units Subject to Award:

Award Date: (the "Award Date")

Vesting Commencement Date: (the "Vesting Commencement Date")

Vesting Schedule:

This restricted stock unit award (the "Award") is granted under and governed by the terms and conditions of the Apple Inc. 2014 Employee Stock Plan and the Terms and Conditions of Restricted Stock Unit Award, which are incorporated herein by reference.

You do not have to accept the Award. If you wish to decline your Award, you should promptly notify Apple Inc.'s Stock Plan Group of your decision at stock@apple.com. If you do not provide such notification by the last day of the calendar month prior to the first Vesting Date, you will be deemed to have accepted your Award on the terms and conditions set forth herein.

**APPLE INC.
2014 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT**

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

1. General. These Terms and Conditions of Restricted Stock Unit Award (these “**Terms**”) apply to a particular restricted stock unit award (the “**Award**”) granted by Apple Inc., a California corporation (the “**Company**”), and are incorporated by reference in the Notice of Grant (the “**Grant Notice**”) corresponding to that particular grant. The recipient of the Award identified in the Grant Notice is referred to as the “**Participant**.” The effective date of grant of the Award as set forth in the Grant Notice is referred to as the “**Award Date**.” The Award was granted under and is subject to the provisions of the Apple Inc. 2014 Employee Stock Plan (the “**Plan**”). Capitalized terms are defined in the Plan if not defined herein. The Award is discretionary and has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. The Grant Notice and these Terms are collectively referred to as the “**Award Agreement**” applicable to the Award.

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

3. Vesting. Subject to Sections 4 and 8 below, the Award shall vest and become nonforfeitable as set forth in the Grant Notice. (Each vesting date set forth in the Grant Notice is referred to herein as a “**Vesting Date**.”)

4. Continuance of Employment. Except as provided in this Section 4 and in Section 8 below, vesting of the Award requires continued active employment or service through each applicable Vesting Date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the period between the Vesting Commencement Date and the first Vesting Date or between subsequent Vesting Dates, even if a substantial portion, will not entitle the Participant to any proportionate vesting of the Award. For purposes of this Award Agreement, active service shall include (a) the duration of an approved leave of absence (other than a personal leave of absence) and (b) the first thirty (30) days of an approved personal leave of absence, in each case as approved by the Company, in its sole discretion. The vesting of the Award shall be tolled beginning on the thirty-first (31st) day of a personal leave of absence.

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Company, affects the Participant’s status as an employee at will who is subject to termination with or without cause, confers upon the Participant any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or service, or affects the right of the Company or any Subsidiary to increase or decrease the Participant’s other compensation or benefits. Nothing in this Section 4, however, is intended to adversely affect any independent contractual right of the Participant without his or her consent thereto.

5. Dividend and Voting Rights.

(a) **Limitations on Rights Associated with Stock Units.** The Participant shall have no rights as a shareholder of the Company, no dividend rights (except as expressly provided in Section 5(b) with respect to Dividend Equivalent Rights) and no voting rights, with respect to the Stock Units or any Shares underlying or issuable in respect of such Stock Units until such Shares are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate or book entry evidencing such Shares.

(b) **Dividend Equivalent Rights Distributions.** As of any date that the Company pays an ordinary cash dividend on its Shares, the Company shall credit the Participant with a dollar amount equal to (i) the per share cash dividend paid by the Company on its Shares on such date, multiplied by (ii) the total number of Stock Units (with such total number adjusted pursuant to Section 11 of the Plan) subject to the Award that are outstanding immediately prior to the record date for that dividend (a "**Dividend Equivalent Right**"). Any Dividend Equivalent Rights credited pursuant to the foregoing provisions of this Section 5(b) shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate, including the obligation to satisfy the Tax-Related Items; provided, however, that the amount of any vested Dividend Equivalent Rights shall be paid in cash. No crediting of Dividend Equivalent Rights shall be made pursuant to this Section 5(b) with respect to any Stock Units which, immediately prior to the record date for that dividend, have either been paid pursuant to Section 7 or terminated pursuant to Section 8.

6. Restrictions on Transfer. Except as provided in Section 4(c) of the Plan, the Award, the Dividend Equivalent Rights and any interest therein or amount or Shares payable in respect thereof shall not be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily.

7. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following each Vesting Date determined pursuant to Sections 3 or 8 or following the Participant's death as specified in Section 8(c) (and in all events not later than two and one-half (2 ½) months after such Vesting Date or the date of the Participant's death), the Company shall deliver to the Participant a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its discretion) equal to the number of Stock Units subject to the Award that vest (or, in the case of Retirement or Disability, are treated as vesting) on the applicable Vesting Date, less Tax-Related Items (as defined in Section 11 below), unless such Stock Units terminate prior to the given Vesting Date pursuant to Section 8. The Company's obligation to deliver Shares or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any Shares with respect to the vested Stock Units deliver to the Company any representations or other documents or assurances required pursuant to Section 13(c) of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 8.

8. Effect of Termination of Service.

(a) Except as expressly provided in Section 4 or this Section 8, the Participant's Stock Units (as well as the related Dividend Equivalent Rights) shall terminate to the extent such Stock Units have not become vested prior to the Participant's Termination of Service, meaning the first date the Participant is no longer employed by or providing services to the Company or one of its Subsidiaries (the "**Severance Date**"), regardless of the reason for the Participant's Termination of Service, whether with or without cause, voluntarily or involuntarily, or whether the Participant was employed or provided services for a portion of the vesting period prior to a Vesting Date.

(b) Notwithstanding the foregoing, and except as otherwise provided by the Committee, in the event of the Participant's Termination of Service due to the Participant's Retirement (defined below) on or after the first anniversary of the Award Date, or Disability, any unvested Stock Units shall continue to be eligible to vest (in accordance with the schedule set forth in the Grant Notice and Section 8(c)) without regard to the Participant's Termination of Service. For purposes of this Award Agreement, "**Retirement**" means the Participant's Termination of Service on or after the Participant both has reached the age of sixty (60) and has completed ten (10) years of service with the Company, or any Subsidiary (including service with any entity acquired by the Company) as of the Severance Date, as determined in the sole discretion of the Committee. In the event the Participant's Termination of Service occurs prior to the first anniversary of the Award Date for any reason other than due to the Participant's Disability, this Section 8(b) shall not apply, unless the Committee shall otherwise determine. For purposes of this Section 8(b), a Termination of Service shall not include the Participant's Termination of Service resulting from the Participant's death (in which case Section 8(c) will apply).

(c) In the event the Participant's Termination of Service is due to the Participant's death or upon a Participant's death following a Participant's Termination of Service described in Section 8(b), any unvested Stock Units subject to the Award, and any Dividend Equivalent Rights credited to the Participant, shall become fully vested as of the date of the Severance Date or the date of the Participant's death, as applicable.

(d) If any unvested Stock Units are terminated hereunder, such Stock Units (as well as the related Dividend Equivalent Rights) shall automatically terminate and be cancelled as of the applicable Severance Date without payment of any consideration by the Company and without any other action by the Participant or the Participant's personal representative, as the case may be.

9. Recoupment. Notwithstanding any other provision herein, the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, shall be subject to any recoupment, "clawback" or similar provisions of applicable law. In addition, the Company may require the Participant to deliver or otherwise repay to the Company the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, if the Company reasonably determines that one or more of the following has occurred:

(a) during the period of the Participant's employment or service with the Company or any of its Subsidiaries (the "**Employment Period**"), the Participant has committed a felony (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction);

(b) during the Employment Period or at any time thereafter, the Participant has committed or engaged in a breach of confidentiality, or an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information of the Company or any of its Subsidiaries;

(c) during the Employment Period or at any time thereafter, the Participant has committed or engaged in an act of theft, embezzlement or fraud, or materially breached any agreement to which the Participant is a party with the Company or any of its Subsidiaries.

For purposes of the foregoing, the Participant expressly and explicitly authorizes the Company to issue instructions, on the Participant's behalf, to any brokerage firm or third party administrator holding the Participant's Shares and other amounts acquired under the Plan to re-convey, transfer, or otherwise

return such Shares and other amounts to the Company. This Section 9 is not the Company's exclusive remedy with respect to such matters.

10. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Company's stock contemplated by Section 11 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which Dividend Equivalent Rights are credited pursuant to Section 5(b).

11. Responsibility for Taxes. The Participant acknowledges that, regardless of any action the Company or the Participant's employer ("**Employer**") take with respect to any or all income tax (including U.S. federal, state and local tax or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant or deemed by the Company or the Employer to be an appropriate charge to the Participant even if technically due by the Company or the Employer ("**Tax-Related Items**"), the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the Stock Units, the vesting of the Stock Units, the delivery of Shares, the subsequent sale of any Shares acquired at vesting, and the receipt of any dividends or Dividend Equivalent Rights; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is or becomes subject to tax in more than one jurisdiction, the Participant acknowledges that the Company or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable or tax withholding event, as applicable, the Participant shall pay or make arrangements satisfactory to the Company or the Employer to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company or the Employer, or their respective agents, at their discretion and pursuant to such procedures as they may specify from time to time, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following:

- (a) withholding from any wages or other cash compensation payable to the Participant by the Company or the Employer;
- (b) withholding otherwise deliverable Shares and from otherwise payable Dividend Equivalent Rights to be issued or paid upon vesting/settlement of the Award;
- (c) arranging for the sale of Shares otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization), including selling Shares as part of a block trade with other Participants in the Plan; or
- (d) withholding from the proceeds of the sale of Shares acquired upon vesting/settlement of the Award.

Notwithstanding the foregoing, if the Participant is an officer of the Company who is subject to Section 16 of the Exchange Act, then the Company must satisfy any withholding obligations arising upon the occurrence of a taxable or tax withholding event (other than FICA or other employment Tax-Related Items that become payable in a year prior to the year that income Tax-Related Items become payable), as applicable, by withholding Shares otherwise deliverable or an amount otherwise payable upon settlement of Dividend Equivalent Rights pursuant to method (b), unless the Board or the Committee

determines in its discretion to satisfy the obligation for Tax-Related Items by one or a combination of methods (a), (b), (c), and (d) above.

The Company may withhold or account for Tax-Related Items by considering statutory withholding amounts or other withholding rates, including maximum rates applicable in the Participant's jurisdiction(s). If the maximum rate is used, any over-withheld amount may be refunded to the Participant in cash by the Company or Employer (with no entitlement to the Share equivalent) or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay additional Tax-Related Items directly to the applicable tax authority or to the Company or Employer. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. The Company may refuse to issue or deliver to the Participant any Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

12. Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Award by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line or voice activated system established and maintained by the Company or a third party vendor designated by the Company.

13. Data Privacy. By participating in the Plan, the Participant acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 13. The Company, its related entities, and the Employer hold certain personal information about the Participant, including the Participant's name, home address and telephone number, email address, date of birth, social security number or other employee identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Stock Units or any other entitlement to Shares or equivalent benefits awarded, canceled, purchased, vested, unvested or outstanding in the Participant's favor, for the purpose of managing and administering the Plan ("**Data**"). The Company and its related entities may transfer Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Participant's participation in the Plan, and the Company and its related entities may each further transfer Data to any third parties assisting the Company or any such related entity in the implementation, administration, and management of the Plan. The Participant acknowledges that the transferors and transferees of such Data may be located anywhere in the world and hereby authorizes each of them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering, and managing the Participant's participation in the Plan, including any transfer of such Data as may be required for the administration of the Plan and the subsequent holding of Shares on the Participant's behalf to a broker or to other third party with whom the Participant may elect to deposit any Shares acquired under the Plan (whether pursuant to the Award or otherwise).

14. Notices. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Company's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Company, shall be deemed to have been duly given by the Company when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

15. Plan. The Award and all rights of the Participant under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Award Agreement. The Participant

acknowledges having read and understood the Plan, the Prospectus for the Plan, and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

16. Entire Agreement. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 15 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

17. Limitation on the Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Award Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

18. Section Headings. The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. Governing Law. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California without regard to conflict of law principles thereunder.

20. Choice of Venue. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or this Award Agreement, the parties hereby submit to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the Northern District of California, and no other courts, where this grant is made or to be performed.

21. Section 409A. For purposes of complying with Code Section 409A, if the Stock Units are considered an item of non-qualified deferred compensation subject to Code Section 409A ("**Deferred Compensation**"), the vested Stock Units shall be settled within 2 ½ months after the earlier to occur of (i) the applicable Vesting Date, and (ii) the Participant's death. In addition, if the Stock Units are Deferred Compensation and payable upon or by reference to the date of the Participant's separation from service, and the Participant is a "specified employee" within the meaning of Code Section 409A on the date the Participant experiences a separation from service, then the Stock Units shall be settled on the first business day of the seventh month following the Participant's separation from service, or, if earlier, on the date of the Participant's death, solely to the extent such delayed payment is required in order to avoid a prohibited distribution under Code Section 409A. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code and the Award shall be construed, operated, administered and interpreted consistent with that intent. The Committee may modify the terms of this Award Agreement and/or the Plan without the consent of the Participant, in the manner that the Committee may determine to be necessary or advisable in order to comply with Code Section 409A or to mitigate any additional Tax-Related Items, interest and/or penalties or other adverse tax consequences that may apply under Code Section 409A if compliance is not practical. This Section 21 does not create an obligation on the part of the Company to modify the terms of this Award Agreement or

the Plan and does not guarantee that the Stock Units or the delivery of Shares upon settlement of the Stock Units will not be subject to taxes, interest and penalties or any other adverse tax consequences under Code Section 409A. Nothing in the Award Agreement shall provide a basis for any person to take any action against the Company or any of its Subsidiaries or affiliates based on matters covered by Code Section 409A, including the tax treatment of any amounts paid under the Award Agreement, and neither the Company nor any of its Subsidiaries or affiliates will have any liability under any circumstances to the Participant or any other party if the Stock Units, the delivery of Shares upon vesting/settlement of the Stock Units or other payment or tax event hereunder that is intended to be exempt from, or compliant with, Code Section 409A, is not so exempt or compliant or for any action taken by the Company with respect thereto.

22. Severability. The provisions of the Award Agreement are severable and if any one of more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

**APPLE INC.
2014 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT**

PERFORMANCE AWARD

NOTICE OF GRANT

Name: (the "Participant")

Employee ID:

Grant Number:

Target No. of Units
Subject to Award:

Award Date: (the "Award Date")

Vesting Schedule:

Performance Period:

This restricted stock unit award (the "Award") is granted under and governed by the terms and conditions of the Apple Inc. 2014 Employee Stock Plan and the Terms and Conditions of Restricted Stock Unit Award - Performance Award (including Exhibit A thereto), which are incorporated herein by reference.

You do not have to accept the Award. If you wish to decline your Award, you should promptly notify Apple Inc.'s Stock Plan Group of your decision at stock@apple.com. If you do not provide such notification by the last day of the calendar month prior to the Vesting Date, you will be deemed to have accepted your Award on the terms and conditions set forth herein.

APPLE INC.
2014 EMPLOYEE STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

PERFORMANCE AWARD

1. **General.** These Terms and Conditions of Restricted Stock Unit Award - Performance Award (these “**Terms**”) apply to a particular restricted stock unit award (the “**Award**”) granted by Apple Inc., a California corporation (the “**Company**”), and are incorporated by reference in the Notice of Grant (the “**Grant Notice**”) corresponding to that particular grant. The recipient of the Award identified in the Grant Notice is referred to as the “**Participant**.” The effective date of grant of the Award as set forth in the Grant Notice is referred to as the “**Award Date**.” The Award was granted under and is subject to the provisions of the Apple Inc. 2014 Employee Stock Plan (the “**Plan**”). Capitalized terms are defined in the Plan if not defined herein. The Award is discretionary and has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. The Grant Notice and these Terms (including Exhibit A hereto, incorporated herein by this reference) are collectively referred to as the “**Award Agreement**” applicable to the Award.

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

3. **Vesting.** Subject to Sections 4 and 8 below, the Award shall vest and become nonforfeitable as set forth in the Grant Notice and Exhibit A hereto. (The vesting date set forth in the Grant Notice is referred to herein as a “**Vesting Date**”).

4. **Continuance of Employment.** Except as provided in this Section 4 and in Section 8 below, vesting of the Award requires continued active employment or service through the Vesting Date as a condition to the vesting of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting of the Award. For purposes of this Award Agreement, active service shall include (a) the duration of an approved leave of absence (other than a personal leave of absence) and (b) the first thirty (30) days of an approved personal leave of absence, in each case as approved by the Company, in its sole discretion. The vesting of the Award shall be tolled beginning on the thirty-first (31st) day of a personal leave of absence.

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Company, affects the Participant’s status as an employee at will who is subject to termination with or without cause, confers upon the Participant any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or services, or affects the right of the Company or any Subsidiary to increase or decrease the Participant’s other compensation or benefits. Nothing in this Section 4, however, is intended to adversely affect any independent contractual right of the Participant without his or her consent thereto.

5. Dividend and Voting Rights.

(a) **Limitations on Rights Associated with Stock Units.** The Participant shall have no rights as a shareholder of the Company, no dividend rights (except as expressly provided in Section 5(b) with respect to Dividend Equivalent Rights) and no voting rights, with respect to the Stock Units or any Shares underlying or issuable in respect of such Stock Units until such Shares are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate or book entry evidencing such Shares.

(b) **Dividend Equivalent Rights Distributions.** As of any date that the Company pays an ordinary cash dividend on its Shares, the Company shall credit the Participant with a dollar amount equal to (i) the per share cash dividend paid by the Company on its Shares on such date, multiplied by (ii) the total target number of Stock Units (with such total number adjusted pursuant to Section 11 of the Plan) subject to the Award that are outstanding immediately prior to the record date for that dividend (a "**Dividend Equivalent Right**"). Any Dividend Equivalent Rights credited pursuant to the foregoing provisions of this Section 5(b) shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate, including the obligation to satisfy the Tax-Related Items; provided, however, that the amount of any vested Dividend Equivalent Rights shall be paid in cash. For purposes of clarity, the percentage of the Dividend Equivalent Rights that are paid will correspond to the percentage of the total target number of Stock Units that vest on the Vesting Date, after giving effect to Exhibit A. No crediting of Dividend Equivalent Rights shall be made pursuant to this Section 5(b) with respect to any Stock Units which, immediately prior to the record date for that dividend, have either been paid pursuant to Section 7 or terminated pursuant to Section 8 or Exhibit A.

6. Restrictions on Transfer. Except as provided in Section 4(c) of the Plan, the Award, the Dividend Equivalent Rights and any interest therein or amount or Shares payable in respect thereof shall not be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily.

7. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following the Vesting Date pursuant to Sections 3 or 8 (and in all events not later than two and one-half (2 ½) months after such Vesting Date), the Company shall deliver to the Participant a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its discretion) equal to the number of Stock Units subject to the Award that vest on the Vesting Date, less Tax-Related Items (as defined in Section 11 below), unless such Stock Units terminate prior to the Vesting Date pursuant to Section 8. The Company's obligation to deliver Shares or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any Shares with respect to the vested Stock Units deliver to the Company any representations or other documents or assurances required pursuant to Section 13(c) of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 8.

8. Effect of Termination of Service.

(a) Except as expressly provided in Section 4 or this Section 8, the Participant's Stock Units (as well as the related Dividend Equivalent Rights) shall terminate to the extent such Stock Units have not become vested prior to the Participant's Termination of Service, meaning the first date the Participant is no longer employed by or providing services to the Company or one of its Subsidiaries (the "**Severance Date**"), regardless of the reason for the Participant's Termination of Service, whether with or without cause, voluntarily or involuntarily or whether the Participant was employed or provided services for a portion of the vesting period prior to a Vesting Date.

(b) Notwithstanding the foregoing, and except as otherwise provided by the Committee, in the event of the Participant's Termination of Service due to the Participant's Retirement (defined below) on or after the first anniversary of the Award Date, death or Disability any unvested Stock Units shall continue to be eligible to vest on the Vesting Date without regard to the Participant's Termination of Service. For purposes of this Award Agreement, "**Retirement**" means the Participant's Termination of Service on or after the Participant both has reached the age of sixty (60) and has completed ten (10) years of service with the Company, or any Subsidiary (including service with any entity acquired by the Company), as of the Severance Date, as determined in the sole discretion of the Committee. In the event the Participant's Termination of Service occurs due to Retirement prior to the first anniversary of the Award Date, this provision 8(b) shall not apply, unless the Committee shall otherwise determine.

(c) If any unvested Stock Units are terminated pursuant to this Award Agreement, such Stock Units (as well as the related Dividend Equivalent Rights) shall automatically terminate and be cancelled as of the applicable Severance Date (or, to the extent that any Stock Units remain outstanding following the Severance Date by reason of Section 8(b) but applicable performance-based vesting conditions are not satisfied, such Stock Units shall automatically terminate and be cancelled as of the Vesting Date, as provided in Exhibit A) without payment of any consideration by the Company and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

9. Recoupment. Notwithstanding any other provision herein, the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, shall be subject to any recoupment, "clawback" or similar provisions of applicable law. In addition, the Company may require the Participant to deliver or otherwise repay to the Company the Award and any Shares or other amount or property that may be issued, delivered or paid in respect of the Award, as well as any consideration that may be received in respect of a sale or other disposition of any such Shares or property, if the Company reasonably determines that one or more of the following has occurred:

(a) during the period of the Participant's employment or service with the Company or any of its Subsidiaries (the "**Employment Period**"), the Participant has committed a felony (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction);

(b) during the Employment Period or at any time thereafter, the Participant has committed or engaged in a breach of confidentiality, or an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information of the Company or any of its Subsidiaries;

(c) during the Employment Period or at any time thereafter, the Participant has committed or engaged in an act of theft, embezzlement or fraud, or materially breached any agreement to which the Participant is a party with the Company or any of its Subsidiaries.

For purposes of the foregoing, the Participant expressly and explicitly authorizes the Company to issue instructions, on the Participant's behalf, to any brokerage firm and/or third party administrator engaged by the Company to hold the Participant's Shares and other amounts acquired under the Plan to re-convey, transfer or otherwise return such Shares and/or other amounts to the Company. This Section 9 is not the Company's exclusive remedy with respect to such matters.

10. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Company's stock contemplated by Section 11 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in accordance with

such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which Dividend Equivalent Rights are credited pursuant to Section 5(b).

11. Responsibility for Taxes. The Participant acknowledges that, regardless of any action the Company and/or the Participant's employer ("**Employer**") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant or deemed by the Company or the Employer to be an appropriate charge to the Participant even if technically due by the Company or the Employer ("**Tax-Related Items**"), the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the Stock Units, the vesting of the Stock Units, the delivery of Shares, the subsequent sale of any Shares acquired at vesting and the receipt of any dividends and/or Dividend Equivalent Rights; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is or becomes subject to tax in more than one jurisdiction, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable or tax withholding event, as applicable, the Participant shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion and pursuant to such procedures as they may specify from time to time, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following:

- (a) withholding from any wages or other cash compensation payable to the Participant by the Company and/or the Employer;
- (b) withholding otherwise deliverable Shares and/or from otherwise payable Dividend Equivalent Rights to be issued or paid upon vesting/settlement of the Award;
- (c) arranging for the sale of Shares otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization), including selling Shares as part of a block trade with other Participants in the Plan; or
- (d) withholding from the proceeds of the sale of Shares acquired upon vesting/settlement of the Award.

Notwithstanding the foregoing, if the Participant is an officer of the Company who is subject to Section 16 of the Exchange Act, then the Company must satisfy any withholding obligations arising upon the occurrence of a taxable or tax withholding event (other than FICA or other employment Tax-Related Items that become payable in a year prior to the year that income Tax-Related Items become payable), as applicable, by withholding Shares otherwise deliverable or an amount otherwise payable upon settlement of Dividend Equivalent Rights pursuant to method (b), unless the Board or the Committee determines in its discretion to satisfy the obligation for Tax-Related Items by one or a combination of methods (a), (b), (c), and (d) above.

The Company may withhold or account for Tax-Related Items by considering statutory withholding amounts or other withholding rates, including maximum rates applicable in the Participant's jurisdictions(s). If the maximum rate is used, any over-withheld amount may be refunded to the

Participant in cash by the Company or Employer (with no entitlement to the Share equivalent) or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay additional Tax-Related Items directly to the applicable tax authority or to the Company or Employer. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items. The Company may refuse to issue or deliver to the Participant any Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

12. Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Award by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or a third party vendor designated by the Company.

13. Data Privacy. The Participant acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 13. The Company, its related entities, and the Employer hold certain personal information about the Participant, including the Participant's name, home address and telephone number, email address, date of birth, social security number or other employee identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Stock Units or any other entitlement to Shares or equivalent benefits awarded, canceled, purchased, vested, unvested or outstanding in the Participant's favor, for the purpose of managing and administering the Plan ("**Data**"). The Company and its related entities may transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Plan, and the Company and its related entities may each further transfer Data to any third parties assisting the Company or any such related entity in the implementation, administration and management of the Plan. The Participant acknowledges that the transferors and transferees of such Data may be located anywhere in the world and hereby authorizes each of them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Plan, including any transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on the Participant's behalf to a broker or to other third party with whom the Participant may elect to deposit any Shares acquired under the Plan (whether pursuant to the Award or otherwise).

14. Notices. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Company's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Company, shall be deemed to have been duly given by the Company when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

15. Plan. The Award and all rights of the Participant under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Award Agreement. The Participant acknowledges having read and understood the Plan, the Prospectus for the Plan, and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

16. Entire Agreement. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 15 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

17. Limitation on the Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Award Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

18. Section Headings. The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. Governing Law. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California without regard to conflict of law principles thereunder.

20. Choice of Venue. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or this Award Agreement, the parties hereby submit to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

21. Section 409A. For purposes of complying with Code Section 409A, if the Stock Units are considered an item of non-qualified deferred compensation subject to Code Section 409A (“**Deferred Compensation**”), the vested Stock Units shall be settled within 2 ½ months after the Vesting Date. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code and the Award shall be construed, operated, administered and interpreted consistent with that intent. The Committee may modify the terms of this Award Agreement and/or the Plan without the consent of the Participant, in the manner that the Committee may determine to be necessary or advisable in order to comply with Code Section 409A or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Code Section 409A if compliance is not practical. This Section 21 does not create an obligation on the part of the Company to modify the terms of this Award Agreement or the Plan and does not guarantee that the Stock Units or the delivery of Shares upon settlement of the Stock Units will not be subject to Tax-Related Items, interest and penalties or any other adverse tax consequences under Code Section 409A. Nothing in this Award Agreement shall provide a basis for any person to take any action against the Company or any of its Subsidiaries or affiliates based on matters covered by Code Section 409A, including the tax treatment of any amounts paid under this Award Agreement, and neither the Company nor any of its Subsidiaries or affiliates will have any liability under any circumstances to the Participant or any other party if the Stock Units, the delivery of Shares upon vesting/settlement of the Stock Units or other payment or tax event hereunder that is intended to be exempt from, or compliant with, Code Section 409A, is not so exempt or compliant or for any action taken by the Company with respect thereto.

22. Severability. The provisions of this Award Agreement are severable and if any one of more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

* * * * *

PERFORMANCE AWARD

EXHIBIT A

PERFORMANCE VESTING REQUIREMENTS

The Stock Units (and related Dividend Equivalent Rights) subject to the Award that will vest on the Vesting Date will be determined based on the Company's relative total shareholder return ("TSR") Percentile for the Performance Period.

The percentage of the Stock Units (and related Dividend Equivalent Rights) that vest on the Vesting Date will be determined as follows:

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

For TSR Percentile performance for the Performance Period between the levels indicated above, the portion of the Stock Units that will vest on the Vesting Date will be determined on a straight-line basis (*i.e.*, linearly interpolated) between the two nearest vesting percentages indicated above.

Notwithstanding the foregoing, if the Company's TSR for the Performance Period is negative, in no event shall more than one hundred percent (100%) of the target Stock Units vest.

The number of Stock Units that vest on the Vesting Date will be rounded to the nearest whole unit, and the balance of the Stock Units will not vest and will terminate on that Vesting Date.

For purposes of the Award, the following definitions will apply:

- "**TSR Percentile**" means the percentile ranking of the Company's TSR among the TSRs for the Comparison Group members for the Performance Period. In determining the Company's TSR Percentile for the Performance Period, in the event that the Company's TSR for the Performance Period is equal to the TSR(s) of one or more other Comparison Group members for that same period, the Company's TSR Percentile ranking will be determined by ranking the Company's TSR for that period as being greater than such other Comparison Group members.
- "**Comparison Group**" means the Company and each other company included in the Standard & Poor's 500 index on the first day of the Performance Period and, except as provided below, the common stock (or similar equity security) of which continues to be listed or traded on a national securities exchange through the last trading day of the Performance Period. In the event a member of the Comparison Group files for bankruptcy or liquidates due to an insolvency, such company shall continue to be treated as a Comparison Group member, and such company's Ending Price will be treated as \$0 if the common stock (or similar equity security) of such company is no longer listed or

traded on a national securities exchange on the last trading day of the Performance Period. In the event of a formation of a new parent company by a Comparison Group member, substantially all of the assets and liabilities of which consist immediately after the transaction of the equity interests in the original Comparison Group member or the assets and liabilities of such Comparison Group member immediately prior to the transaction, such new parent company shall be substituted for the Comparison Group member to the extent (and for such period of time) as its common stock (or similar equity securities) are listed or traded on a national securities exchange but the common stock (or similar equity securities) of the original Comparison Group member are not. In the event of a merger or other business combination of two Comparison Group members (including, without limitation, the acquisition of one Comparison Group member, or all or substantially all of its assets, by another Comparison Group member), the surviving, resulting or successor entity, as the case may be, shall continue to be treated as a member of the Comparison Group, provided that the common stock (or similar equity security) of such entity is listed or traded on a national securities exchange through the last trading day of the Performance Period. With respect to the preceding two sentences, the applicable stock prices shall be equitably and proportionately adjusted to the extent (if any) necessary to preserve the intended incentives of the awards and mitigate the impact of the transaction.

- “**TSR**” shall be determined with respect to the Company and any other Comparison Group member by dividing: (a) the sum of (i) the difference obtained by subtracting the applicable Beginning Price from the applicable Ending Price plus (ii) all dividends and other distributions during the Performance Period by (b) the applicable Beginning Price. Any non-cash distributions shall be valued at fair market value. For the purpose of determining TSR, the value of dividends and other distributions shall be determined by treating them as reinvested in additional shares of stock at the closing market price on the date of distribution.
- “**Beginning Price**” means, with respect to the Company and any other Comparison Group member, the average of the closing market prices of such company’s common stock on the principal exchange on which such stock is traded for the twenty (20) consecutive trading days beginning with the first trading day of the Performance Period. For the purpose of determining Beginning Price, the value of dividends and other distributions shall be determined by treating them as reinvested in additional shares of stock at the closing market price on the date of distribution.
- “**Ending Price**” means, with respect to the Company and any other Comparison Group member, the average of the closing market prices of such company’s common stock on the principal exchange on which such stock is traded for the twenty (20) consecutive trading days ending on the last trading day of the Performance Period. For the purpose of determining Ending Price, the value of dividends and other distributions shall be determined by treating them as reinvested in additional shares of stock at the closing market price on the date of distribution.

With respect to the computation of TSR, Beginning Price, and Ending Price, there shall also be an equitable and proportionate adjustment to the extent (if any) necessary to preserve the intended incentives of the awards and mitigate the impact of any stock split, stock dividend or reverse stock split occurring during the Performance Period (or during the applicable 20-day period in determining Beginning Price or Ending Price, as the case may be).

In the event of any ambiguity or discrepancy, the determination of the Committee shall be final and binding.

