

APPLE INC  
Form 10-K/A  
January 25, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K/A**  
**(Amendment No. 1)**

(Mark One)

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

or

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

Commission file number: 000-10030

**Apple Inc.**

(Exact name of registrant as specified in its charter)

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**California**  
(State or other jurisdiction of incorporation or organization)

**94-2404110**  
(I.R.S. Employer Identification No.)

**1 Infinite Loop**

**Cupertino, California**  
(Address of principal executive offices)

**95014**  
(Zip Code)

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

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

**Common Stock, no par value**  
(Title of class)

**The NASDAQ Global Select Market**  
(Name of exchange on which registered)

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

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

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

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Large accelerated filer

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

Accelerated filer

Smaller Reporting Company

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

Yes  No

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

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

### **DOCUMENTS INCORPORATED BY REFERENCE**

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

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

**Explanatory Note**

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

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

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

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

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

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

Part II, Item 6. Selected Financial Data

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

Part II, Item 8. Financial Statements and Supplementary Data

Part IV, Item 15. Exhibits, Financial Statement Schedules

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

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

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

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

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

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

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

**Executive Overview**

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

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

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

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

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

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

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

## **Critical Accounting Policies and Estimates**

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



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

### *Revenue Recognition*

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

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

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

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

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

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

*Valuation and Impairment of Marketable Securities*

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

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### *Allowance for Doubtful Accounts*

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

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

### *Inventory Valuation and Inventory Purchase Commitments*

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

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

### *Warranty Costs*

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

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

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

*Income Taxes*

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

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

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

*Legal and Other Contingencies*

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

**Table of Contents****Net Sales**

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

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

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