

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

FORM 10-K

(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, 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               |

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 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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 27, 2020, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$1,070,633,000,000. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the Registrant as of such date have been excluded because such persons may be deemed to be affiliates. This determination of executive officers and directors as affiliates is not necessarily a conclusive determination for any other purposes.

17,001,802,000 shares of common stock were issued and outstanding as of October 16, 2020.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2021 annual meeting of shareholders (the "2021 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2021 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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**Apple Inc.**  
**Form 10-K**  
**For the Fiscal Year Ended September 26, 2020**  
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*This Annual Report on Form 10-K (“Form 10-K”) contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Many of the forward-looking statements are located in Part II, Item 7 of this Form 10-K under the heading “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. For example, statements in this Form 10-K 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 this 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.*

## **PART I**

### **Item 1. Business**

#### **Company Background**

The Company designs, manufactures and markets smartphones, personal computers, tablets, wearables and accessories, and sells a variety of related services. The Company’s fiscal year is the 52- or 53-week period that ends on the last Saturday of September. The Company is a California corporation established in 1977.

#### **Products**

##### *iPhone*

iPhone® is the Company’s line of smartphones based on its iOS operating system. During 2020, the Company released a new iPhone SE. In October 2020, the Company announced four new iPhone models with 5G technology: iPhone 12 and iPhone 12 Pro were available starting in October 2020, and iPhone 12 Pro Max and iPhone 12 mini are both expected to be available in November 2020.

##### *Mac*

Mac® is the Company’s line of personal computers based on its macOS® operating system. During 2020, the Company released a new 16-inch MacBook Pro®, a fully redesigned Mac Pro®, and updated versions of its MacBook Air®, 13-inch MacBook Pro and 27-inch iMac®.

##### *iPad*

iPad® is the Company’s line of multi-purpose tablets based on its iPadOS® operating system. During 2020, the Company released an updated iPad Pro®. In September 2020, the Company released an eighth-generation iPad and introduced an all-new iPad Air®, which was available starting in October 2020.

##### *Wearables, Home and Accessories*

Wearables, Home and Accessories includes AirPods®, Apple TV®, Apple Watch®, Beats® products, HomePod®, iPod touch® and other Apple-branded and third-party accessories. AirPods are the Company’s wireless headphones that interact with Siri®. During 2020, the Company released AirPods Pro®. Apple Watch is the Company’s line of smart watches based on its watchOS® operating system. In September 2020, the Company released Apple Watch Series 6 and a new Apple Watch SE. In October 2020, the Company announced HomePod mini™, which is expected to be available in November 2020.

#### **Services**

##### *Advertising*

The Company’s advertising services include various third-party licensing arrangements and the Company’s own advertising platforms.

### *AppleCare*

The Company offers a portfolio of fee-based service and support products under the AppleCare® brand. The offerings provide priority access to Apple technical support, access to the global Apple authorized service network for repair and replacement services, and in many cases additional coverage for instances of accidental damage and/or theft and loss, depending on the country and type of product.

### *Cloud Services*

The Company's cloud services store and keep customers' content up-to-date and available across multiple Apple devices and Windows personal computers.

### *Digital Content*

The Company operates various platforms, including the App Store®, that allow customers to discover and download applications and digital content, such as books, music, video, games and podcasts.

The Company also offers digital content through subscription-based services, including Apple Arcade<sup>SM</sup>, a game subscription service; Apple Music®, which offers users a curated listening experience with on-demand radio stations; Apple News+<sup>SM</sup>, a subscription news and magazine service; and Apple TV+<sup>SM</sup>, which offers exclusive original content. In September 2020, the Company announced Apple Fitness+<sup>SM</sup>, a personalized fitness service built for Apple Watch, which is expected to be available before the end of calendar 2020.

### *Payment Services*

The Company offers payment services, including Apple Card™, a co-branded credit card, and Apple Pay®, a cashless payment service.

### **Markets and Distribution**

The Company's customers are primarily in the consumer, small and mid-sized business, education, enterprise and government markets. The Company sells its products and resells third-party products in most of its major markets directly to consumers, small and mid-sized businesses, and education, enterprise and government customers through its retail and online stores and its direct sales force. The Company also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and resellers. During 2020, the Company's net sales through its direct and indirect distribution channels accounted for 34% and 66%, respectively, of total net sales.

No single customer accounted for more than 10% of net sales in 2020, 2019 and 2018.

### **Competition**

The markets for the Company's products and services are highly competitive, and are characterized by aggressive price competition and resulting downward pressure on gross margins, frequent introduction of new products and services, short product life cycles, evolving industry standards, continual improvement in product price and performance characteristics, rapid adoption of technological advancements by competitors, and price sensitivity on the part of consumers and businesses. Many of the Company's competitors seek to compete primarily through aggressive pricing and very low cost structures, and by emulating the Company's products and infringing on its intellectual property.

The Company's ability to compete successfully depends heavily on ensuring the continuing and timely introduction of innovative new products, services and technologies to the marketplace. The Company believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications and related services. Principal competitive factors important to the Company include price, product and service features (including security features), relative price and performance, product and service quality and reliability, design innovation, a strong third-party software and accessories ecosystem, marketing and distribution capability, service and support, and corporate reputation.

The Company is focused on expanding its market opportunities related to smartphones, personal computers, tablets and other electronic devices and services. The Company faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software, and service offerings with large customer bases. In addition, some of the Company's competitors have broader product lines, lower-priced products and a larger installed base of active devices. Competition has been particularly intense as competitors have aggressively cut prices and lowered product margins. Certain competitors may have the resources, experience or cost structures to provide products at little or no profit or even at a loss. The Company's services compete with business models that provide content to users for free and use illegitimate means to obtain third-party digital content and applications. The Company expects competition in these markets to intensify significantly as competitors imitate the Company's product features and applications within their products, or collaborate to offer integrated solutions that are more competitive than those they currently offer.

### **Supply of Components**

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.

### **Research and Development**

Because the industries in which the Company competes are characterized by rapid technological advances, the Company's ability to compete successfully depends heavily upon its ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. The Company continues to develop new technologies to enhance existing products and services, and to expand the range of its offerings through research and development ("R&D"), licensing of intellectual property and acquisition of third-party businesses and technology.

### **Intellectual Property**

The Company currently holds a broad collection of intellectual property rights relating to certain aspects of its hardware devices, accessories, software and services. This includes patents, copyrights, trademarks, service marks, trade dress and other forms of intellectual property rights in the U.S. and various foreign countries. Although the Company believes the ownership of such intellectual property rights is an important factor in its business and that its success does depend in part on such ownership, the Company relies primarily on the innovative skills, technical competence and marketing abilities of its personnel.

The Company regularly files patent applications to protect innovations arising from its research, development and design, and is currently pursuing thousands of patent applications around the world. Over time, the Company has accumulated a large portfolio of issued patents, including utility patents, design patents and others. The Company also holds copyrights relating to certain aspects of its products and services. No single intellectual property right is solely responsible for protecting the Company's products. The Company believes the duration of its intellectual property rights is adequate relative to the expected lives of its products.

In addition to Company-owned intellectual property, many of the Company's products and services are designed to include intellectual property owned by third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of the Company's products, processes and services. While the Company has generally been able to obtain such licenses on commercially reasonable terms in the past, there is no guarantee that such licenses could be obtained in the future on reasonable terms or at all.

**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.

**Employees**

As of September 26, 2020, the Company had approximately 147,000 full-time equivalent employees.

**Available Information**

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities and Exchange Commission (the "SEC"). Such reports and other information filed by the Company with the SEC are available free of charge at [investor.apple.com/investor-relations/sec-filings/default.aspx](http://investor.apple.com/investor-relations/sec-filings/default.aspx) when such reports are available on the SEC's website. The Company periodically provides other information for investors on its corporate website, [www.apple.com](http://www.apple.com), and its investor relations website, [investor.apple.com](http://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-K is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

## Item 1A. Risk Factors

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-K. The following information 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 accompanying notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K.

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 below, 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.

Because of the following factors, as well as other factors affecting the Company's financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

***The Company's business, results of operations, financial condition and stock price have been adversely affected and could in the future be materially adversely affected by the COVID-19 pandemic.***

COVID-19 has spread rapidly throughout the world, prompting governments and businesses to take unprecedented measures in response. Such measures have included 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 adversely affected and could in the future materially adversely impact the Company's business, results of operations, financial condition and stock price. Following the initial outbreak of the virus, the Company experienced disruptions to its manufacturing, supply chain and logistical services provided by outsourcing partners, resulting in temporary iPhone supply shortages that affected sales worldwide. During the course of the pandemic, the Company's retail stores, as well as channel partner points of sale, have been temporarily closed at various times. In many cases, where stores and points of sale have reopened they are subject to operating restrictions to protect public health and the health and safety of employees and customers. The Company has at times required substantially all of its employees to work remotely.

The Company is continuing to monitor the situation and take appropriate actions in accordance with the recommendations and requirements of relevant authorities. The full extent of the 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 development and availability of effective treatments and vaccines, the imposition of and compliance with protective public safety measures, and the impact of the pandemic on the global economy and demand for consumer products. Additional future impacts on the Company may include, but are not limited to, material adverse effects on: demand for the Company's products and services; the Company's supply chain and sales and distribution channels; the Company's ability to execute its strategic plans; and the Company's profitability and cost structure.

To the extent the COVID-19 pandemic adversely affects the Company's business, results of operations, financial condition and stock price, it may also have the effect of heightening many of the other risks described in this Part I, Item 1A of this Form 10-K.

***Global and regional economic conditions could materially adversely affect the Company's business, results of operations, financial condition and growth.***

The Company has international operations with sales outside the U.S. representing a majority of the Company's total net sales. In addition, a majority of the Company's supply chain, and its manufacturing and assembly activities, are located outside the U.S. As a result, the Company's operations and performance depend significantly on global and regional economic conditions.

Adverse macroeconomic conditions, including inflation, slower growth or recession, new or increased tariffs and other barriers to trade, changes to fiscal and monetary policy, tighter credit, higher interest rates, high unemployment and currency fluctuations could materially adversely affect demand for the Company's products and services. In addition, consumer confidence and spending could be adversely affected in response to financial market volatility, negative financial news, conditions in the real estate and mortgage markets, declines in income or asset values, changes to fuel and other energy costs, labor and healthcare costs and other economic factors.



In addition to an adverse impact on demand for the Company's products, uncertainty about, or a decline in, global or regional economic conditions could have a significant impact on the Company's suppliers, contract manufacturers, logistics providers, distributors, cellular network carriers and other channel partners. Potential effects include financial instability; inability to obtain credit to finance operations and purchases of the Company's products; and insolvency.

A downturn in the economic environment could also lead to increased credit and collectibility risk on the Company's trade receivables; the failure of derivative counterparties and other financial institutions; limitations on the Company's ability to issue new debt; reduced liquidity; and declines in the fair value of the Company's financial instruments. These and other economic factors could materially adversely affect the Company's business, results of operations, financial condition and growth.

***Global markets for the Company's products and services are highly competitive and subject to rapid technological change, and the Company may be unable to compete effectively in these markets.***

The Company's products and services are offered in highly competitive global markets characterized by aggressive price competition and resulting downward pressure on gross margins, frequent introduction of new products and services, short product life cycles, evolving industry standards, continual improvement in product price and performance characteristics, rapid adoption of technological advancements by competitors, and price sensitivity on the part of consumers and businesses.

The Company's ability to compete successfully depends heavily on ensuring the continuing and timely introduction of innovative new products, services and technologies to the marketplace. The Company believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications and related services. As a result, the Company must make significant investments in R&D. There can be no assurance that these investments will achieve expected returns, and the Company may not be able to develop and market new products and services successfully.

The Company currently holds a significant number of patents, trademarks and copyrights and has registered, and applied to register, numerous patents, trademarks and copyrights. In contrast, many of the Company's competitors seek to compete primarily through aggressive pricing and very low cost structures, and by emulating the Company's products and infringing on its intellectual property. Effective intellectual property protection may not be consistently available in every country in which the Company operates. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Company's intellectual property, the Company's ability to maintain a competitive advantage could be adversely affected.

The Company has a minority market share in the global smartphone, personal computer and tablet markets. The Company faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships. In addition, some of the Company's competitors have broader product lines, lower-priced products and a larger installed base of active devices. Competition has been particularly intense as competitors have aggressively cut prices and lowered product margins. Certain competitors may have the resources, experience or cost structures to provide products at little or no profit or even at a loss. Some of the markets in which the Company competes have from time to time experienced little to no growth or contracted overall.

Additionally, the Company faces significant competition as competitors imitate the Company's product features and applications within their products or collaborate to offer solutions that are more competitive than those they currently offer. The Company also expects competition to intensify as competitors imitate the Company's approach to providing components seamlessly within their offerings or work collaboratively to offer integrated solutions.

The Company's services also face substantial competition, including from companies that have significant resources and experience and have established service offerings with large customer bases. The Company competes with business models that provide content to users for free. The Company also competes with illegitimate means to obtain third-party digital content and applications.

The Company's financial condition and operating results depend substantially on the Company's ability to continually improve its products and services to maintain their functional and design advantages. There can be no assurance the Company will be able to continue to provide products and services that compete effectively.

***To remain competitive and stimulate customer demand, the Company must successfully manage frequent introductions and transitions of products and services.***

Due to the highly volatile and competitive nature of the industries in which the Company competes, the Company must continually introduce new products, services and technologies, enhance existing products and services, effectively stimulate customer demand for new and upgraded products and services, and successfully manage the transition to these new and upgraded products and services. The success of new product and service introductions depends on a number of factors including, but not limited to, timely and successful development, market acceptance, the Company's ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand, and the risk that new products and services may have quality or other defects or deficiencies. Accordingly, the Company cannot determine in advance the ultimate effect of new product and service introductions and transitions.

***The Company depends on the performance of carriers, wholesalers, retailers and other resellers.***

The Company distributes its products through cellular network carriers, wholesalers, retailers and resellers, many of whom distribute products from competing manufacturers. The Company also sells its products and resells third-party products in most of its major markets directly to consumers, small and mid-sized businesses, and education, enterprise and government customers through its retail and online stores and its direct sales force.

Some carriers providing cellular network service for iPhone offer financing, installment payment plans or subsidies for users' purchases of the device. There is no assurance that such offers will be continued at all or in the same amounts upon renewal of the Company's agreements with these carriers or in agreements the Company enters into with new carriers.

The Company has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers' stores with Company employees and contractors, and improving product placement displays. These programs can require a substantial investment while not assuring return or incremental sales. The financial condition of these resellers could weaken, these resellers could stop distributing the Company's products, or uncertainty regarding demand for some or all of the Company's products could cause resellers to reduce their ordering and marketing of the Company's products.

***The Company is exposed to the risk of write-downs on the value of its inventory and other assets, in addition to purchase commitment cancellation risk.***

The Company records a write-down for product and component inventories that have become obsolete or exceed anticipated demand, or for which cost exceeds net realizable value. The Company also accrues necessary cancellation fee reserves for orders of excess products and components. The Company reviews long-lived assets, including capital assets held at its suppliers' facilities and inventory prepayments, for impairment whenever events or circumstances indicate the assets may not be recoverable. If the Company determines that an impairment has occurred, it records a write-down equal to the amount by which the carrying value of the asset exceeds its fair value. Although the Company believes its inventory, capital assets, inventory prepayments and other assets and purchase commitments are currently recoverable, no assurance can be given that the Company will not incur write-downs, fees, impairments and other charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Company competes.

The Company orders components for its products and builds inventory in advance of product announcements and shipments. Manufacturing purchase obligations cover the Company's forecasted component and manufacturing requirements, typically for periods up to 150 days. Because the Company's markets are volatile, competitive and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments.

***Future operating results depend upon the Company's ability to obtain components in sufficient quantities on commercially reasonable terms.***

Because the Company currently obtains certain components from single or limited sources, the Company is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations that could materially adversely affect the Company's financial condition and operating results. While the Company has entered into agreements for the supply of many components, there can be no assurance that the Company will be able to extend or renew these agreements on similar terms, or at all. Component suppliers may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting the Company's ability to obtain sufficient quantities of components on commercially reasonable terms. The effects of global or regional economic conditions on the Company's suppliers, described in "Global and regional economic conditions could materially adversely affect the Company's business, results of operations, financial condition and growth," above, also could affect the Company's ability to obtain components. Therefore, the Company remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results.

The Company's new products 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, can be affected for any number of reasons, including if suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the source, or to identify and obtain sufficient quantities from an alternative source.

***The Company depends on component and product manufacturing and logistical services provided by outsourcing partners, many of which are located outside of the U.S.***

Substantially all of the Company's manufacturing is performed in whole or in part by outsourcing partners located primarily in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. The Company has also outsourced much of its transportation and logistics management. While these arrangements can lower operating costs, they also reduce the Company's direct control over production and distribution. Such diminished control may have an adverse effect on the quality or quantity of products or services, or the Company's flexibility to respond to changing conditions. Although arrangements with these partners may contain provisions for product defect expense reimbursement, the Company generally remains responsible to the consumer for warranty and out-of-warranty service in the event of product defects and could experience an unanticipated product defect liability. While the Company relies on its partners to adhere to its supplier code of conduct, material violations of the supplier code of conduct could occur.

The Company relies on single-source outsourcing partners in the U.S., Asia and Europe to supply and manufacture many components, and on outsourcing partners primarily located in Asia, for final assembly of substantially all of the Company's hardware products. Any failure of these partners to perform can have a negative impact on the Company's cost or supply of components or finished goods. In addition, manufacturing or logistics in these locations or transit to final destinations can be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions, economic, business, labor, environmental, public health or political issues, or international trade disputes.

The Company has invested in manufacturing process equipment, much of which is held at certain of its outsourcing partners, and has made prepayments to certain of its suppliers associated with long-term supply agreements. While these arrangements help ensure the supply of components and finished goods, if these outsourcing partners or suppliers experience severe financial problems or other disruptions in their business, such continued supply can be reduced or terminated, and the recoverability of manufacturing process equipment or prepayments can be negatively impacted.

***The Company's products and services may be affected from time to time by design and manufacturing defects that could materially adversely affect the Company's business and result in harm to the Company's reputation.***

The Company offers complex hardware and software products and services that can be affected by design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by the Company, often have issues that can unexpectedly interfere with the intended operation of hardware or software products. Defects can also exist in components and products the Company purchases from third parties. Component defects could make the Company's products unsafe and create a risk of environmental or property damage and personal injury. These risks may increase as the Company's products are introduced into specialized applications, including healthcare. In addition, the Company's service offerings may have quality issues and from time to time experience outages, service slowdowns or errors. As a result, the Company's services may not perform as anticipated and may not meet customer expectations. There can be no assurance the Company will be able to detect and fix all issues and defects in the hardware, software and services it offers. Failure to do so could result in widespread technical and performance issues affecting the Company's products and services. In addition, the Company can be exposed to product liability claims, recalls, product replacements or modifications, write-offs of inventory, property, plant and equipment, and/or intangible assets, and significant warranty and other expenses, including litigation costs and regulatory fines. Quality problems can also adversely affect the experience for users of the Company's products and services, and result in harm to the Company's reputation, loss of competitive advantage, poor market acceptance, reduced demand for products and services, delay in new product and service introductions and lost sales.

***The Company relies on access to third-party digital content, which may not be available to the Company on commercially reasonable terms or at all.***

The Company contracts with numerous third parties to offer their digital content to customers. This includes the right to sell currently available content. The licensing or other distribution arrangements with these third parties are for relatively short terms and do not guarantee the continuation or renewal of these arrangements on commercially reasonable terms, if at all. Some third-party content providers and distributors currently or in the future may offer competing products and services, and can take actions to make it more difficult or impossible for the Company to license or otherwise distribute their content in the future. Other content owners, providers or distributors may seek to limit the Company's access to, or increase the cost of, such content. The Company may be unable to continue to offer a wide variety of content at commercially reasonable prices with acceptable usage rules, or continue to expand its geographic reach. Failure to obtain the right to make third-party digital content available, or to make such content available on commercially reasonable terms, could have a material adverse impact on the Company's financial condition and operating results.

Some third-party digital content providers require the Company to provide digital rights management and other security solutions. If requirements change, the Company may have to develop or license new technology to provide these solutions. There is no assurance the Company will be able to develop or license such solutions at a reasonable cost and in a timely manner. In addition, certain countries have passed or may propose and adopt legislation that would force the Company to license its digital rights management, which could lessen the protection of content and subject it to piracy and also could negatively affect arrangements with the Company's content providers.

***The Company's future performance depends in part on support from third-party software developers.***

The Company believes decisions by customers to purchase its hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for the Company's products. If third-party software applications and services cease to be developed and maintained for the Company's products, customers may choose not to buy the Company's products.

The Company believes the availability of third-party software applications and services for its products depends in part on the developers' perception and analysis of the relative benefits of developing, maintaining and upgrading such software and services for the Company's products compared to competitors' platforms, such as Android for smartphones and tablets and Windows for personal computers. This analysis may be based on factors such as the market position of the Company and its products, the anticipated revenue that may be generated, expected future growth of product sales, and the costs of developing such applications and services.

The Company's minority market share in the global smartphone, personal computer and tablet markets could make developers less inclined to develop or upgrade software for the Company's products and more inclined to devote their resources to developing and upgrading software for competitors' products with larger market share. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Company's devices may suffer.

The Company relies on the continued availability and development of compelling and innovative software applications for its products. The Company's products and operating systems are subject to rapid technological change, and if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not take advantage of these changes to deliver improved customer experiences or might not operate correctly and may result in dissatisfied customers.

The Company sells and delivers third-party applications for its products through the App Store. For the vast majority of applications, developers keep all of the revenue they generate on the App Store. The Company only retains a commission from sales of applications through its platforms and in situations where a developer offers purchases for digital features, services, or goods within an application. If developers reduce their use of the Company's platforms, including in-app purchases, then the volume of sales, and the commission that the Company earns on those sales, would decrease. If the rate of the commission that the Company retains on such sales is reduced, or if it is otherwise narrowed in scope or eliminated, the Company's financial condition and operating results could be materially adversely affected.

***The Company relies on access to third-party intellectual property, which may not be available to the Company on commercially reasonable terms or at all.***

Many of the Company's products and services are designed to include intellectual property owned by third parties, which requires licenses from those third parties. In addition, because of technological changes in the industries in which the Company currently competes or in the future may compete, current extensive patent coverage and the rapid rate of issuance of new patents, the Company's products and services may unknowingly infringe existing patents or intellectual property rights of others. From time to time, the Company has been notified that it may be infringing certain patents or other intellectual property rights of third parties. Based on experience and industry practice, the Company believes licenses to such third-party intellectual property can generally be obtained on commercially reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on commercially reasonable terms or at all. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude the Company from selling certain products or services, or otherwise have a material adverse impact on the Company's financial condition and operating results.

***The Company's financial condition and operating results could be adversely impacted by unfavorable results of legal proceedings or government investigations.***

The Company is subject to various claims, legal proceedings and government investigations that have arisen in the ordinary course of business and have not yet been fully resolved, and new matters may arise in the future. In addition, agreements entered into by the Company sometimes include indemnification provisions which can subject the Company to costs and damages in the event of a claim against an indemnified third party. The number of claims, legal proceedings and government investigations involving the Company, and the alleged magnitude of such claims, proceedings and government investigations, has generally increased over time and may continue to increase.

The Company has faced and continues to face a significant number of patent claims relating to its cellular-enabled products, and new claims may arise in the future. For example, technology and other patent-holding companies frequently assert their patents and seek royalties and often enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. The Company is vigorously defending infringement actions in courts in several U.S. jurisdictions, as well as internationally in various countries. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the merit of particular claims, defending against litigation or responding to government investigations can be expensive, time-consuming, disruptive to the Company's operations and distracting to management. In recognition of these considerations, the Company may enter into agreements or other arrangements to settle litigation and resolve such challenges. No assurance can be given that such agreements can be obtained on acceptable terms or that litigation will not occur. These agreements may also significantly increase the Company's cost of sales and operating expenses.

Except as described in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies," 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, including matters related to infringement of intellectual property rights.

The outcome of litigation or government investigations is inherently uncertain. If one or more legal matters were resolved against the Company or an indemnified third party 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. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Company, and could require the Company to change its business practices or limit the Company's ability to offer certain products and services, all of which could materially adversely affect its financial condition and operating results.

While the Company maintains insurance coverage for certain types of claims, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise.

***The Company is subject to complex and changing laws and regulations worldwide, which exposes the Company to potential liabilities, increased costs and other adverse effects on the Company's business.***

The Company's global operations are subject to complex and changing laws and regulations on subjects including, but not limited to: antitrust; privacy, data security and data localization; consumer protection; advertising, sales, billing and e-commerce; product liability; intellectual property ownership and infringement; digital platforms; Internet, telecommunications, and mobile communications; media, television, film and digital content; availability of third-party software applications and services; labor and employment; anti-corruption; import, export and trade; foreign exchange controls and cash repatriation restrictions; anti-money laundering; foreign ownership and investment; tax; and environmental, health and safety.

Compliance with these laws and regulations may be onerous and expensive, increasing the cost of conducting the Company's global operations. Changes to laws and regulations can adversely affect the Company's business by increasing the Company's costs, limiting the Company's ability to offer a product or service to customers, requiring changes to the Company's supply chain and business practices or otherwise making the Company's products and services less attractive to customers. The Company has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Company's employees, contractors or agents will not violate such laws and regulations or the Company's policies and procedures. If the Company is found to have violated laws and regulations, it could materially adversely affect the Company's reputation, financial condition and operating results.

The technology industry, including, in some instances, the Company, is subject to intense media, political and regulatory scrutiny, which exposes the Company to government investigations, legal actions and penalties. For example, the Company is subject to antitrust investigations in various jurisdictions around the world, which can result in legal proceedings and claims against the Company that could, individually or in the aggregate, have a materially adverse impact on the Company's financial condition and operating results. In addition, if enacted, legislative and other proposals to further regulate technology companies could result in changes to the Company's business, including requiring the Company to modify its product and service offerings, limiting the Company's ability to invest in strategic acquisitions, or affecting the Company's business relationships with other technology companies, and could have a materially adverse impact on the Company's financial condition and operating results. Further, the Company's business partners are or may become subject to litigation that, if resolved against them, could affect the Company's relationships with these business partners and have a materially adverse impact on the Company's financial condition and operating results. There can be no assurance that the Company's business will not be materially adversely affected, individually or in the aggregate, by the outcomes of such investigations, litigation or changes to laws and regulations in the future.

***The Company's retail stores have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.***

The Company's retail stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel. The Company also has entered into substantial lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company's more typical retail stores. Due to the high cost structure associated with the Company's retail stores, a decline in sales or the closure or poor performance of an individual store or multiple stores, including as a result of protective public safety measures in response to the COVID-19 pandemic, could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs.

The Company's retail operations are subject to many factors that pose risks and uncertainties and could adversely impact the Company's financial condition and operating results, including macro-economic factors that could have an adverse effect on general retail activity. Other factors include, but are not limited to, the Company's ability to: manage costs associated with retail store construction and operation; manage relationships with existing retail partners; manage costs associated with fluctuations in the value of retail inventory; and obtain and renew leases in quality retail locations at a reasonable cost.

***Investment in new business strategies and acquisitions could disrupt the Company's ongoing business, present risks not originally contemplated and adversely affect the Company's reputation, financial condition and operating results.***

The Company has invested, and in the future may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater-than-expected liabilities and expenses, economic, political, legal and regulatory challenges associated with operating in new businesses, regions or countries, inadequate return on capital, potential impairment of tangible and intangible assets, and significant write-offs. These new ventures are inherently risky and may not be successful. The failure of any significant investment could adversely affect the Company's reputation, financial condition and operating results.

***The Company's business and reputation may be impacted by information technology system failures or network disruptions.***

The Company is exposed to information technology system failures or network disruptions caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy and other continuity measures may be ineffective or inadequate, and the Company's business continuity and disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions can adversely impact the Company's business by, among other things, preventing access to the Company's online services, interfering with customer transactions or impeding the manufacturing and shipping of the Company's products. These events could materially adversely affect the Company's reputation, financial condition and operating results.

***There may be losses or unauthorized access to or releases of confidential information, including personally identifiable information, that could subject the Company to significant reputational, financial, legal and operational consequences.***

The Company's business requires it to use and store confidential information including, among other things, personally identifiable information ("PII") with respect to the Company's customers and employees. The Company devotes significant resources to network and data security, including through the use of encryption and other security measures intended to protect its systems and data. But these measures cannot provide absolute security, and losses or unauthorized access to or releases of confidential information occur and could materially adversely affect the Company's reputation, financial condition and operating results.

The Company's business also requires it to share confidential information with suppliers and other third parties. Although the Company takes steps to secure confidential information that is provided to third parties, such measures are not always effective and losses or unauthorized access to or releases of confidential information occur and could materially adversely affect the Company's reputation, financial condition and operating results.

For example, the Company may experience a security breach impacting the Company's information technology systems that compromises the confidentiality, integrity or availability of confidential information. Such an incident could, among other things, impair the Company's ability to attract and retain customers for its products and services, impact the Company's stock price, materially damage supplier relationships, and expose the Company to litigation or government investigations, which could result in penalties, fines or judgments against the Company.

Although malicious attacks perpetrated to gain access to confidential information, including PII, affect many companies across various industries, the Company is at a relatively greater risk of being targeted because of its high profile and the value of the confidential information it creates, owns, manages, stores and processes.

The Company has implemented systems and processes intended to secure its information technology systems and prevent unauthorized access to or loss of sensitive data, including through the use of encryption and authentication technologies. As with all companies, these security measures may not be sufficient for all eventualities and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. For example, third parties fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may, in turn, be used to access the Company's information technology systems. To help protect customers and the Company, the Company monitors its services and systems for unusual activity and may freeze accounts under suspicious circumstances, which, among other things, may result in the delay or loss of customer orders or impede customer access to the Company's products and services.

In addition to the risks relating to general confidential information described above, the Company is also subject to specific obligations relating to health data and payment card data. Health data is subject to additional privacy, security and breach notification requirements, and the Company can be subject to audit by governmental authorities regarding the Company's compliance with these obligations. If the Company fails to adequately comply with these rules and requirements, or if health data is handled in a manner not permitted by law or under the Company's agreements with healthcare institutions, the Company could be subject to litigation or government investigations, may be liable for associated investigatory expenses, and could also incur significant fees or fines.

Under payment card rules and obligations, if cardholder information is potentially compromised, the Company could be liable for associated investigatory expenses and could also incur significant fees or fines if the Company fails to follow payment card industry data security standards. The Company could also experience a significant increase in payment card transaction costs or lose the ability to process payment cards if it fails to follow payment card industry data security standards, which would materially adversely affect the Company's reputation, financial condition and operating results.

While the Company maintains insurance coverage that is intended to address certain aspects of data security risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise.

***The Company's business is subject to a variety of U.S. and international laws, rules, policies and other obligations regarding data protection.***

The Company is subject to federal, state and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also may restrict transfers of PII among the Company and its international subsidiaries. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Company to incur substantial costs or require the Company to change its business practices. Noncompliance could result in significant penalties or legal liability.

The Company makes statements about its use and disclosure of PII through its privacy policy, information provided on its website and press statements. Any failure by the Company to comply with these public statements or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against the Company by governmental entities or others. In addition to reputational impacts, penalties could include ongoing audit requirements and significant legal liability.

***The Company's success depends largely on the continued service and availability of key personnel.***

Much of the Company's future success depends on the continued availability and service of key personnel, including its Chief Executive Officer, executive team and other highly skilled employees. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in Silicon Valley, where most of the Company's key personnel are located.

***The Company's business can be impacted by political events, international trade disputes, war, terrorism, natural disasters, public health issues, industrial accidents and other business interruptions.***

Political events, international trade disputes, war, terrorism, natural disasters, public health issues, industrial accidents and other business interruptions could harm or disrupt international commerce and the global economy, and could have a material adverse effect on the Company and its customers, suppliers, contract manufacturers, logistics providers, distributors, cellular network carriers and other channel partners.

The Company has a large, global business, and the Company believes that it generally benefits from growth in international trade. International trade disputes can result in tariffs, sanctions, and other measures that restrict international trade and can adversely affect the Company's business. For example, tensions between the U.S. and China have led to a series of tariffs being imposed by the U.S. on imports from China mainland, as well as other business restrictions. Tariffs may increase the cost of the Company's products and the components and raw materials that go into making them. These increased costs adversely impact the gross margin that the Company earns on its products. Tariffs can also make the Company's products more expensive for customers, which could make the Company's products less competitive and reduce consumer demand. Countries may also adopt other measures, such as controls on imports or exports of goods, technology or data, that could adversely impact the Company's operations and supply chain and limit the Company's ability to offer its products and services as designed. These measures can require the Company to take various actions, including change suppliers, restructure business relationships, and stop offering third-party applications on its platforms. Changing the Company's operations in accordance with new or changed trade restrictions may be expensive, time-consuming, disruptive to the Company's operations and distracting to management. Trade restrictions may be announced with little or no advance notice and the Company may not be able to effectively mitigate all adverse impacts from such measures. Political uncertainty surrounding international trade disputes could also have a negative effect on consumer confidence and spending, which could adversely affect the Company's business.

Many of the Company's operations and facilities, as well as critical business operations of the Company's suppliers and contract manufacturers, are in locations that are prone to earthquakes and other natural disasters. In addition, such operations and facilities are subject to the risk of interruption by fire, power shortages, nuclear power plant accidents and other industrial accidents, terrorist attacks and other hostile acts, labor disputes, public health issues, including pandemics such as the COVID-19 pandemic, and other events beyond the Company's control. Global climate change could result in certain types of natural disasters occurring more frequently or with more intense effects. Such events could make it difficult or impossible for the Company to manufacture and deliver products to its customers, create delays and inefficiencies in the Company's supply and manufacturing chain, and result in slowdowns and outages to the Company's service offerings. Following an interruption to its business, the Company could require substantial recovery time, experience significant expenditures to resume operations, and lose significant sales. Because the Company relies on single or limited sources for the supply and manufacture of many critical components, a business interruption affecting such sources would exacerbate any negative consequences to the Company.



The Company's operations are also subject to the risks of industrial accidents at its suppliers and contract manufacturers. While the Company's suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to the Company's business and harm to the Company's reputation. Major public health issues, including pandemics such as the COVID-19 pandemic, have adversely affected, and could in the future adversely affect, the Company due to their impact on the global economy and demand for consumer products; the imposition of protective public safety measures, such as stringent employee travel restrictions and limitations on freight services and the movement of products between regions; and disruptions in the Company's supply chain and sales and distribution channels, resulting in interruptions of the supply of current products and delays in production ramps of new products.

While the Company maintains insurance coverage for certain types of losses, such insurance coverage may be insufficient to cover all losses that may arise.

***The Company expects its quarterly net sales and operating results to fluctuate.***

The Company's profit margins vary across its products, services, geographic segments and distribution channels. For example, the gross margins on the Company's products and services vary significantly and can change over time. The Company's gross margins are subject to volatility and downward pressure due to a variety of factors, including: continued industry-wide global product pricing pressures and product pricing actions that the Company may take in response to such pressures; increased competition; the Company's ability to effectively stimulate demand for certain of its products and services; compressed product life cycles; potential increases in the cost of components, outside manufacturing services, and developing, acquiring and delivering content for the Company's services; the Company's ability to manage product quality and warranty costs effectively; shifts in the mix of products and services, or in the geographic, currency or channel mix; fluctuations in foreign exchange rates; and the introduction of new products or services, including new products or services with higher cost structures. These and other factors could have a materially adverse impact on the Company's financial condition and operating results.

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. Further, the Company generates a significant portion of its net sales from a single product and a decline in demand for that product could significantly impact quarterly net sales. The Company could also be subject to unexpected developments, such as lower-than-anticipated demand for the Company's products or services, issues with new product or service introductions, information technology system failures or network disruptions, or failure of one of the Company's logistics, components supply, or manufacturing partners.

***The Company's stock price is subject to volatility.***

The Company's stock price has experienced substantial price volatility in the past and may continue to do so in the future. Additionally, the Company, the technology industry and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to these companies' operating performance. Price volatility over a given period may cause the average price at which the Company repurchases its stock to exceed the stock's price at a given point in time. The Company believes its stock price should reflect expectations of future growth and profitability. The Company also believes its stock price should reflect expectations that its cash dividend will continue at current levels or grow, and that its current share repurchase program will be fully consummated. Future dividends are subject to declaration by the Company's Board of Directors, and the Company's share repurchase program does not obligate it to acquire any specific number of shares. If the Company fails to meet expectations related to future growth, profitability, dividends, share repurchases or other market expectations, its stock price may decline significantly, which could have a material adverse impact on investor confidence and employee retention.

***The Company's financial performance is subject to risks associated with changes in the value of the U.S. dollar relative to local currencies.***

The Company's primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales, cost of sales and operating expenses worldwide. Gross margins on the Company's products in foreign countries and on products that include components obtained from foreign suppliers could be materially adversely affected by foreign currency exchange rate fluctuations.

The weakening of foreign currencies relative to the U.S. dollar adversely affects the U.S. dollar value of the Company's foreign currency-denominated sales and earnings, and generally leads the Company to raise international pricing, potentially reducing demand for the Company's products. In some circumstances, for competitive or other reasons, the Company may decide not to raise international pricing to offset the U.S. dollar's strengthening, which would adversely affect the U.S. dollar value of the gross margins the Company earns on foreign currency-denominated sales.

Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to the Company's foreign currency-denominated sales and earnings, could cause the Company to reduce international pricing and incur losses on its foreign currency derivative instruments, thereby limiting the benefit. Additionally, strengthening of foreign currencies may increase the Company's cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Company uses derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not be effective to offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

***The Company is exposed to credit risk and fluctuations in the values of its investment portfolio.***

The Company's investments can be negatively affected by liquidity, credit deterioration, financial results, market and economic conditions, political risk, sovereign risk, interest rate fluctuations or other factors. As a result, the value and liquidity of the Company's cash, cash equivalents, and marketable and non-marketable securities may fluctuate substantially. Therefore, although the Company has not realized any significant losses on its cash, cash equivalents, and marketable and non-marketable securities, future fluctuations in their value could result in significant losses and could have a material adverse impact on the Company's financial condition and operating results.

***The Company is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and prepayments related to long-term supply agreements, and this risk is heightened during periods when economic conditions worsen.***

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and resellers. The Company also sells its products directly to small and mid-sized businesses and education, enterprise and government customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral, third-party bank support or financing arrangements, or credit insurance, and a significant portion of the Company's trade receivables can be concentrated within cellular network carriers or other resellers. The Company's exposure to credit and collectibility risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. The Company also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Company. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of inventory components. As of September 26, 2020, the Company's vendor non-trade receivables and prepayments related to long-term supply agreements were concentrated among a few individual vendors located primarily in Asia. While the Company has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables, as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

***The Company could be subject to changes in its tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.***

The Company is subject to taxes in the U.S. and numerous foreign jurisdictions, including Ireland, where a number of the Company's subsidiaries are organized. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. The Company's effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, the introduction of new taxes, or changes in tax laws or their interpretation, including in the U.S. and Ireland.

The Company is also subject to the examination of its tax returns and other tax matters by the U.S. Internal Revenue Service and other tax authorities and governmental bodies. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations. If the Company's effective tax rates were to increase, particularly in the U.S. or Ireland, or if the ultimate determination of the Company's taxes owed is for an amount in excess of amounts previously accrued, the Company's financial condition and operating results could be materially adversely affected.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company's headquarters are located in Cupertino, California. As of September 26, 2020, the Company owned or leased facilities and land for corporate functions, R&D, data centers, retail and other purposes at locations throughout the U.S. and in various places outside the U.S. The Company believes its existing facilities and equipment, which are used by all reportable segments, are in good operating condition and are suitable for the conduct of its business.

**Item 3. 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 II, Item 8 of this Form 10-K in the Notes to 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 fourth quarter of 2020 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on The Nasdaq Stock Market LLC under the symbol AAPL.

#### 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.

#### Holdings

As of October 16, 2020, there were 22,797 shareholders of record.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

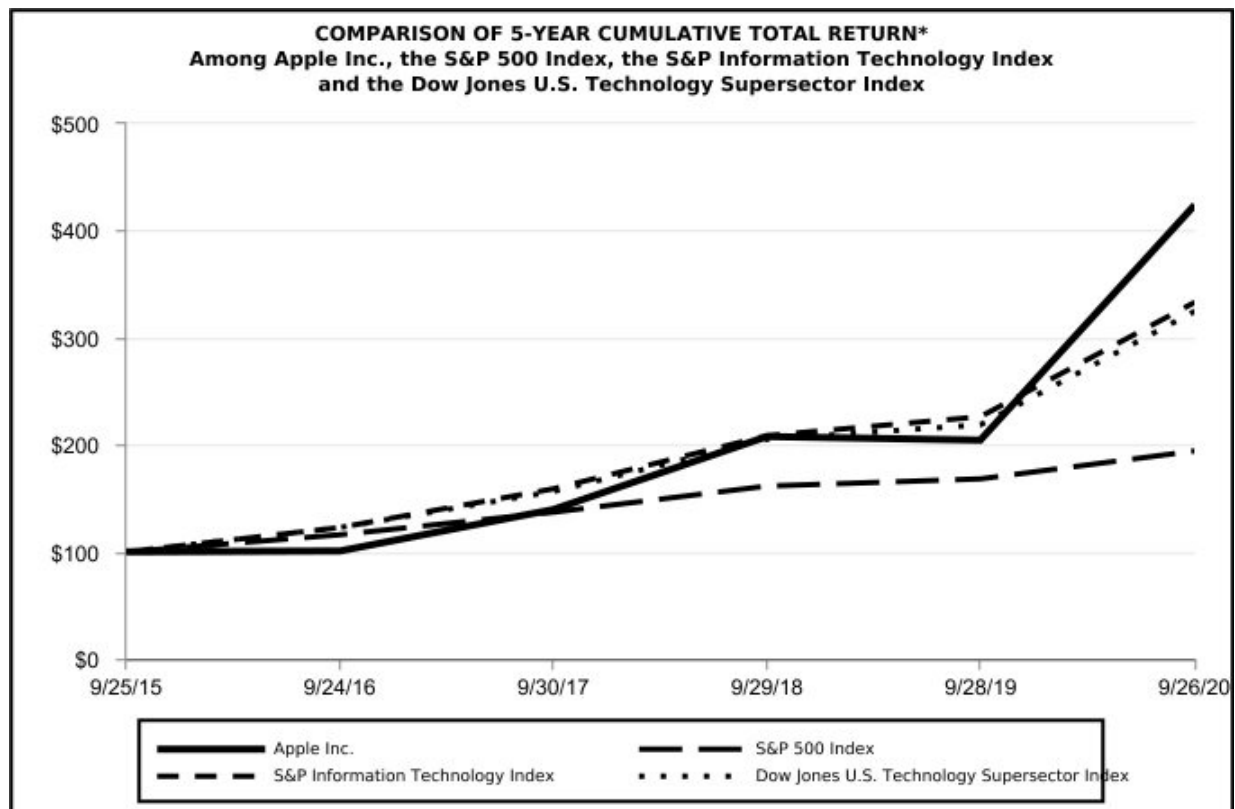
| Periods  | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> |
|--|----------------------------------|------------------------------|--|---|
| June 28, 2020 to August 1, 2020:               |                                  |                              |  |   |
| Open market and privately negotiated purchases | 67,990                           | \$ 94.68                     | 67,990   |   |
| August 2, 2020 to August 29, 2020:             |                                  |                              |  |   |
| May 2020 ASR                                   | 3,115                            | <sup>(2)</sup>               | 3,115  |   |
| Open market and privately negotiated purchases | 40,004                           | \$ 115.99                    | 40,004   |   |
| August 30, 2020 to September 26, 2020:         |                                  |                              |  |   |
| Open market and privately negotiated purchases | 60,725                           | \$ 114.00                    | 60,725   |   |
| Total  | <u>171,834</u>                   |                              |  | <u>\$ 56,353</u>  |

(1) As of September 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 \$168.6 billion had been utilized. The remaining \$56.4 billion in the table represents the amount available to repurchase shares under the authorized repurchase program as of September 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.

(2) In May 2020, the Company entered into an accelerated share repurchase arrangement ("ASR") to purchase up to \$6.0 billion of the Company's common stock. In August 2020, the purchase period for this ASR ended and an additional 3 million shares were delivered and retired. In total, 64 million shares were delivered under this ASR at an average repurchase price of \$94.14.

## Company Stock Performance

The following graph shows a comparison of cumulative total shareholder return, calculated on a dividend-reinvested basis, for the Company, the S&P 500 Index, the S&P Information Technology Index and the Dow Jones U.S. Technology Supersector Index for the five years ended September 26, 2020. The graph assumes \$100 was invested in each of the Company's common stock, the S&P 500 Index, the S&P Information Technology Index and the Dow Jones U.S. Technology Supersector Index as of the market close on September 25, 2015. Note that past stock price performance is not necessarily indicative of future stock price performance.



\* \$100 invested on September 25, 2015 in stock or index, including reinvestment of dividends. Data points are the last day of each fiscal year for the Company's common stock and September 30th for indexes.

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|   | September 2015 | September 2016 | September 2017 | September 2018 | September 2019 | September 2020 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Apple Inc.                                  | \$ 100         | \$ 100         | \$ 140         | \$ 208         | \$ 204         | \$ 424         |
| S&P 500 Index                               | \$ 100         | \$ 115         | \$ 137         | \$ 161         | \$ 168         | \$ 194         |
| S&P Information Technology Index            | \$ 100         | \$ 123         | \$ 158         | \$ 208         | \$ 226         | \$ 333         |
| Dow Jones U.S. Technology Supersector Index | \$ 100         | \$ 122         | \$ 156         | \$ 205         | \$ 218         | \$ 325         |

**Item 6. Selected Financial Data**

The information set forth below for the five years ended September 26, 2020, 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 accompanying notes 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 number of shares, which are reflected in thousands, and per share amounts).

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Total net sales  | \$ 274,515  | \$ 260,174  | \$ 265,595  | \$ 229,234  | \$ 215,639  |
| Net income   | \$ 57,411   | \$ 55,256   | \$ 59,531   | \$ 48,351   | \$ 45,687   |
| Earnings per share:                                    |             |             |             |             |             |
| Basic  | \$ 3.31     | \$ 2.99     | \$ 3.00     | \$ 2.32     | \$ 2.09     |
| Diluted  | \$ 3.28     | \$ 2.97     | \$ 2.98     | \$ 2.30     | \$ 2.08     |
| Cash dividends declared per share                      | \$ 0.795    | \$ 0.75     | \$ 0.68     | \$ 0.60     | \$ 0.545    |
| Shares used in computing earnings per share:           |             |             |             |             |             |
| Basic  | 17,352,119  | 18,471,336  | 19,821,510  | 20,868,968  | 21,883,281  |
| Diluted  | 17,528,214  | 18,595,651  | 20,000,435  | 21,006,767  | 22,001,126  |
| Total cash, cash equivalents and marketable securities | \$ 191,830  | \$ 205,898  | \$ 237,100  | \$ 268,895  | \$ 237,585  |
| Total assets   | \$ 323,888  | \$ 338,516  | \$ 365,725  | \$ 375,319  | \$ 321,686  |
| Non-current portion of term debt                       | \$ 98,667   | \$ 91,807   | \$ 93,735   | \$ 97,207   | \$ 75,427   |
| Other non-current liabilities                          | \$ 54,490   | \$ 50,503   | \$ 48,914   | \$ 44,212   | \$ 39,986   |

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

*The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in Part II, Item 8 of this Form 10-K. This section of this Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. Discussions of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2019.*

### Fiscal Year Highlights

#### *COVID-19 Update*

COVID-19 has spread rapidly throughout the world, prompting governments and businesses to take unprecedented measures in response. Such measures have included 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 adversely affected and could in the future materially adversely impact the Company's business, results of operations, financial condition and stock price.

During 2020, aspects of the Company's business were adversely 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 the majority of its 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 re-opening 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 development and availability of effective treatments and 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 this 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.

#### *Fiscal 2020 Highlights*

Total net sales increased 6% or \$14.3 billion during 2020 compared to 2019, primarily driven by higher net sales of Services and Wearables, Home and Accessories. The weakness in foreign currencies had an unfavorable impact on net sales during 2020.

In April 2020, the Company announced an increase to its current share repurchase program authorization from \$175 billion to \$225 billion and raised its quarterly dividend from \$0.1925 to \$0.205 per share beginning in May 2020. During 2020, the Company repurchased \$72.5 billion of its common stock and paid dividends and dividend equivalents of \$14.1 billion.

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

## Products and Services Performance

The following table shows net sales by category for 2020, 2019 and 2018 (dollars in millions):

|   | 2020              | Change | 2019              | Change | 2018              |
|---|-------------------|--------|-------------------|--------|-------------------|
| Net sales by category:                            |                   |        |                   |        |                   |
| iPhone <sup>(1)</sup>                             | \$ 137,781        | (3) %  | \$ 142,381        | (14) % | \$ 164,888        |
| Mac <sup>(1)</sup>                                | 28,622            | 11 %   | 25,740            | 2 %    | 25,198            |
| iPad <sup>(1)</sup>                               | 23,724            | 11 %   | 21,280            | 16 %   | 18,380            |
| Wearables, Home and Accessories <sup>(1)(2)</sup> | 30,620            | 25 %   | 24,482            | 41 %   | 17,381            |
| Services <sup>(3)</sup>                           | 53,768            | 16 %   | 46,291            | 16 %   | 39,748            |
| Total net sales                                   | <u>\$ 274,515</u> | 6 %    | <u>\$ 260,174</u> | (2) %  | <u>\$ 265,595</u> |

(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 decreased during 2020 compared to 2019 due primarily to the absence of new iPhone models in the fourth quarter of 2020 and the weakness in foreign currencies relative to the U.S. dollar, partially offset by the introduction of iPhone SE in the third quarter of 2020.

### *Mac*

Mac net sales increased during 2020 compared to 2019 due primarily to higher net sales of MacBook Pro.

### *iPad*

iPad net sales increased during 2020 compared to 2019 due primarily to higher net sales of 10-inch versions of iPad, iPad Air and iPad Pro.

### *Wearables, Home and Accessories*

Wearables, Home and Accessories net sales increased during 2020 compared to 2019 due primarily to higher net sales of AirPods and Apple Watch.

### *Services*

Services net sales increased during 2020 compared to 2019 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 II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 11, "Segment Information and Geographic Data."

The following table shows net sales by reportable segment for 2020, 2019 and 2018 (dollars in millions):

|                                  | <u>2020</u>       | <u>Change</u> | <u>2019</u>       | <u>Change</u> | <u>2018</u>       |
|----------------------------------|-------------------|---------------|-------------------|---------------|-------------------|
| Net sales by reportable segment: |                   |               |                   |               |                   |
| Americas                         | \$ 124,556        | 7 %           | \$ 116,914        | 4 %           | \$ 112,093        |
| Europe                           | 68,640            | 14 %          | 60,288            | (3) %         | 62,420            |
| Greater China                    | 40,308            | (8) %         | 43,678            | (16) %        | 51,942            |
| Japan                            | 21,418            | — %           | 21,506            | (1) %         | 21,733            |
| Rest of Asia Pacific             | 19,593            | 10 %          | 17,788            | 2 %           | 17,407            |
| Total net sales                  | <u>\$ 274,515</u> | 6 %           | <u>\$ 260,174</u> | (2) %         | <u>\$ 265,595</u> |

### *Americas*

Americas net sales increased during 2020 compared to 2019 due primarily to higher net sales of Services and Wearables, Home and Accessories. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Americas net sales during 2020.

### *Europe*

Europe net sales increased during 2020 compared to 2019 due primarily to higher net sales of iPhone, Wearables, Home and Accessories and Services. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Europe net sales during 2020.

### *Greater China*

Greater China net sales decreased during 2020 compared to 2019 due primarily to lower net sales of iPhone, partially offset by higher net sales of Services and iPad. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Greater China net sales during 2020.

### *Japan*

Japan net sales were flat during 2020 compared to 2019 due primarily to lower net sales of iPhone, offset by higher net sales of Services and Wearables, Home and Accessories. The strength of the Japanese yen relative to the U.S. dollar had a favorable impact on Japan net sales during 2020.

### *Rest of Asia Pacific*

Rest of Asia Pacific net sales increased during 2020 compared to 2019 due primarily to higher net sales of Wearables, Home and Accessories, Services and iPhone. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Rest of Asia Pacific net sales during 2020.

## Gross Margin

Products and Services gross margin and gross margin percentage for 2020, 2019 and 2018 were as follows (dollars in millions):

|                               | 2020              | 2019             | 2018              |
|-------------------------------|-------------------|------------------|-------------------|
| Gross margin:                 |                   |                  |                   |
| Products                      | \$ 69,461         | \$ 68,887        | \$ 77,683         |
| Services                      | 35,495            | 29,505           | 24,156            |
| Total gross margin            | <u>\$ 104,956</u> | <u>\$ 98,392</u> | <u>\$ 101,839</u> |
| Gross margin percentage:      |                   |                  |                   |
| Products                      | 31.5 %            | 32.2 %           | 34.4 %            |
| Services                      | 66.0 %            | 63.7 %           | 60.8 %            |
| Total gross margin percentage | 38.2 %            | 37.8 %           | 38.3 %            |

### Products Gross Margin

Products gross margin increased during 2020 compared to 2019 due primarily to higher Products volume and material cost savings, partially offset by the weakness in foreign currencies relative to the U.S. dollar and a different Products mix. Products gross margin percentage decreased during 2020 compared to 2019 due primarily to the weakness in foreign currencies relative to the U.S. dollar and a different Products mix, partially offset by material cost savings and higher leverage.

### Services Gross Margin

Services gross margin increased during 2020 compared to 2019 due primarily to higher Services net sales and a different Services mix. Services gross margin percentage increased during 2020 compared to 2019 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 set forth in Part I, Item 1A of this 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 2020, 2019 and 2018 were as follows (dollars in millions):

|                                     | 2020      | Change | 2019      | Change | 2018      |
|-------------------------------------|-----------|--------|-----------|--------|-----------|
| Research and development            | \$ 18,752 | 16 %   | \$ 16,217 | 14 %   | \$ 14,236 |
| Percentage of total net sales       | 7 %       |        | 6 %       |        | 5 %       |
| Selling, general and administrative | \$ 19,916 | 9 %    | \$ 18,245 | 9 %    | \$ 16,705 |
| Percentage of total net sales       | 7 %       |        | 7 %       |        | 6 %       |
| Total operating expenses            | \$ 38,668 | 12 %   | \$ 34,462 | 11 %   | \$ 30,941 |
| Percentage of total net sales       | 14 %      |        | 13 %      |        | 12 %      |

### Research and Development

The year-over-year growth in R&D expense 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 year-over-year growth in selling, general and administrative expense in 2020 was driven primarily by increases in headcount-related expenses, higher spending on marketing and advertising, and higher variable selling expenses.

## Other Income/(Expense), Net

Other income/(expense), net ("OI&E") for 2020, 2019 and 2018 was as follows (dollars in millions):

|                                   | 2020          | Change | 2019            | Change | 2018            |
|-----------------------------------|---------------|--------|-----------------|--------|-----------------|
| Interest and dividend income      | \$ 3,763      |        | \$ 4,961        |        | \$ 5,686        |
| Interest expense                  | (2,873)       |        | (3,576)         |        | (3,240)         |
| Other income/(expense), net       | (87)          |        | 422             |        | (441)           |
| Total other income/(expense), net | <u>\$ 803</u> | (56) % | <u>\$ 1,807</u> | (10) % | <u>\$ 2,005</u> |

The year-over-year decrease in OI&E during 2020 was due primarily to lower interest income and net impairment/gain activity on non-marketable securities, partially offset by lower interest expense. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.85% and 2.19% in 2020 and 2019, respectively.

## Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for 2020, 2019 and 2018 were as follows (dollars in millions):

|                                   | 2020     | 2019      | 2018      |
|-----------------------------------|----------|-----------|-----------|
| Provision for income taxes        | \$ 9,680 | \$ 10,481 | \$ 13,372 |
| Effective tax rate                | 14.4 %   | 15.9 %    | 18.3 %    |
| Statutory federal income tax rate | 21 %     | 21 %      | 24.5 %    |

The Company's effective tax rate for both 2020 and 2019 was lower than the statutory federal income tax rate due primarily to the lower tax rate on foreign earnings, including the impact of tax settlements, and tax benefits from share-based compensation.

The Company's effective tax rate for 2020 was lower compared to 2019 due primarily to a one-time adjustment of U.S. foreign tax credits in response to regulations issued by the U.S. Department of the Treasury in December 2019 in connection with the U.S. Tax Cuts and Jobs Act of 2017 (the "Act") and higher tax benefits from share-based compensation.

As of September 26, 2020, the Company had net deferred tax assets arising from deductible temporary differences and tax credits of \$11.0 billion and deferred tax liabilities of \$2.8 billion. 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 future reversals of existing taxable temporary differences, will be sufficient to recover the net deferred tax assets. The Company will continue to evaluate the amount of the valuation allowance, if any, by assessing the realizability of deferred tax assets.

## Recent Accounting Pronouncements

### Financial Instruments

In June 2016, the Financial Accounting Standards Board issued 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 will adopt ASU 2016-13 in its first quarter of 2021 utilizing the modified retrospective transition method. Based on the composition of the Company's investment portfolio, current market conditions, and historical credit loss activity, the adoption of ASU 2016-13 will not have a material impact on its consolidated financial statements.

## Liquidity and Capital Resources

The following table presents selected financial information and statistics as of and for the years ended September 26, 2020, September 28, 2019 and September 29, 2018 (in millions):

|   | 2020        | 2019        | 2018        |
|---|-------------|-------------|-------------|
| Cash, cash equivalents and marketable securities <sup>(1)</sup> | \$ 191,830  | \$ 205,898  | \$ 237,100  |
| Property, plant and equipment, net                              | \$ 36,766   | \$ 37,378   | \$ 41,304   |
| Commercial paper  | \$ 4,996    | \$ 5,980    | \$ 11,964   |
| Total term debt   | \$ 107,440  | \$ 102,067  | \$ 102,519  |
| Working capital   | \$ 38,321   | \$ 57,101   | \$ 15,410   |
| Cash generated by operating activities                          | \$ 80,674   | \$ 69,391   | \$ 77,434   |
| Cash generated by/(used in) investing activities                | \$ (4,289)  | \$ 45,896   | \$ 16,066   |
| Cash used in financing activities                               | \$ (86,820) | \$ (90,976) | \$ (87,876) |

(1) As of September 26, 2020 and September 28, 2019, total marketable securities included \$18.6 billion and \$18.9 billion, respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K) 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 September 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 II, Item 8 of this Form 10-K in the Notes to 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 2020, cash generated by operating activities of \$80.7 billion was a result of \$57.4 billion of net income, non-cash adjustments to net income of \$17.6 billion and an increase in the net change in operating assets and liabilities of \$5.7 billion. Cash used in investing activities of \$4.3 billion during 2020 consisted primarily of cash used to acquire property, plant and equipment of \$7.3 billion and cash paid for business acquisitions, net of cash acquired, of \$1.5 billion, partially offset by proceeds from maturities and sales of marketable securities, net of purchases, of \$5.5 billion. Cash used in financing activities of \$86.8 billion during 2020 consisted primarily of cash used to repurchase common stock of \$72.4 billion, cash used to pay dividends and dividend equivalents of \$14.1 billion, cash used to repay or redeem term debt of \$12.6 billion and net repayments of commercial paper of \$1.0 billion, partially offset by net proceeds from the issuance of term debt of \$16.1 billion.

During 2019, cash generated by operating activities of \$69.4 billion was a result of \$55.3 billion of net income and non-cash adjustments to net income of \$17.6 billion, partially offset by a decrease in the net change in operating assets and liabilities of \$3.5 billion. Cash generated by investing activities of \$45.9 billion during 2019 consisted primarily of proceeds from sales and maturities of marketable securities, net of purchases, of \$57.5 billion, partially offset by cash used to acquire property, plant and equipment of \$10.5 billion. Cash used in financing activities of \$91.0 billion during 2019 consisted primarily of cash used to repurchase common stock of \$66.9 billion, cash used to pay dividends and dividend equivalents of \$14.1 billion, cash used to repay term debt of \$8.8 billion and net repayments of commercial paper of \$6.0 billion, partially offset by net proceeds from the issuance of term debt of \$7.0 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 September 26, 2020, the Company had \$5.0 billion of Commercial Paper outstanding, with a weighted-average interest rate of 0.62% and maturities generally less than nine months.

The Company may enter into agreements to sell certain of its marketable securities with a promise to repurchase the securities at a specified time and amount as an additional short-term liquidity arrangement.

As of September 26, 2020, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$106.1 billion (collectively the “Notes”). During 2020, the Company issued \$16.1 billion and repaid or redeemed \$12.6 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 II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 3, “Financial Instruments” and Note 6, “Debt.”

#### *Capital Return Program*

As of September 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 \$168.6 billion had been utilized. During 2020, the Company repurchased 917 million shares of its common stock for \$72.5 billion, including 141 million shares delivered under a \$10.0 billion November 2019 ASR and 64 million shares delivered under a \$6.0 billion May 2020 ASR. 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.

As of September 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**

The following table presents certain payments due by the Company as of September 26, 2020, and includes amounts already recorded on the Consolidated Balance Sheet, except for manufacturing purchase obligations, other purchase obligations and certain lease obligations (in millions):

|   | Payments due in<br>2021 | Payments due in<br>2022–2023 | Payments due in<br>2024–2025 | Payments due after<br>2025 | Total             |
|---|-------------------------|------------------------------|------------------------------|----------------------------|-------------------|
| Term debt   | \$ 8,750                | \$ 20,958                    | \$ 21,029                    | \$ 55,341                  | \$ 106,078        |
| Leases  | 1,622                   | 3,097                        | 2,352                        | 5,888                      | 12,959            |
| Manufacturing purchase obligations <sup>(1)</sup> | 47,961                  | 1,849                        | 61                           | 40                         | 49,911            |
| Other purchase obligations                        | 6,178                   | 2,736                        | 400                          | 90                         | 9,404             |
| Deemed repatriation tax payable                   | 1,533                   | 5,923                        | 12,955                       | 9,254                      | 29,665            |
| <b>Total</b>                                      | <b>\$ 66,044</b>        | <b>\$ 34,563</b>             | <b>\$ 36,797</b>             | <b>\$ 70,613</b>           | <b>\$ 208,017</b> |

(1) Represents amount expected to be paid under manufacturing-related supplier arrangements, which are primarily noncancelable.

#### *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 above contractual obligations table includes future payments under leases that had commenced as of September 26, 2020, and were therefore recorded on the Company’s Consolidated Balance Sheet, as well as leases that had been signed but not yet commenced as of September 26, 2020. Further information regarding the Company’s leases can be found in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 12, “Leases.”

#### *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.

#### *Other Purchase Obligations*

The Company’s other purchase obligations consist of noncancelable obligations to acquire capital assets, including product tooling and manufacturing process equipment, and noncancelable obligations related to advertising, licensing, R&D, Internet and telecommunications services, content creation and other activities.

### *Deemed Repatriation Tax Payable*

As of September 26, 2020, a significant portion of the other non-current liabilities in the Company's Consolidated Balance Sheet consisted of the deemed repatriation tax payable imposed by the Act. The Company plans to pay 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; therefore, such amounts are not included in the above contractual obligations table.

### **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. Note 1, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of 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.

Management believes the Company's critical accounting policies and estimates are those related to revenue recognition, valuation of manufacturing-related assets and estimation of inventory purchase commitment cancellation fees, 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**

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 stand-alone selling prices ("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 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.

The Company's process for determining estimated SSPs involves management's judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable. Should future facts and circumstances change, the Company's SSPs and the future rate of related amortization for product-related bundled services and unspecified software upgrade rights related to future sales of these devices could change. Factors subject to change include the nature of the product-related bundled services and unspecified software upgrade rights offered, their estimated value and the estimated period they are expected to be provided.

### **Valuation of Manufacturing-Related Assets and Estimation of Inventory Purchase Commitment Cancellation Fees**

The Company invests in manufacturing-related assets, including capital assets held at its suppliers' facilities and prepayments provided to certain of its suppliers associated with long-term agreements to secure the supply of inventory. The Company also accrues estimated purchase commitment cancellation fees related to inventory orders that have been canceled or are expected to be canceled. The Company's estimates of future product development plans and demand for its products are key inputs in determining the recoverability of manufacturing-related assets and assessing the adequacy of any purchase commitment cancellation fee accruals. If there is an abrupt and substantial decline in estimated demand for one or more of the Company's products, a change in the Company's product development plans, or an unanticipated change in technological requirements for any of the Company's products, the Company may be required to record write-downs or impairments of manufacturing-related assets or accrue purchase commitment cancellation fees.

### **Warranty Costs**

The Company offers limited warranties on its new and certified refurbished hardware products and on parts used to repair its hardware products, and customers may purchase extended service coverage, where available, on many of the Company's hardware products. The Company accrues the estimated cost of warranties in the period 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 outside the Company's typical experience. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required.

### **Income Taxes**

The Company recognizes tax benefits from uncertain tax positions 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 measured based on the largest benefit that has a greater-than-50% likelihood of being realized upon ultimate settlement. 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 Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 10, "Commitments and Contingencies," the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable, the determination of which requires significant judgment. Except as described in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies," 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.

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.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

### **Interest Rate and Foreign Currency Risk Management**

The Company regularly reviews its foreign exchange forward and option positions and interest rate swaps, both on a stand-alone basis and in conjunction with its underlying foreign currency and interest rate exposures. Given the effective horizons of the Company's risk management activities and the anticipatory nature of the exposures, there can be no assurance these positions will offset more than a portion of the financial impact resulting from movements in either foreign exchange or interest rates. Further, the recognition of the gains and losses related to these instruments may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's financial condition and operating results.

### **Interest Rate Risk**

The Company's exposure to changes in interest rates relates primarily to the Company's investment portfolio and outstanding debt. While the Company is exposed to global interest rate fluctuations, the Company's interest income and expense are most sensitive to fluctuations in U.S. interest rates. Changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents and marketable securities and the fair value of those securities, as well as costs associated with hedging and interest paid on the Company's debt.

The Company's investment policy and strategy are focused on the preservation of capital and supporting the Company's liquidity requirements. The Company uses a combination of internal and external management to execute its investment strategy and achieve its investment objectives. 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. To provide a meaningful assessment of the interest rate risk associated with the Company's investment portfolio, the Company performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of September 26, 2020 and September 28, 2019, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$3.1 billion and \$2.8 billion incremental decline in the fair market value of the portfolio, respectively. Such losses would only be realized if the Company sold the investments prior to maturity.

As of September 26, 2020 and September 28, 2019, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate carrying amount of \$107.4 billion and \$102.1 billion, respectively. The Company has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on its outstanding term debt. Interest rate swaps allow the Company to effectively convert fixed-rate payments into floating-rate payments or floating-rate payments into fixed-rate payments. Gains and losses on term debt are generally offset by the corresponding losses and gains on the related hedging instrument. A 100 basis point increase in market interest rates would cause interest expense on the Company's debt as of September 26, 2020 and September 28, 2019 to increase by \$218 million and \$325 million on an annualized basis, respectively.

### **Foreign Currency Risk**

In general, the Company is a net receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company's net sales and gross margins as expressed in U.S. dollars. There is a risk that the Company will have to adjust local currency pricing due to competitive pressures when there has been significant volatility in foreign currency exchange rates.

The Company may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. In addition, the Company has entered, and in the future may enter, into foreign currency contracts to partially offset the foreign currency exchange gains and losses on its foreign currency-denominated debt issuances. The Company generally hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months. However, the Company may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations or the prohibitive economic cost of hedging particular exposures.

To provide an assessment of the foreign currency risk associated with certain of the Company's foreign currency derivative positions, the Company performed a sensitivity analysis using a value-at-risk ("VAR") model to assess the potential impact of fluctuations in exchange rates. The VAR model consisted of using a Monte Carlo simulation to generate thousands of random market price paths assuming normal market conditions. The VAR is the maximum expected loss in fair value, for a given confidence interval, to the Company's foreign currency derivative positions due to adverse movements in rates. The VAR model is not intended to represent actual losses but is used as a risk estimation and management tool. Forecasted transactions, firm commitments and assets and liabilities denominated in foreign currencies were excluded from the model. Based on the results of the model, the Company estimates with 95% confidence, a maximum one-day loss in fair value of \$551 million as of September 26, 2020, compared to a maximum one-day loss in fair value of \$452 million as of September 28, 2019. Because the Company uses foreign currency instruments for hedging purposes, the losses in fair value incurred on those instruments are generally offset by increases in the fair value of the underlying exposures.

Actual future gains and losses associated with the Company's investment portfolio, debt and derivative positions may differ materially from the sensitivity analyses performed as of September 26, 2020 due to the inherent limitations associated with predicting the timing and amount of changes in interest rates, foreign currency exchange rates and the Company's actual exposures and positions.



## Item 8. Financial Statements and Supplementary Data

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

Apple Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except number of shares which are reflected in thousands and per share amounts)

|   | Years ended           |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | September 26,<br>2020 | September 28,<br>2019 | September 29,<br>2018 |
| <b>Net sales:</b>                                   |                       |                       |                       |
| Products  | \$ 220,747            | \$ 213,883            | \$ 225,847            |
| Services  | 53,768                | 46,291                | 39,748                |
| Total net sales                                     | 274,515               | 260,174               | 265,595               |
| <b>Cost of sales:</b>                               |                       |                       |                       |
| Products  | 151,286               | 144,996               | 148,164               |
| Services  | 18,273                | 16,786                | 15,592                |
| Total cost of sales                                 | 169,559               | 161,782               | 163,756               |
| Gross margin  | 104,956               | 98,392                | 101,839               |
| <b>Operating expenses:</b>                          |                       |                       |                       |
| Research and development                            | 18,752                | 16,217                | 14,236                |
| Selling, general and administrative                 | 19,916                | 18,245                | 16,705                |
| Total operating expenses                            | 38,668                | 34,462                | 30,941                |
| Operating income                                    | 66,288                | 63,930                | 70,898                |
| Other income/(expense), net                         | 803                   | 1,807                 | 2,005                 |
| Income before provision for income taxes            | 67,091                | 65,737                | 72,903                |
| Provision for income taxes                          | 9,680                 | 10,481                | 13,372                |
| Net income  | \$ 57,411             | \$ 55,256             | \$ 59,531             |
| <b>Earnings per share:</b>                          |                       |                       |                       |
| Basic   | \$ 3.31               | \$ 2.99               | \$ 3.00               |
| Diluted   | \$ 3.28               | \$ 2.97               | \$ 2.98               |
| <b>Shares used in computing earnings per share:</b> |                       |                       |                       |
| Basic   | 17,352,119            | 18,471,336            | 19,821,510            |
| Diluted   | 17,528,214            | 18,595,651            | 20,000,435            |

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In millions)

|  | Years ended           |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 26,<br>2020 | September 28,<br>2019 | September 29,<br>2018 |
| Net income   | \$ 57,411             | \$ 55,256             | \$ 59,531             |
| Other comprehensive income/(loss):   |                       |                       |                       |
| Change in foreign currency translation, net of tax                           | 88                    | (408)                 | (525)                 |
| Change in unrealized gains/losses on derivative instruments, net of tax:     |                       |                       |                       |
| Change in fair value of derivatives  | 79                    | (661)                 | 523                   |
| Adjustment for net (gains)/losses realized and included in net income        | (1,264)               | 23                    | 382                   |
| Total change in unrealized gains/losses on derivative instruments            | (1,185)               | (638)                 | 905                   |
| Change in unrealized gains/losses on marketable debt securities, net of tax: |                       |                       |                       |
| Change in fair value of marketable debt securities                           | 1,202                 | 3,802                 | (3,407)               |
| Adjustment for net (gains)/losses realized and included in net income        | (63)                  | 25                    | 1                     |
| Total change in unrealized gains/losses on marketable debt securities        | 1,139                 | 3,827                 | (3,406)               |
| Total other comprehensive income/(loss)                                      | 42                    | 2,781                 | (3,026)               |
| Total comprehensive income   | <u>\$ 57,453</u>      | <u>\$ 58,037</u>      | <u>\$ 56,505</u>      |

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

**CONSOLIDATED BALANCE SHEETS**

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

|   | <u>September 26,<br/>2020</u> | <u>September 28,<br/>2019</u> |
|---|-------------------------------|-------------------------------|
| <b>ASSETS:</b>  |                               |                               |
| Current assets:   |                               |                               |
| Cash and cash equivalents   | \$ 38,016                     | \$ 48,844                     |
| Marketable securities   | 52,927                        | 51,713                        |
| Accounts receivable, net  | 16,120                        | 22,926                        |
| Inventories   | 4,061                         | 4,106                         |
| Vendor non-trade receivables  | 21,325                        | 22,878                        |
| Other current assets  | 11,264                        | 12,352                        |
| Total current assets  | <u>143,713</u>                | <u>162,819</u>                |
| Non-current assets:   |                               |                               |
| Marketable securities   | 100,887                       | 105,341                       |
| Property, plant and equipment, net  | 36,766                        | 37,378                        |
| Other non-current assets  | 42,522                        | 32,978                        |
| Total non-current assets  | <u>180,175</u>                | <u>175,697</u>                |
| Total assets  | <u>\$ 323,888</u>             | <u>\$ 338,516</u>             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>  |                               |                               |
| Current liabilities:  |                               |                               |
| Accounts payable  | \$ 42,296                     | \$ 46,236                     |
| Other current liabilities   | 42,684                        | 37,720                        |
| Deferred revenue  | 6,643                         | 5,522                         |
| Commercial paper  | 4,996                         | 5,980                         |
| Term debt   | 8,773                         | 10,260                        |
| Total current liabilities   | <u>105,392</u>                | <u>105,718</u>                |
| Non-current liabilities:  |                               |                               |
| Term debt   | 98,667                        | 91,807                        |
| Other non-current liabilities   | 54,490                        | 50,503                        |
| Total non-current liabilities   | <u>153,157</u>                | <u>142,310</u>                |
| Total liabilities   | <u>258,549</u>                | <u>248,028</u>                |
| Commitments and contingencies   |                               |                               |
| Shareholders' equity:   |                               |                               |
| Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,976,763 and 17,772,945 shares issued and outstanding, respectively | 50,779                        | 45,174                        |
| Retained earnings   | 14,966                        | 45,898                        |
| Accumulated other comprehensive income/(loss)   | (406)                         | (584)                         |
| Total shareholders' equity  | <u>65,339</u>                 | <u>90,488</u>                 |
| Total liabilities and shareholders' equity  | <u>\$ 323,888</u>             | <u>\$ 338,516</u>             |

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In millions, except per share amounts)

|  | Years ended           |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 26,<br>2020 | September 28,<br>2019 | September 29,<br>2018 |
| Total shareholders' equity, beginning balances                         | \$ 90,488             | \$ 107,147            | \$ 134,047            |
| Common stock and additional paid-in capital:                           |                       |                       |                       |
| Beginning balances   | 45,174                | 40,201                | 35,867                |
| Common stock issued  | 880                   | 781                   | 669                   |
| Common stock withheld related to net share settlement of equity awards | (2,250)               | (2,002)               | (1,778)               |
| Share-based compensation   | 6,975                 | 6,194                 | 5,443                 |
| Ending balances  | <u>50,779</u>         | <u>45,174</u>         | <u>40,201</u>         |
| Retained earnings:   |                       |                       |                       |
| Beginning balances   | 45,898                | 70,400                | 98,330                |
| Net income   | 57,411                | 55,256                | 59,531                |
| Dividends and dividend equivalents declared                            | (14,087)              | (14,129)              | (13,735)              |
| Common stock withheld related to net share settlement of equity awards | (1,604)               | (1,029)               | (948)                 |
| Common stock repurchased   | (72,516)              | (67,101)              | (73,056)              |
| Cumulative effects of changes in accounting principles                 | (136)                 | 2,501                 | 278                   |
| Ending balances  | <u>14,966</u>         | <u>45,898</u>         | <u>70,400</u>         |
| Accumulated other comprehensive income/(loss):                         |                       |                       |                       |
| Beginning balances   | (584)                 | (3,454)               | (150)                 |
| Other comprehensive income/(loss)                                      | 42                    | 2,781                 | (3,026)               |
| Cumulative effects of changes in accounting principles                 | 136                   | 89                    | (278)                 |
| Ending balances  | <u>(406)</u>          | <u>(584)</u>          | <u>(3,454)</u>        |
| Total shareholders' equity, ending balances                            | <u>\$ 65,339</u>      | <u>\$ 90,488</u>      | <u>\$ 107,147</u>     |
| Dividends and dividend equivalents declared per share or RSU           | \$ 0.795              | \$ 0.75               | \$ 0.68               |

See accompanying Notes to Consolidated Financial Statements.

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

|  | Years ended           |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 26,<br>2020 | September 28,<br>2019 | September 29,<br>2018 |
| Cash, cash equivalents and restricted cash, beginning balances                 | \$ 50,224             | \$ 25,913             | \$ 20,289             |
| <b>Operating activities:</b>   |                       |                       |                       |
| Net income   | 57,411                | 55,256                | 59,531                |
| Adjustments to reconcile net income to cash generated by operating activities: |                       |                       |                       |
| Depreciation and amortization  | 11,056                | 12,547                | 10,903                |
| Share-based compensation expense   | 6,829                 | 6,068                 | 5,340                 |
| Deferred income tax benefit  | (215)                 | (340)                 | (32,590)              |
| Other  | (97)                  | (652)                 | (444)                 |
| Changes in operating assets and liabilities:                                   |                       |                       |                       |
| Accounts receivable, net   | 6,917                 | 245                   | (5,322)               |
| Inventories  | (127)                 | (289)                 | 828                   |
| Vendor non-trade receivables   | 1,553                 | 2,931                 | (8,010)               |
| Other current and non-current assets   | (9,588)               | 873                   | (423)                 |
| Accounts payable   | (4,062)               | (1,923)               | 9,175                 |
| Deferred revenue   | 2,081                 | (625)                 | (3)                   |
| Other current and non-current liabilities                                      | 8,916                 | (4,700)               | 38,449                |
| Cash generated by operating activities   | <u>80,674</u>         | <u>69,391</u>         | <u>77,434</u>         |
| <b>Investing activities:</b>   |                       |                       |                       |
| Purchases of marketable securities   | (114,938)             | (39,630)              | (71,356)              |
| Proceeds from maturities of marketable securities                              | 69,918                | 40,102                | 55,881                |
| Proceeds from sales of marketable securities                                   | 50,473                | 56,988                | 47,838                |
| Payments for acquisition of property, plant and equipment                      | (7,309)               | (10,495)              | (13,313)              |
| Payments made in connection with business acquisitions, net                    | (1,524)               | (624)                 | (721)                 |
| Purchases of non-marketable securities   | (210)                 | (1,001)               | (1,871)               |
| Proceeds from non-marketable securities  | 92                    | 1,634                 | 353                   |
| Other  | (791)                 | (1,078)               | (745)                 |
| Cash generated by/(used in) investing activities                               | <u>(4,289)</u>        | <u>45,896</u>         | <u>16,066</u>         |
| <b>Financing activities:</b>   |                       |                       |                       |
| Proceeds from issuance of common stock   | 880                   | 781                   | 669                   |
| Payments for taxes related to net share settlement of equity awards            | (3,634)               | (2,817)               | (2,527)               |
| Payments for dividends and dividend equivalents                                | (14,081)              | (14,119)              | (13,712)              |
| Repurchases of common stock  | (72,358)              | (66,897)              | (72,738)              |
| Proceeds from issuance of term debt, net                                       | 16,091                | 6,963                 | 6,969                 |
| Repayments of term debt  | (12,629)              | (8,805)               | (6,500)               |
| Repayments of commercial paper, net  | (963)                 | (5,977)               | (37)                  |
| Other  | (126)                 | (105)                 | —                     |
| Cash used in financing activities  | <u>(86,820)</u>       | <u>(90,976)</u>       | <u>(87,876)</u>       |
| Increase/(Decrease) in cash, cash equivalents and restricted cash              | <u>(10,435)</u>       | <u>24,311</u>         | <u>5,624</u>          |
| Cash, cash equivalents and restricted cash, ending balances                    | <u>\$ 39,789</u>      | <u>\$ 50,224</u>      | <u>\$ 25,913</u>      |
| <b>Supplemental cash flow disclosure:</b>                                      |                       |                       |                       |
| Cash paid for income taxes, net  | \$ 9,501              | \$ 15,263             | \$ 10,417             |
| Cash paid for interest   | \$ 3,002              | \$ 3,423              | \$ 3,022              |

See accompanying Notes to Consolidated Financial Statements.

## Apple Inc.

### Notes to Consolidated Financial Statements

#### Note 1 – Summary of Significant Accounting Policies

##### Basis of Presentation and Preparation

The 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 consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these 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.

The Company’s fiscal year is the 52- or 53-week period that ends on the last Saturday of September. The Company’s fiscal years 2020, 2019 and 2018 spanned 52 weeks each. 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. 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

###### Leases

At the beginning of the first quarter of 2020, the Company adopted the Financial Accounting Standards Board’s (the “FASB”) Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), and additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, the “new leases standard”), which modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Company adopted the new leases standard utilizing the modified retrospective transition method, under which amounts in prior periods presented were not restated. For contracts existing at the time of adoption, the Company elected to not reassess (i) whether any are or contain leases, (ii) lease classification, and (iii) initial direct costs. Upon adoption, the Company recorded \$7.5 billion of right-of-use (“ROU”) assets and \$8.1 billion of lease liabilities on its Condensed Consolidated Balance Sheet.

###### Hedging

At the beginning of the first quarter of 2020, the Company adopted FASB ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”). ASU 2017-12 expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, eliminates the separate measurement and presentation of hedge ineffectiveness, and updates disclosure requirements related to hedging. The Company adopted ASU 2017-12 utilizing the modified retrospective transition method. Upon adoption, the Company recorded a \$136 million increase in accumulated other comprehensive income/(loss) (“AOCI”) and a corresponding decrease in retained earnings in the Condensed Consolidated Statement of Shareholders’ Equity.

##### Advertising Costs

Advertising costs are expensed as incurred and included in selling, general and administrative expenses.

##### Share-Based Compensation

The Company generally measures share-based compensation based on the closing price of the Company’s common stock on the date of grant, and recognizes expense on a straight-line basis for its estimate of equity awards that will ultimately vest. Further information regarding share-based compensation can be found in Note 9, “Benefit Plans.”

## Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for 2020, 2019 and 2018 (net income in millions and shares in thousands):

|   | 2020       | 2019       | 2018       |
|---|------------|------------|------------|
| Numerator:                                |            |            |            |
| Net income                                | \$ 57,411  | \$ 55,256  | \$ 59,531  |
| Denominator:                              |            |            |            |
| Weighted-average basic shares outstanding | 17,352,119 | 18,471,336 | 19,821,510 |
| Effect of dilutive securities             | 176,095    | 124,315    | 178,925    |
| Weighted-average diluted shares           | 17,528,214 | 18,595,651 | 20,000,435 |
| Basic earnings per share                  | \$ 3.31    | \$ 2.99    | \$ 3.00    |
| Diluted earnings per share                | \$ 3.28    | \$ 2.97    | \$ 2.98    |

The Company applies the treasury stock method to determine the dilutive effect of potentially dilutive securities. Potentially dilutive securities representing 62 million shares of common stock were excluded from the computation of diluted earnings per share for 2019 because their effect would have been antidilutive.

## Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents.

The Company's investments in marketable debt securities have been classified and accounted for as available-for-sale. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Unrealized gains and losses on marketable debt securities classified as available-for-sale are recognized in other comprehensive income/(loss) ("OCI").

The Company's investments in marketable equity securities are classified based on the nature of the securities and their availability for use in current operations. The Company's marketable equity securities are measured at fair value with gains and losses recognized in other income/(expense), net ("OI&E").

The cost of securities sold is determined using the specific identification method.

## Inventories

Inventories are measured using the first-in, first-out method.

## Property, Plant and Equipment

Depreciation on property, plant and equipment is recognized on a straight-line basis over the estimated useful lives of the assets, which for buildings is the lesser of 40 years or the remaining life of the building; between one and five years for machinery and equipment, including product tooling and manufacturing process equipment; and the shorter of lease term or useful life for leasehold improvements. Capitalized costs related to internal-use software are amortized on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years. Depreciation and amortization expense on property and equipment was \$9.7 billion, \$11.3 billion and \$9.3 billion during 2020, 2019 and 2018, respectively.

Non-cash investing activities involving property, plant and equipment resulted in a net increase/(decrease) to accounts payable and other current liabilities of \$(2.9) billion and \$3.4 billion during 2019 and 2018, respectively.



### **Non-Marketable Securities**

The Company has elected to apply the measurement alternative to equity securities without readily determinable fair values. As such, the Company's non-marketable equity securities are measured at cost, less any impairment, and are adjusted for changes in fair value resulting from observable transactions for identical or similar investments of the same issuer. Gains and losses on non-marketable equity securities are recognized in OI&E.

### **Restricted Cash and Restricted Marketable Securities**

The Company considers cash and marketable securities to be restricted when withdrawal or general use is legally restricted. The Company reports restricted cash as other assets in the Consolidated Balance Sheets, and determines current or non-current classification based on the expected duration of the restriction. The Company reports restricted marketable securities as current or non-current marketable securities in the Consolidated Balance Sheets based on the classification of the underlying securities.

### **Fair Value Measurements**

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

### **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 September 26, 2020 and September 28, 2019, the Company had total deferred revenue of \$10.2 billion and \$8.1 billion, respectively. As of September 26, 2020, the Company expects 65% of total deferred revenue to be realized in less than a year, 25% 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 2020, 2019 and 2018 were as follows (in millions):

|   | 2020              | 2019              | 2018              |
|---|-------------------|-------------------|-------------------|
| iPhone <sup>(1)</sup>                             | \$ 137,781        | \$ 142,381        | \$ 164,888        |
| Mac <sup>(1)</sup>                                | 28,622            | 25,740            | 25,198            |
| iPad <sup>(1)</sup>                               | 23,724            | 21,280            | 18,380            |
| Wearables, Home and Accessories <sup>(1)(2)</sup> | 30,620            | 24,482            | 17,381            |
| Services <sup>(3)</sup>                           | 53,768            | 46,291            | 39,748            |
| <b>Total net sales <sup>(4)</sup></b>             | <b>\$ 274,515</b> | <b>\$ 260,174</b> | <b>\$ 265,595</b> |

(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.

(4) Includes \$5.0 billion of revenue recognized in 2020 that was included in deferred revenue as of September 28, 2019, \$5.9 billion of revenue recognized in 2019 that was included in deferred revenue as of September 29, 2018, and \$5.8 billion of revenue recognized in 2018 that was included in deferred revenue as of September 30, 2017.

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 2020, 2019 and 2018.

### 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 September 26, 2020 and September 28, 2019 (in millions):

|   | 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 <sup>(1)</sup> :                  |               |                  |                   |            |                           |                               |                                   |
| Money market funds                        | 2,171         | —                | —                 | 2,171      | 2,171                     | —                             | —                                 |
| Subtotal                                  | 2,171         | —                | —                 | 2,171      | 2,171                     | —                             | —                                 |
| Level 2 <sup>(2)</sup> :                  |               |                  |                   |            |                           |                               |                                   |
| 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 <sup>(3)</sup>                      | \$ 189,431    | \$ 2,784         | \$ (385)          | \$ 191,830 | \$ 38,016                 | \$ 52,927                     | \$ 100,887                        |
|   |               |                  |                   |            |                           |                               |                                   |
|   | 2019          |                  |                   |            |                           |                               |                                   |
|   | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Current Marketable Securities | Non-Current Marketable Securities |
| Cash                                      | \$ 12,204     | \$ —             | \$ —              | \$ 12,204  | \$ 12,204                 | \$ —                          | \$ —                              |
| Level 1 <sup>(1)</sup> :                  |               |                  |                   |            |                           |                               |                                   |
| Money market funds                        | 15,897        | —                | —                 | 15,897     | 15,897                    | —                             | —                                 |
| Subtotal                                  | 15,897        | —                | —                 | 15,897     | 15,897                    | —                             | —                                 |
| Level 2 <sup>(2)</sup> :                  |               |                  |                   |            |                           |                               |                                   |
| U.S. Treasury securities                  | 30,293        | 33               | (62)              | 30,264     | 6,165                     | 9,817                         | 14,282                            |
| U.S. agency securities                    | 9,767         | 1                | (3)               | 9,765      | 6,489                     | 2,249                         | 1,027                             |
| Non-U.S. government securities            | 19,821        | 337              | (50)              | 20,108     | 749                       | 3,168                         | 16,191                            |
| Certificates of deposit and time deposits | 4,041         | —                | —                 | 4,041      | 2,024                     | 1,922                         | 95                                |
| Commercial paper                          | 12,433        | —                | —                 | 12,433     | 5,193                     | 7,240                         | —                                 |
| Corporate debt securities                 | 85,383        | 756              | (92)              | 86,047     | 123                       | 26,127                        | 59,797                            |
| Municipal securities                      | 958           | 8                | (1)               | 965        | —                         | 68                            | 897                               |
| Mortgage- and asset-backed securities     | 14,180        | 67               | (73)              | 14,174     | —                         | 1,122                         | 13,052                            |
| Subtotal                                  | 176,876       | 1,202            | (281)             | 177,797    | 20,743                    | 51,713                        | 105,341                           |
| Total <sup>(3)</sup>                      | \$ 204,977    | \$ 1,202         | \$ (281)          | \$ 205,898 | \$ 48,844                 | \$ 51,713                     | \$ 105,341                        |

- (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 September 26, 2020 and September 28, 2019, total marketable securities included \$18.6 billion and \$18.9 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. When evaluating a marketable debt security for other-than-temporary impairment, the Company reviews factors such as the duration and extent to which the fair value of the security 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 will more likely than not be required to sell, the security before recovery of its amortized cost basis. As of September 26, 2020, the Company does not consider any of its marketable debt securities to be other-than-temporarily impaired.

#### Non-Marketable Securities

The Company holds non-marketable equity securities of certain privately held companies without readily determinable fair values. As of September 26, 2020 and September 28, 2019, the Company's non-marketable equity securities had a carrying value of \$2.8 billion and \$2.9 billion, respectively.

#### Restricted Cash

A reconciliation of the Company's cash and cash equivalents in the Consolidated Balance Sheets to cash, cash equivalents and restricted cash in the Consolidated Statements of Cash Flows as of September 26, 2020 and September 28, 2019 is as follows (in millions):

|  | 2020             | 2019             |
|--|------------------|------------------|
| Cash and cash equivalents                            | \$ 38,016        | \$ 48,844        |
| Restricted cash included in other current assets     | 36               | 23               |
| Restricted cash included in other non-current assets | 1,737            | 1,357            |
| Cash, cash equivalents and restricted cash           | <u>\$ 39,789</u> | <u>\$ 50,224</u> |

The Company's restricted cash primarily consisted of cash to support the Company's iPhone Upgrade Program.

#### 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 September 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 September 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 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 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 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 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 \$465 million and \$777 million for 2020 and 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 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 September 26, 2020 and September 28, 2019 (in millions):

|   | 2020  |   |                     |
|---|---|---|---------------------|
|   | Fair Value of<br>Derivatives Designated<br>as Hedge Instruments | Fair Value of<br>Derivatives Not Designated<br>as Hedge Instruments | Total<br>Fair Value |
| Derivative assets <sup>(1)</sup> :      |   |   |                     |
| Foreign exchange contracts              | \$ 749  | \$ 303  | \$ 1,052            |
| Interest rate contracts                 | \$ 1,557  | \$ —  | \$ 1,557            |
| Derivative liabilities <sup>(2)</sup> : |   |   |                     |
| Foreign exchange contracts              | \$ 1,561  | \$ 485  | \$ 2,046            |

|   | 2019  |   |                     |
|---|---|---|---------------------|
|   | Fair Value of<br>Derivatives Designated<br>as Hedge Instruments | Fair Value of<br>Derivatives Not Designated<br>as Hedge Instruments | Total<br>Fair Value |
| Derivative assets <sup>(1)</sup> :      |   |   |                     |
| Foreign exchange contracts              | \$ 1,798  | \$ 323  | \$ 2,121            |
| Interest rate contracts                 | \$ 685  | \$ —  | \$ 685              |
| Derivative liabilities <sup>(2)</sup> : |   |   |                     |
| Foreign exchange contracts              | \$ 1,341  | \$ 160  | \$ 1,501            |
| Interest rate contracts                 | \$ 105  | \$ —  | \$ 105              |

(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 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 Consolidated Balance Sheets.

The Company classifies cash flows related to derivative financial instruments as operating activities in its 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 fair value hedges in OCI and the Consolidated Statements of Operations for 2020, 2019 and 2018 (in millions):

|   | 2020            | 2019            | 2018            |
|---|-----------------|-----------------|-----------------|
| Gains/(Losses) recognized in OCI – included in effectiveness assessment:                      |                 |                 |                 |
| Cash flow hedges:   |                 |                 |                 |
| Foreign exchange contracts  | \$ 365          | \$ (959)        | \$ 682          |
| Interest rate contracts   | (57)            | —               | 1               |
| Total   | <u>\$ 308</u>   | <u>\$ (959)</u> | <u>\$ 683</u>   |
| Net investment hedges:  |                 |                 |                 |
| Foreign currency debt   | \$ 15           | \$ (58)         | \$ 4            |
| Gains/(Losses) reclassified from AOCI into net income – included in effectiveness assessment: |                 |                 |                 |
| Cash flow hedges:   |                 |                 |                 |
| Foreign exchange contracts  | \$ 1,553        | \$ (116)        | \$ (482)        |
| Interest rate contracts   | (8)             | (7)             | 1               |
| Total   | <u>\$ 1,545</u> | <u>\$ (123)</u> | <u>\$ (481)</u> |

The amount excluded from the effectiveness assessment of the Company's hedges and recognized in OCI was a loss of \$168 million for 2020.

The following tables show information about the Company's derivative instruments designated as fair value hedges and the related hedged items for 2020, 2019 and 2018 and as of September 26, 2020 (in millions):

|   | 2020            | 2019              | 2018              |
|---|-----------------|-------------------|-------------------|
| <b>Gains/(Losses) on derivative instruments <sup>(1)</sup>:</b>                         |                 |                   |                   |
| Foreign exchange contracts  | \$ (992)        | \$ 1,020          | \$ (168)          |
| Interest rate contracts   | 1,114           | 2,068             | (1,363)           |
| <b>Total</b>  | <b>\$ 122</b>   | <b>\$ 3,088</b>   | <b>\$ (1,531)</b> |
| <b>Gains/(Losses) related to hedged items <sup>(1)</sup>:</b>                           |                 |                   |                   |
| Marketable securities   | \$ 991          | \$ (1,018)        | \$ 167            |
| Fixed-rate debt   | (1,114)         | (2,068)           | 1,363             |
| <b>Total</b>  | <b>\$ (123)</b> | <b>\$ (3,086)</b> | <b>\$ 1,530</b>   |
|   |                 |                   | <b>2020</b>       |
| <b>Carrying amounts of hedged assets/(liabilities):</b>                                 |                 |                   |                   |
| Marketable securities <sup>(2)</sup>  |                 |                   | \$ 16,270         |
| Fixed-rate debt <sup>(3)</sup>  |                 |                   | \$ (21,033)       |
| <b>Cumulative hedging adjustments included in the carrying amounts of hedged items:</b> |                 |                   |                   |
| Marketable securities carrying amount increases/(decreases)                             |                 |                   | \$ 493            |
| Fixed-rate debt carrying amount (increases)/decreases                                   |                 |                   | \$ (1,541)        |

(1) Gains and losses related to fair value hedges are included in OI&E in the 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 Consolidated Balance Sheet.

(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 Consolidated Balance Sheet.

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 September 26, 2020 and September 28, 2019 (in millions):

|   | 2020            |                    | 2019            |                    |
|---|-----------------|--------------------|-----------------|--------------------|
|   | Notional Amount | Credit Risk Amount | Notional Amount | Credit Risk Amount |
| <b>Instruments designated as accounting hedges:</b>     |                 |                    |                 |                    |
| Foreign exchange contracts                              | \$ 57,410       | \$ 749             | \$ 61,795       | \$ 1,798           |
| Interest rate contracts                                 | \$ 20,700       | \$ 1,557           | \$ 31,250       | \$ 685             |
| <b>Instruments not designated as accounting hedges:</b> |                 |                    |                 |                    |
| Foreign exchange contracts                              | \$ 88,636       | \$ 303             | \$ 76,868       | \$ 323             |

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 Consolidated Balance Sheets. As of September 26, 2020 and September 28, 2019, the net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was \$875 million and \$1.6 billion, respectively. The Company includes gross collateral posted and received in other current assets and other current liabilities in the 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 September 26, 2020 and September 28, 2019, 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 \$2.8 billion and \$2.7 billion, respectively, resulting in net derivative liabilities of \$312 million and \$407 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 September 26, 2020 and September 28, 2019, the Company had no customers that individually represented 10% or more of total trade receivables. The Company's cellular network carriers accounted for 51% of total trade receivables as of September 28, 2019.

### 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 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%. As of September 28, 2019, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 59% and 14%.

## Note 4 – Consolidated Financial Statement Details

The following tables show the Company's consolidated financial statement details as of September 26, 2020 and September 28, 2019 (in millions):

### Property, Plant and Equipment, Net

|  | 2020      | 2019      |
|--|-----------|-----------|
| Land and buildings                             | \$ 17,952 | \$ 17,085 |
| Machinery, equipment and internal-use software | 75,291    | 69,797    |
| Leasehold improvements                         | 10,283    | 9,075     |
| Gross property, plant and equipment            | 103,526   | 95,957    |
| Accumulated depreciation and amortization      | (66,760)  | (58,579)  |
| Total property, plant and equipment, net       | \$ 36,766 | \$ 37,378 |

### Other Non-Current Liabilities

|                                     | 2020      | 2019      |
|-------------------------------------|-----------|-----------|
| Long-term taxes payable             | \$ 28,170 | \$ 29,545 |
| Other non-current liabilities       | 26,320    | 20,958    |
| Total other non-current liabilities | \$ 54,490 | \$ 50,503 |



## Other Income/(Expense), Net

The following table shows the detail of OI&E for 2020, 2019 and 2018 (in millions):

|                                   | 2020     | 2019     | 2018     |
|-----------------------------------|----------|----------|----------|
| Interest and dividend income      | \$ 3,763 | \$ 4,961 | \$ 5,686 |
| Interest expense                  | (2,873)  | (3,576)  | (3,240)  |
| Other income/(expense), net       | (87)     | 422      | (441)    |
| Total other income/(expense), net | \$ 803   | \$ 1,807 | \$ 2,005 |

## Note 5 – Income Taxes

### U.S. Tax Cuts and Jobs Act

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”), which significantly changed U.S. tax law. The Act lowered the Company’s U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on previously deferred foreign income. The Act also created a new minimum tax on certain foreign earnings, for which the Company has elected to record certain deferred tax assets and liabilities.

### Provision for Income Taxes and Effective Tax Rate

The provision for income taxes for 2020, 2019 and 2018, consisted of the following (in millions):

|                            | 2020     | 2019      | 2018      |
|----------------------------|----------|-----------|-----------|
| Federal:                   |          |           |           |
| Current                    | \$ 6,306 | \$ 6,384  | \$ 41,425 |
| Deferred                   | (3,619)  | (2,939)   | (33,819)  |
| Total                      | 2,687    | 3,445     | 7,606     |
| State:                     |          |           |           |
| Current                    | 455      | 475       | 551       |
| Deferred                   | 21       | (67)      | 48        |
| Total                      | 476      | 408       | 599       |
| Foreign:                   |          |           |           |
| Current                    | 3,134    | 3,962     | 3,986     |
| Deferred                   | 3,383    | 2,666     | 1,181     |
| Total                      | 6,517    | 6,628     | 5,167     |
| Provision for income taxes | \$ 9,680 | \$ 10,481 | \$ 13,372 |

The foreign provision for income taxes is based on foreign pre-tax earnings of \$38.1 billion, \$44.3 billion and \$48.0 billion in 2020, 2019 and 2018, respectively.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (21% in 2020 and 2019; 24.5% in 2018) to income before provision for income taxes for 2020, 2019 and 2018, is as follows (dollars in millions):

|  | 2020      | 2019      | 2018      |
|--|-----------|-----------|-----------|
| Computed expected tax                  | \$ 14,089 | \$ 13,805 | \$ 17,890 |
| State taxes, net of federal effect     | 423       | 423       | 271       |
| Impacts of the Act                     | (582)     | —         | 1,515     |
| Earnings of foreign subsidiaries       | (2,534)   | (2,625)   | (5,606)   |
| Research and development credit, net   | (728)     | (548)     | (560)     |
| Excess tax benefits from equity awards | (930)     | (639)     | (675)     |
| Other                                  | (58)      | 65        | 537       |
| Provision for income taxes             | \$ 9,680  | \$ 10,481 | \$ 13,372 |
| Effective tax rate                     | 14.4 %    | 15.9 %    | 18.3 %    |

## Deferred Tax Assets and Liabilities

As of September 26, 2020 and September 28, 2019, the significant components of the Company's deferred tax assets and liabilities were (in millions):

|  | 2020     | 2019      |
|--|----------|-----------|
| Deferred tax assets:                   |          |           |
| Amortization and depreciation          | \$ 8,317 | \$ 11,645 |
| Accrued liabilities and other reserves | 4,934    | 5,196     |
| Lease liabilities                      | 2,038    | —         |
| Deferred revenue                       | 1,638    | 1,372     |
| Other                                  | 2,409    | 2,174     |
| Total deferred tax assets              | 19,336   | 20,387    |
| Less: Valuation allowance              | (1,041)  | (747)     |
| Total deferred tax assets, net         | 18,295   | 19,640    |
| Deferred tax liabilities:              |          |           |
| Minimum tax on foreign earnings        | 7,045    | 10,809    |
| Right-of-use assets                    | 1,862    | —         |
| Unrealized gains                       | 526      | 186       |
| Other                                  | 705      | 600       |
| Total deferred tax liabilities         | 10,138   | 11,595    |
| Net deferred tax assets                | \$ 8,157 | \$ 8,045  |

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

## Uncertain Tax Positions

As of September 26, 2020, the total amount of gross unrecognized tax benefits was \$16.5 billion, of which \$8.8 billion, if recognized, would impact the Company's effective tax rate. As of September 28, 2019, the total amount of gross unrecognized tax benefits was \$15.6 billion, of which \$8.6 billion, if recognized, would have impacted the Company's effective tax rate.

The aggregate change in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for 2020, 2019 and 2018, is as follows (in millions):

|  | 2020      | 2019      | 2018     |
|--|-----------|-----------|----------|
| Beginning balances   | \$ 15,619 | \$ 9,694  | \$ 8,407 |
| Increases related to tax positions taken during a prior year     | 454       | 5,845     | 2,431    |
| Decreases related to tax positions taken during a prior year     | (791)     | (686)     | (2,212)  |
| Increases related to tax positions taken during the current year | 1,347     | 1,697     | 1,824    |
| Decreases related to settlements with taxing authorities         | (85)      | (852)     | (756)    |
| Decreases related to expiration of the statute of limitations    | (69)      | (79)      | —        |
| Ending balances  | \$ 16,475 | \$ 15,619 | \$ 9,694 |

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 (the "IRS") 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 \$3.9 billion.

## Interest and Penalties

The Company includes interest and penalties related to income tax matters within the provision for income taxes. As of September 26, 2020 and September 28, 2019, the total amount of gross interest and penalties accrued was \$1.4 billion and \$1.3 billion, respectively. The Company recognized interest and penalty expense in 2020, 2019 and 2018 of \$85 million, \$73 million and \$489 million, respectively.

## 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 Act.

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 September 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 and Repurchase Agreements

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 September 26, 2020 and September 28, 2019, the Company had \$5.0 billion and \$6.0 billion of Commercial Paper outstanding, respectively, with maturities generally less than nine months. The weighted-average interest rate of the Company's Commercial Paper was 0.62% and 2.24% as of September 26, 2020 and September 28, 2019, respectively. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for 2020, 2019 and 2018 (in millions):

|   | 2020            | 2019              | 2018           |
|---|-----------------|-------------------|----------------|
| Maturities 90 days or less:                         |                 |                   |                |
| Proceeds from/(Repayments of) commercial paper, net | \$ 100          | \$ (3,248)        | \$ 1,044       |
| Maturities greater than 90 days:                    |                 |                   |                |
| Proceeds from commercial paper                      | 6,185           | 13,874            | 14,555         |
| Repayments of commercial paper                      | (7,248)         | (16,603)          | (15,636)       |
| Repayments of commercial paper, net                 | (1,063)         | (2,729)           | (1,081)        |
| Total repayments of commercial paper, net           | <u>\$ (963)</u> | <u>\$ (5,977)</u> | <u>\$ (37)</u> |

In 2020, the Company entered into agreements to sell certain of its marketable securities with a promise to repurchase the securities at a specified time and amount ("Repos"). Due to the Company's continuing involvement with the marketable securities, the Company accounted for its Repos as collateralized borrowings. The Company entered into \$5.2 billion of Repos during 2020, all of which had been settled as of September 26, 2020.

## Term Debt

As of September 26, 2020, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$106.1 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 September 26, 2020 and September 28, 2019:

|  | Maturities<br>(calendar year) | 2020                    |                            | 2019                    |                            |
|--|-------------------------------|-------------------------|----------------------------|-------------------------|----------------------------|
|  |                               | Amount<br>(in millions) | Effective<br>Interest Rate | Amount<br>(in millions) | Effective<br>Interest Rate |
| 2013 – 2019 debt issuances:                            |                               |                         |                            |                         |                            |
| Floating-rate notes                                    | 2021 – 2022                   | \$ 2,250                | 0.60% – 1.39%              | \$ 4,250                | 2.25% – 3.28%              |
| Fixed-rate 0.375% – 4.650% notes                       | 2020 – 2049                   | 87,487                  | 0.28% – 4.78%              | 97,429                  | 0.28% – 4.78%              |
| First quarter 2020 debt issuance of €2.0 billion:      |                               |                         |                            |                         |                            |
| Fixed-rate 0.000% – 0.500% notes                       | 2025 – 2031                   | 2,341                   | 0.03% – 0.56%              | —                       | — %                        |
| Third quarter 2020 debt issuance of \$8.5 billion:     |                               |                         |                            |                         |                            |
| Fixed-rate 0.750% – 2.650% notes                       | 2023 – 2050                   | 8,500                   | 0.84% – 2.72%              | —                       | — %                        |
| Fourth quarter 2020 debt issuance of \$5.5 billion:    |                               |                         |                            |                         |                            |
| Fixed-rate 0.550% – 2.550% notes                       | 2025 – 2060                   | 5,500                   | 0.60% – 2.59%              | —                       | — %                        |
| Total term debt  |                               | 106,078                 |                            | 101,679                 |                            |
| Unamortized premium/(discount) and issuance costs, net |                               | (314)                   |                            | (224)                   |                            |
| Hedge accounting fair value adjustments                |                               | 1,676                   |                            | 612                     |                            |
| Less: Current portion of term debt                     |                               | (8,773)                 |                            | (10,260)                |                            |
| Total non-current portion of term debt                 |                               | \$ 98,667               |                            | \$ 91,807               |                            |

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.

As of September 28, 2019, a portion of the Company's Japanese yen-denominated notes with a carrying value of \$1.0 billion was designated as a hedge of the foreign currency exposure of the Company's net investment in a foreign operation. The Company's Japanese yen-denominated notes matured during 2020 and the associated net investment hedges were terminated. For further discussion regarding the Company's use of derivative instruments, refer to the Derivative Financial Instruments section of Note 3, "Financial Instruments."

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 \$2.8 billion, \$3.2 billion and \$3.0 billion of interest cost on its term debt for 2020, 2019 and 2018, respectively.

The future principal payments for the Company's Notes as of September 26, 2020, are as follows (in millions):

|                 |            |
|-----------------|------------|
| 2021            | \$ 8,750   |
| 2022            | 9,569      |
| 2023            | 11,389     |
| 2024            | 10,115     |
| 2025            | 10,914     |
| Thereafter      | 55,341     |
| Total term debt | \$ 106,078 |

As of September 26, 2020 and September 28, 2019, the fair value of the Company's Notes, based on Level 2 inputs, was \$117.1 billion and \$107.5 billion, respectively.

## Note 7 – Shareholders' Equity

### Share Repurchase Program

As of September 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 \$168.6 billion had been utilized. During 2020, the Company repurchased 917 million shares of its common stock for \$72.5 billion, including 141 million shares delivered under a \$10.0 billion November 2019 accelerated share repurchase arrangement ("ASR") and 64 million shares delivered under a \$6.0 billion May 2020 ASR. 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").

### Shares of Common Stock

The following table shows the changes in shares of common stock for 2020, 2019 and 2018 (in thousands):

|  | 2020       | 2019        | 2018        |
|--|------------|-------------|-------------|
| Common stock outstanding, beginning balances                   | 17,772,945 | 19,019,943  | 20,504,805  |
| Common stock repurchased                                       | (917,270)  | (1,380,819) | (1,622,198) |
| Common stock issued, net of shares withheld for employee taxes | 121,088    | 133,821     | 137,336     |
| Common stock outstanding, ending balances                      | 16,976,763 | 17,772,945  | 19,019,943  |

## 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 cash flow 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 Consolidated Statements of Operations, and the associated financial statement line items, for 2020 and 2019 (in millions):

| Comprehensive Income Components                         | Financial Statement Line Items | 2020       | 2019     |
|---|--------------------------------|------------|----------|
| Unrealized (gains)/losses on derivative instruments:    |                                |            |          |
| Foreign exchange contracts                              | Total net sales                | \$ (365)   | \$ (206) |
|   | Total cost of sales            | (584)      | (482)    |
|   | Other income/(expense), net    | (604)      | 784      |
| Interest rate contracts                                 | Other income/(expense), net    | 8          | 7        |
|   |                                | (1,545)    | 103      |
| Unrealized (gains)/losses on marketable debt securities | Other income/(expense), net    | (82)       | 31       |
| Total amounts reclassified from AOCI                    |                                | \$ (1,627) | \$ 134   |

The following table shows the changes in AOCI by component for 2020 and 2019 (in millions):

|  | Cumulative Foreign Currency Translation | Unrealized Gains/Losses on Derivative Instruments | Unrealized Gains/Losses on Marketable Debt Securities | Total      |
|--|---|---|---|------------|
| Balances as of September 29, 2018                                  | \$ (1,055)                              | \$ 810  | \$ (3,209)  | \$ (3,454) |
| Other comprehensive income/(loss) before reclassifications         | (421)                                   | (949)   | 4,854   | 3,484      |
| Amounts reclassified from AOCI                                     | —                                       | 103   | 31  | 134        |
| Tax effect   | 13                                      | 208   | (1,058)   | (837)      |
| Other comprehensive income/(loss)                                  | (408)                                   | (638)   | 3,827   | 2,781      |
| Cumulative effect of change in accounting principle                | —                                       | —   | 89  | 89         |
| Balances as of September 28, 2019                                  | (1,463)                                 | 172   | 707   | (584)      |
| Other comprehensive income/(loss) before reclassifications         | 91                                      | 115   | 1,560   | 1,766      |
| Amounts reclassified from AOCI                                     | —                                       | (1,545)   | (82)  | (1,627)    |
| Tax effect   | (3)                                     | 245   | (339)   | (97)       |
| Other comprehensive income/(loss)                                  | 88                                      | (1,185)   | 1,139   | 42         |
| Cumulative effect of change in accounting principle <sup>(1)</sup> | —                                       | 136   | —   | 136        |
| Balances as of September 26, 2020                                  | \$ (1,375)                              | \$ (877)  | \$ 1,846  | \$ (406)   |

(1) Refer to Note 1, "Summary of Significant Accounting Policies" for more information on the Company's adoption of ASU 2017-12 in 2020.

## Note 9 – Benefit Plans

### 2014 Employee Stock Plan

In the second quarter of 2014, shareholders approved the 2014 Employee Stock Plan (the "2014 Plan") and terminated the Company's authority to grant new awards under the 2003 Employee Stock Plan (the "2003 Plan"). The 2014 Plan provides for broad-based equity grants to employees, including executive officers, and permits the granting of RSUs, stock grants, performance-based awards, stock options and stock appreciation rights, as well as cash bonus awards. RSUs granted under the 2014 Plan 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 2014 Plan reduce the number of shares available for grant under the plan 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 2014 Plan utilizing a factor of two times the number of RSUs canceled or shares withheld. Currently, all RSUs granted under the 2014 Plan have dividend equivalent rights ("DERs"), which entitle holders of RSUs to the same dividend value per share as holders of common stock. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested RSUs. DERs are accumulated and paid when the underlying shares vest. Upon approval of the 2014 Plan, the Company reserved 1.54 billion shares plus the number of shares remaining that were reserved but not issued under the 2003 Plan. Shares subject to outstanding awards under the 2003 Plan that expire, are canceled or otherwise terminate, or are withheld to satisfy tax withholding obligations for RSUs, will also be available for awards under the 2014 Plan. As of September 26, 2020, approximately 808 million shares were reserved for future issuance under the 2014 Plan.

### Apple Inc. Non-Employee Director Stock Plan

The Apple Inc. Non-Employee Director Stock Plan (the "Director Plan") is a shareholder-approved plan that (i) permits the Company to grant awards of RSUs or stock options to the Company's non-employee directors, (ii) provides for automatic initial grants of RSUs upon a non-employee director joining the Board of Directors and automatic annual grants of RSUs at each annual meeting of shareholders, and (iii) permits the Board of Directors to prospectively change the value and relative mixture of stock options and RSUs for the initial and annual award grants and the methodology for determining the number of shares of the Company's common stock subject to these grants, in each case within the limits set forth in the Director Plan and without further shareholder approval. RSUs granted under the Director Plan reduce the number of shares available for grant under the plan by a factor of two times the number of RSUs granted. The Director Plan expires on November 12, 2027. All RSUs granted under the Director Plan are entitled to DERs. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested RSUs. DERs are accumulated and paid when the underlying shares vest. As of September 26, 2020, approximately 4 million shares were reserved for future issuance under the Director Plan.

## Rule 10b5-1 Trading Plans

During the three months ended September 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.

## Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "Purchase Plan") is a shareholder-approved plan under which substantially all employees may purchase the Company's common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the Purchase Plan are limited to 10% of the employee's compensation and employees may not purchase more than \$25,000 of stock during any calendar year. As of September 26, 2020, approximately 107 million shares were reserved for future issuance under the Purchase Plan.

## 401(k) Plan

The Company's 401(k) Plan is a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limit (\$19,500 for calendar year 2020). The Company matches 50% to 100% of each employee's contributions, depending on length of service, up to a maximum of 6% of the employee's eligible earnings.

## Restricted Stock Units

A summary of the Company's RSU activity and related information for 2020, 2019 and 2018, is as follows:

|                                  | Number of<br>RSUs<br>(in thousands) | Weighted-Average<br>Grant Date Fair<br>Value Per RSU | Aggregate<br>Fair Value<br>(in millions) |
|----------------------------------|-------------------------------------|--|--|
| Balance as of September 30, 2017 | 390,284                             | \$ 27.58   |  |
| RSUs granted                     | 181,402                             | \$ 40.72   |  |
| RSUs vested                      | (178,873)                           | \$ 27.81   |  |
| RSUs canceled                    | (24,195)                            | \$ 31.95   |  |
| Balance as of September 29, 2018 | 368,618                             | \$ 33.65   |  |
| RSUs granted                     | 147,409                             | \$ 53.99   |  |
| RSUs vested                      | (168,350)                           | \$ 33.80   |  |
| RSUs canceled                    | (21,609)                            | \$ 40.71   |  |
| Balance as of September 28, 2019 | 326,068                             | \$ 42.30   |  |
| RSUs granted                     | 156,800                             | \$ 59.20   |  |
| RSUs vested                      | (157,743)                           | \$ 40.29   |  |
| RSUs canceled                    | (14,347)                            | \$ 48.07   |  |
| Balance as of September 26, 2020 | 310,778                             | \$ 51.58   | \$ 34,894                                |

The fair value as of the respective vesting dates of RSUs was \$10.8 billion, \$8.6 billion and \$7.6 billion for 2020, 2019 and 2018, respectively. The majority of RSUs that vested in 2020, 2019 and 2018 were net share settled such that the Company withheld shares with a value equivalent to the employees' obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were approximately 56 million, 59 million and 64 million for 2020, 2019 and 2018, respectively, and were based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. Total payments for the employees' tax obligations to taxing authorities were \$3.9 billion, \$3.0 billion and \$2.7 billion in 2020, 2019 and 2018, respectively.

## Share-Based Compensation

The following table shows share-based compensation expense and the related income tax benefit included in the Consolidated Statements of Operations for 2020, 2019 and 2018 (in millions):

|  | 2020       | 2019       | 2018       |
|--|------------|------------|------------|
| Share-based compensation expense                               | \$ 6,829   | \$ 6,068   | \$ 5,340   |
| Income tax benefit related to share-based compensation expense | \$ (2,476) | \$ (1,967) | \$ (1,893) |

As of September 26, 2020, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$12.2 billion, which the Company expects to recognize over a weighted-average period of 2.6 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 2020, 2019 and 2018 (in millions):

|  | 2020     | 2019     | 2018     |
|--|----------|----------|----------|
| Beginning accrued warranty and related costs | \$ 3,570 | \$ 3,692 | \$ 3,834 |
| Cost of warranty claims                      | (2,956)  | (3,857)  | (4,115)  |
| Accruals for product warranty                | 2,740    | 3,735    | 3,973    |
| Ending accrued warranty and related costs    | \$ 3,354 | \$ 3,570 | \$ 3,692 |

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 supplier arrangements, Internet and telecommunication services, intellectual property licenses and content creation. Future payments under noncancelable unconditional purchase obligations having a remaining term in excess of one year as of September 26, 2020, are as follows (in millions):

|            |    |              |
|------------|----|--------------|
| 2021       | \$ | 3,476        |
| 2022       |    | 2,885        |
| 2023       |    | 1,700        |
| 2024       |    | 357          |
| 2025       |    | 104          |
| Thereafter |    | 130          |
| Total      | \$ | <u>8,652</u> |

## 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. 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 and awarded damages of \$503 million. The Company appealed the verdict to the U.S. Court of Appeals for the Federal Circuit, which remanded the case back to the U.S. District Court for the Eastern District of Texas, where it is scheduled for a re-trial in October 2020. 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. 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. The Company has accrued its best estimate for the ultimate resolution of these matters.

### *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.”

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 2020, 2019 and 2018 (in millions):

|                       | 2020       | 2019       | 2018       |
|-----------------------|------------|------------|------------|
| Americas:             |            |            |            |
| Net sales             | \$ 124,556 | \$ 116,914 | \$ 112,093 |
| Operating income      | \$ 37,722  | \$ 35,099  | \$ 34,864  |
| Europe:               |            |            |            |
| Net sales             | \$ 68,640  | \$ 60,288  | \$ 62,420  |
| Operating income      | \$ 22,170  | \$ 19,195  | \$ 19,955  |
| Greater China:        |            |            |            |
| Net sales             | \$ 40,308  | \$ 43,678  | \$ 51,942  |
| Operating income      | \$ 15,261  | \$ 16,232  | \$ 19,742  |
| Japan:                |            |            |            |
| Net sales             | \$ 21,418  | \$ 21,506  | \$ 21,733  |
| Operating income      | \$ 9,279   | \$ 9,369   | \$ 9,500   |
| Rest of Asia Pacific: |            |            |            |
| Net sales             | \$ 19,593  | \$ 17,788  | \$ 17,407  |
| Operating income      | \$ 6,808   | \$ 6,055   | \$ 6,181   |

A reconciliation of the Company's segment operating income to the Consolidated Statements of Operations for 2020, 2019 and 2018 is as follows (in millions):

|                                  | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      |
|----------------------------------|------------------|------------------|------------------|
| Segment operating income         | \$ 91,240        | \$ 85,950        | \$ 90,242        |
| Research and development expense | (18,752)         | (16,217)         | (14,236)         |
| Other corporate expenses, net    | (6,200)          | (5,803)          | (5,108)          |
| Total operating income           | <u>\$ 66,288</u> | <u>\$ 63,930</u> | <u>\$ 70,898</u> |

The U.S. and China were the only countries that accounted for more than 10% of the Company's net sales in 2020, 2019 and 2018. There was no single customer that accounted for more than 10% of net sales in 2020, 2019 and 2018. Net sales for 2020, 2019 and 2018 and long-lived assets as of September 26, 2020 and September 28, 2019 were as follows (in millions):

|                      | <u>2020</u>       | <u>2019</u>       | <u>2018</u>       |
|----------------------|-------------------|-------------------|-------------------|
| Net sales:           |                   |                   |                   |
| U.S.                 | \$ 109,197        | \$ 102,266        | \$ 98,061         |
| China <sup>(1)</sup> | 40,308            | 43,678            | 51,942            |
| Other countries      | 125,010           | 114,230           | 115,592           |
| Total net sales      | <u>\$ 274,515</u> | <u>\$ 260,174</u> | <u>\$ 265,595</u> |

|                         | <u>2020</u>      | <u>2019</u>      |
|-------------------------|------------------|------------------|
| Long-lived assets:      |                  |                  |
| U.S.                    | \$ 25,890        | \$ 24,711        |
| China <sup>(1)</sup>    | 7,256            | 9,064            |
| Other countries         | 3,620            | 3,603            |
| Total long-lived assets | <u>\$ 36,766</u> | <u>\$ 37,378</u> |

(1) China includes Hong Kong and Taiwan. Long-lived assets located in China consist primarily of product tooling and manufacturing process equipment and assets related to retail stores and related infrastructure.

## Note 12 – Leases

The Company has lease arrangements for certain equipment and facilities, including retail, corporate, manufacturing and data center space. These leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options, some of which are reasonably certain of exercise. The Company's lease arrangements may contain both lease and non-lease components. The Company has elected to combine and account for lease and non-lease components as a single lease component for leases of retail, corporate, and data center facilities.

Payments under the Company's lease arrangements may be fixed or variable, and variable lease payments are primarily based on purchases of output of the underlying leased assets. Lease costs associated with fixed payments on the Company's operating leases were \$1.5 billion for 2020. Lease costs associated with variable payments on the Company's leases were \$9.3 billion for 2020. Rent expense for operating leases, as previously reported under former lease accounting standards, was \$1.3 billion and \$1.2 billion in 2019 and 2018, respectively.

For 2020, the Company made \$1.5 billion of fixed cash payments related to operating leases. Non-cash activities involving ROU assets obtained in exchange for lease liabilities were \$10.5 billion for 2020, including the impact of adopting the new leases standard in the first quarter of 2020.

The following table shows ROU assets and lease liabilities, and the associated financial statement line items, as of September 26, 2020 (in millions):

| Lease-Related Assets and Liabilities | Financial Statement Line Items     | 2020     |
|--------------------------------------|------------------------------------|----------|
| Right-of-use assets:                 |                                    |          |
| Operating leases                     | Other non-current assets           | \$ 8,570 |
| Finance leases                       | Property, plant and equipment, net | 629      |
| Total right-of-use assets            |                                    | \$ 9,199 |
| Lease liabilities:                   |                                    |          |
| Operating leases                     | Other current liabilities          | \$ 1,436 |
|                                      | Other non-current liabilities      | 7,745    |
| Finance leases                       | Other current liabilities          | 24       |
|                                      | Other non-current liabilities      | 637      |
| Total lease liabilities              |                                    | \$ 9,842 |

Lease liability maturities as of September 26, 2020, are as follows (in millions):

|                                | Operating Leases | Finance Leases | Total    |
|--------------------------------|------------------|----------------|----------|
| 2021                           | \$ 1,493         | \$ 43          | \$ 1,536 |
| 2022                           | 1,461            | 43             | 1,504    |
| 2023                           | 1,317            | 54             | 1,371    |
| 2024                           | 1,068            | 30             | 1,098    |
| 2025                           | 960              | 25             | 985      |
| Thereafter                     | 3,845            | 895            | 4,740    |
| Total undiscounted liabilities | 10,144           | 1,090          | 11,234   |
| Less: Imputed interest         | (963)            | (429)          | (1,392)  |
| Total lease liabilities        | \$ 9,181         | \$ 661         | \$ 9,842 |

The weighted-average remaining lease term and discount rate related to the Company's lease liabilities as of September 26, 2020 were 10.3 years and 2.0%, respectively. The discount rates are generally based on estimates of the Company's incremental borrowing rate, as the discount rates implicit in the Company's leases cannot be readily determined.

As of September 26, 2020, the Company had \$1.7 billion of future payments under additional leases, primarily for corporate facilities and retail space, that had not yet commenced. These leases will commence between 2021 and 2022, with lease terms ranging from 1 year to 20 years.

### Note 13 – Selected Quarterly Financial Information (Unaudited)

The following tables show a summary of the Company's quarterly financial information for each of the four quarters of 2020 and 2019 (in millions, except per share amounts):

|                                     | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
|-------------------------------------|----------------|---------------|----------------|---------------|
| 2020:                               |                |               |                |               |
| Total net sales                     | \$ 64,698      | \$ 59,685     | \$ 58,313      | \$ 91,819     |
| Gross margin                        | \$ 24,689      | \$ 22,680     | \$ 22,370      | \$ 35,217     |
| Net income                          | \$ 12,673      | \$ 11,253     | \$ 11,249      | \$ 22,236     |
| Earnings per share <sup>(1)</sup> : |                |               |                |               |
| Basic                               | \$ 0.74        | \$ 0.65       | \$ 0.64        | \$ 1.26       |
| Diluted                             | \$ 0.73        | \$ 0.65       | \$ 0.64        | \$ 1.25       |

|                                     | <u>Fourth Quarter</u> | <u>Third Quarter</u> | <u>Second Quarter</u> | <u>First Quarter</u> |
|-------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| 2019:                               |                       |                      |                       |                      |
| Total net sales                     | \$ 64,040             | \$ 53,809            | \$ 58,015             | \$ 84,310            |
| Gross margin                        | \$ 24,313             | \$ 20,227            | \$ 21,821             | \$ 32,031            |
| Net income                          | \$ 13,686             | \$ 10,044            | \$ 11,561             | \$ 19,965            |
| Earnings per share <sup>(1)</sup> : |                       |                      |                       |                      |
| Basic                               | \$ 0.76               | \$ 0.55              | \$ 0.62               | \$ 1.05              |
| Diluted                             | \$ 0.76               | \$ 0.55              | \$ 0.61               | \$ 1.05              |

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

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Apple Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Apple Inc. as of September 26, 2020 and September 28, 2019, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended September 26, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Apple Inc. at September 26, 2020 and September 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 26, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), Apple Inc.'s internal control over financial reporting as of September 26, 2020, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated October 29, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of Apple Inc.'s management. Our responsibility is to express an opinion on Apple Inc.'s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Apple Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

#### Uncertain Tax Positions

##### Description of the Matter

As discussed in Note 5 to the financial statements, Apple Inc. is subject to taxation and files income tax returns in the U.S. federal jurisdiction and many state and foreign jurisdictions. As of September 26, 2020, the total amount of gross unrecognized tax benefits was \$16.5 billion, of which \$8.8 billion, if recognized, would impact Apple Inc.'s effective tax rate. Apple Inc. uses significant judgment in the calculation of tax liabilities in estimating the impact of uncertainties in the application of technical merits and complex tax laws.

Auditing management's evaluation of whether an uncertain tax position is more likely than not to be sustained and the measurement of the benefit of various tax positions can be complex, involves significant judgment, and is based on interpretations of tax laws and legal rulings.

How We Addressed the  
Matter in Our Audit

We tested controls relating to the evaluation of uncertain tax positions, including controls over management's assessment as to whether tax positions are more likely than not to be sustained, management's process to measure the benefit of its tax positions, and the development of the related disclosures.

To evaluate Apple Inc.'s assessment of which tax positions are more likely than not to be sustained, our audit procedures included, among others, reading and evaluating management's assumptions and analysis, and, as applicable, Apple Inc.'s communications with taxing authorities, that detailed the basis and technical merits of the uncertain tax positions. We involved our tax subject matter resources in assessing the technical merits of certain of Apple Inc.'s tax positions based on our knowledge of relevant tax laws and experience with related taxing authorities. For certain tax positions, we also received external legal counsel confirmation letters and discussed the matters with external advisors and Apple Inc. tax personnel. In addition, we evaluated Apple Inc.'s disclosure in relation to these matters included in Note 5 to the financial statements.

/s/ Ernst & Young LLP

We have served as Apple Inc.'s auditor since 2009.

San Jose, California  
October 29, 2020

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Apple Inc.

### Opinion on Internal Control Over Financial Reporting

We have audited Apple Inc.'s internal control over financial reporting as of September 26, 2020, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the “COSO criteria”). In our opinion, Apple Inc. maintained, in all material respects, effective internal control over financial reporting as of September 26, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”), the consolidated balance sheets of Apple Inc. as of September 26, 2020 and September 28, 2019, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended September 26, 2020, and the related notes and our report dated October 29, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

Apple Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Apple Inc.'s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Apple Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

San Jose, California  
October 29, 2020



**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. 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 September 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.

**Inherent Limitations over Internal Controls**

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Management's Annual Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the Company's assessment, management has concluded that its internal control over financial reporting was effective as of September 26, 2020 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the Company's internal control over financial reporting, which appears in Part II, Item 8 of this Form 10-K.

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2020, 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.

**Item 9B. Other Information**

None.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is set forth under the headings “Corporate Governance,” “Directors,” “Executive Officers” and, if applicable, “Other Information—Security Ownership of Certain Beneficial Owners and Management” in the Company’s 2021 Proxy Statement to be filed with the SEC within 120 days after September 26, 2020 in connection with the solicitation of proxies for the Company’s 2021 annual meeting of shareholders, and is incorporated herein by reference.

#### **Item 11. Executive Compensation**

The information required by this Item is set forth under the heading “Executive Compensation,” under the subheadings “Board Oversight of Risk Management” and, if applicable, “Compensation Committee Interlocks and Insider Participation” under the heading “Corporate Governance” and under the subheadings “Compensation of Directors” and “Director Compensation—2020” under the heading “Directors” in the Company’s 2021 Proxy Statement to be filed with the SEC within 120 days after September 26, 2020, and is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is set forth under the headings “Other Information—Security Ownership of Certain Beneficial Owners and Management” and “Other Information—Equity Compensation Plan Information” in the Company’s 2021 Proxy Statement to be filed with the SEC within 120 days after September 26, 2020, and is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is set forth under the subheadings “Role of the Board of Directors,” “Board Committees,” “Review, Approval, or Ratification of Transactions with Related Persons” and “Transactions with Related Persons” under the heading “Corporate Governance” in the Company’s 2021 Proxy Statement to be filed with the SEC within 120 days after September 26, 2020, and is incorporated herein by reference.

#### **Item 14. Principal Accountant Fees and Services**

The information required by this Item is set forth under the subheadings “Fees Paid to Auditors” and “Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services Performed by the Independent Registered Public Accounting Firm” under the proposal “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Company’s 2021 Proxy Statement to be filed with the SEC within 120 days after September 26, 2020, and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibit and Financial Statement Schedules**

**(a) Documents filed as part of this report**

**(1) All financial statements**

| <b>Index to Consolidated Financial Statements</b>   | <b>Page</b> |
|---|-------------|
| <a href="#">Consolidated Statements of Operations for the years ended September 26, 2020, September 28, 2019 and September 29, 2018</a>           | 31          |
| <a href="#">Consolidated Statements of Comprehensive Income for the years ended September 26, 2020, September 28, 2019 and September 29, 2018</a> | 32          |
| <a href="#">Consolidated Balance Sheets as of September 26, 2020 and September 28, 2019</a>   | 33          |
| <a href="#">Consolidated Statements of Shareholders' Equity for the years ended September 26, 2020, September 28, 2019 and September 29, 2018</a> | 34          |
| <a href="#">Consolidated Statements of Cash Flows for the years ended September 26, 2020, September 28, 2019 and September 29, 2018</a>           | 35          |
| <a href="#">Notes to Consolidated Financial Statements</a>  | 36          |
| <a href="#">Selected Quarterly Financial Information (Unaudited)</a>  | 57          |
| <a href="#">Reports of Independent Registered Public Accounting Firm</a>  | 59          |

**(2) Financial Statement Schedules**

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and accompanying notes included in this Form 10-K.

**(3) Exhibits required by Item 601 of Regulation S-K <sup>(1)</sup>**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>   | <b>Incorporated by Reference</b> |                |   |
|-----------------------|--|----------------------------------|----------------|---|
|                       |  | <b>Form</b>                      | <b>Exhibit</b> | <b>Filing Date/<br/>Period End Date</b> |
| 3.1                   | <a href="#">Restated Articles of Incorporation of the Registrant filed on August 3, 2020.</a>  | 8-K                              | 3.1            | 8/7/20                                  |
| 3.2                   | <a href="#">Amended and Restated Bylaws of the Registrant effective as of December 13, 2016.</a>   | 8-K                              | 3.2            | 12/15/16                                |
| 4.1**                 | <a href="#">Description of Securities of the Registrant.</a>   |                                  |                |   |
| 4.2                   | <a href="#">Indenture, dated as of April 29, 2013, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as Trustee.</a>   | S-3                              | 4.1            | 4/29/13                                 |
| 4.3                   | <a href="#">Officer's Certificate of the Registrant, dated as of May 3, 2013, including forms of global notes representing the Floating Rate Notes due 2016, Floating Rate Notes due 2018, 0.45% Notes due 2016, 1.00% Notes due 2018, 2.40% Notes due 2023 and 3.85% Notes due 2043.</a>                              | 8-K                              | 4.1            | 5/3/13                                  |
| 4.4                   | <a href="#">Officer's Certificate of the Registrant, dated as of May 6, 2014, including forms of global notes representing the Floating Rate Notes due 2017, Floating Rate Notes due 2019, 1.05% Notes due 2017, 2.10% Notes due 2019, 2.85% Notes due 2021, 3.45% Notes due 2024 and 4.45% Notes due 2044.</a>        | 8-K                              | 4.1            | 5/6/14                                  |
| 4.5                   | <a href="#">Officer's Certificate of the Registrant, dated as of November 10, 2014, including forms of global notes representing the 1.000% Notes due 2022 and 1.625% Notes due 2026.</a>  | 8-K                              | 4.1            | 11/10/14                                |
| 4.6                   | <a href="#">Officer's Certificate of the Registrant, dated as of February 9, 2015, including forms of global notes representing the Floating Rate Notes due 2020, 1.55% Notes due 2020, 2.15% Notes due 2022, 2.50% Notes due 2025 and 3.45% Notes due 2045.</a>   | 8-K                              | 4.1            | 2/9/15                                  |
| 4.7                   | <a href="#">Officer's Certificate of the Registrant, dated as of May 13, 2015, including forms of global notes representing the Floating Rate Notes due 2017, Floating Rate Notes due 2020, 0.900% Notes due 2017, 2.000% Notes due 2020, 2.700% Notes due 2022, 3.200% Notes due 2025, and 4.375% Notes due 2045.</a> | 8-K                              | 4.1            | 5/13/15                                 |
| 4.8                   | <a href="#">Officer's Certificate of the Registrant, dated as of July 31, 2015, including forms of global notes representing the 3.05% Notes due 2029 and 3.60% Notes due 2042.</a>  | 8-K                              | 4.1            | 7/31/15                                 |

| Exhibit Number | Exhibit Description  | Incorporated by Reference |         |                                 |
|----------------|--|---------------------------|---------|---------------------------------|
|                |  | Form                      | Exhibit | Filing Date/<br>Period End Date |
| 4.9            | <a href="#">Officer's Certificate of the Registrant, dated as of September 17, 2015, including forms of global notes representing the 1.375% Notes due 2024 and 2.000% Notes due 2027.</a>   | 8-K                       | 4.1     | 9/17/15                         |
| 4.10           | <a href="#">Officer's Certificate of the Registrant, dated as of February 23, 2016, including forms of global notes representing the Floating Rate Notes due 2019, Floating Rate Notes due 2021, 1.300% Notes due 2018, 1.700% Notes due 2019, 2.250% Notes due 2021, 2.850% Notes due 2023, 3.250% Notes due 2026, 4.500% Notes due 2036 and 4.650% Notes due 2046.</a>       | 8-K                       | 4.1     | 2/23/16                         |
| 4.11           | <a href="#">Supplement No. 1 to the Officer's Certificate of the Registrant, dated as of March 24, 2016.</a>   | 8-K                       | 4.1     | 3/24/16                         |
| 4.12           | <a href="#">Officer's Certificate of the Registrant, dated as of August 4, 2016, including forms of global notes representing the Floating Rate Notes due 2019, 1.100% Notes due 2019, 1.550% Notes due 2021, 2.450% Notes due 2026 and 3.850% Notes due 2046.</a>   | 8-K                       | 4.1     | 8/4/16                          |
| 4.13           | <a href="#">Officer's Certificate of the Registrant, dated as of February 9, 2017, including forms of global notes representing the Floating Rate Notes due 2019, Floating Rate Notes due 2020, Floating Rate Notes due 2022, 1.550% Notes due 2019, 1.900% Notes due 2020, 2.500% Notes due 2022, 3.000% Notes due 2024, 3.350% Notes due 2027 and 4.250% Notes due 2047.</a> | 8-K                       | 4.1     | 2/9/17                          |
| 4.14           | <a href="#">Officer's Certificate of the Registrant, dated as of May 11, 2017, including forms of global notes representing the Floating Rate Notes due 2020, Floating Rate Notes due 2022, 1.800% Notes due 2020, 2.300% Notes due 2022, 2.850% Notes due 2024 and 3.200% Notes due 2027.</a>   | 8-K                       | 4.1     | 5/11/17                         |
| 4.15           | <a href="#">Officer's Certificate of the Registrant, dated as of May 24, 2017, including forms of global notes representing the 0.875% Notes due 2025 and 1.375% Notes due 2029.</a>   | 8-K                       | 4.1     | 5/24/17                         |
| 4.16           | <a href="#">Officer's Certificate of the Registrant, dated as of June 20, 2017, including form of global note representing the 3.000% Notes due 2027.</a>  | 8-K                       | 4.1     | 6/20/17                         |
| 4.17           | <a href="#">Officer's Certificate of the Registrant, dated as of August 18, 2017, including form of global note representing the 2.513% Notes due 2024.</a>  | 8-K                       | 4.1     | 8/18/17                         |
| 4.18           | <a href="#">Officer's Certificate of the Registrant, dated as of September 12, 2017, including forms of global notes representing the 1.500% Notes due 2019, 2.100% Notes due 2022, 2.900% Notes due 2027 and 3.750% Notes due 2047.</a>   | 8-K                       | 4.1     | 9/12/17                         |
| 4.19           | <a href="#">Officer's Certificate of the Registrant, dated as of November 13, 2017, including forms of global notes representing the 1.800% Notes due 2019, 2.000% Notes due 2020, 2.400% Notes due 2023, 2.750% Notes due 2025, 3.000% Notes due 2027 and 3.750% Notes due 2047.</a>  | 8-K                       | 4.1     | 11/13/17                        |
| 4.20           | <a href="#">Indenture, dated as of November 5, 2018, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as Trustee.</a>   | S-3                       | 4.1     | 11/5/18                         |
| 4.21           | <a href="#">Officer's Certificate of the Registrant, dated as of September 11, 2019, including forms of global notes representing the 1.700% Notes due 2022, 1.800% Notes due 2024, 2.050% Notes due 2026, 2.200% Notes due 2029 and 2.950% Notes due 2049.</a>  | 8-K                       | 4.1     | 9/11/19                         |
| 4.22           | <a href="#">Officer's Certificate of the Registrant, dated as of November 15, 2019, including forms of global notes representing the 0.000% Notes due 2025 and 0.500% Notes due 2031.</a>  | 8-K                       | 4.1     | 11/15/19                        |
| 4.23           | <a href="#">Officer's Certificate of the Registrant, dated as of May 11, 2020, including forms of global notes representing the 0.750% Notes due 2023, 1.125% Notes due 2025, 1.650% Notes due 2030 and 2.650% Notes due 2050.</a>   | 8-K                       | 4.1     | 5/11/20                         |
| 4.24           | <a href="#">Officer's Certificate of the Registrant, dated as of August 20, 2020, including forms of global notes representing the 0.550% Notes due 2025, 1.25% Notes due 2030, 2.400% Notes due 2050 and 2.550% Notes due 2060.</a>   | 8-K                       | 4.1     | 8/20/20                         |
| 4.25*          | <a href="#">Apple Inc. Deferred Compensation Plan.</a>   | S-8                       | 4.1     | 8/23/18                         |
| 10.1*          | <a href="#">Employee Stock Purchase Plan, as amended and restated as of March 10, 2015.</a>  | 8-K                       | 10.1    | 3/13/15                         |
| 10.2*          | <a href="#">Form of Indemnification Agreement between the Registrant and each director and executive officer of the Registrant.</a>  | 10-Q                      | 10.2    | 6/27/09                         |
| 10.3*          | <a href="#">Apple Inc. Non-Employee Director Stock Plan, as amended and restated as of February 13, 2018.</a>  | 8-K                       | 10.1    | 2/14/18                         |
| 10.4*          | <a href="#">2003 Employee Stock Plan, as amended through February 25, 2010.</a>  | 8-K                       | 10.1    | 3/1/10                          |

| Exhibit Number | Exhibit Description   | Incorporated by Reference |         |                                 |
|----------------|---|---------------------------|---------|---------------------------------|
|                |   | Form                      | Exhibit | Filing Date/<br>Period End Date |
| 10.5*          | <a href="#">Form of Restricted Stock Unit Award Agreement under 2003 Employee Stock Plan effective as of November 16, 2010.</a>   | 10-Q                      | 10.10   | 12/25/10                        |
| 10.6*          | <a href="#">2014 Employee Stock Plan, as amended and restated as of October 1, 2017.</a>  | 10-K                      | 10.8    | 9/30/17                         |
| 10.7*          | <a href="#">Form of Amendment, effective as of August 26, 2014, to Restricted Stock Unit Award Agreements and Performance Award Agreements outstanding as of August 26, 2014.</a>               | 10-K                      | 10.13   | 9/27/14                         |
| 10.8*          | <a href="#">Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of October 14, 2016.</a>  | 10-K                      | 10.18   | 9/24/16                         |
| 10.9*          | <a href="#">Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of September 26, 2017.</a>  | 10-K                      | 10.20   | 9/30/17                         |
| 10.10*         | <a href="#">Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of September 26, 2017.</a>  | 10-K                      | 10.21   | 9/30/17                         |
| 10.11*         | <a href="#">Form of Restricted Stock Unit Award Agreement under Non-Employee Director Stock Plan effective as of February 13, 2018.</a>   | 10-Q                      | 10.2    | 3/31/18                         |
| 10.12*         | <a href="#">Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of August 21, 2018.</a>   | 10-K                      | 10.17   | 9/29/18                         |
| 10.13*         | <a href="#">Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of August 21, 2018.</a>   | 10-K                      | 10.18   | 9/29/18                         |
| 10.14*         | <a href="#">Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of September 29, 2019.</a>  | 10-K                      | 10.15   | 9/28/19                         |
| 10.15*         | <a href="#">Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of September 29, 2019.</a>  | 10-K                      | 10.16   | 9/28/19                         |
| 10.16*, **     | <a href="#">Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of August 18, 2020.</a>   |                           |         |                                 |
| 10.17*, **     | <a href="#">Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of August 18, 2020.</a>   |                           |         |                                 |
| 21.1**         | <a href="#">Subsidiaries of the Registrant.</a>   |                           |         |                                 |
| 23.1**         | <a href="#">Consent of Independent Registered Public Accounting Firm.</a>   |                           |         |                                 |
| 24.1**         | <a href="#">Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).</a>   |                           |         |                                 |
| 31.1**         | <a href="#">Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.</a>  |                           |         |                                 |
| 31.2**         | <a href="#">Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.</a>  |                           |         |                                 |
| 32.1***        | <a href="#">Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.</a>   |                           |         |                                 |
| 101**          | Inline XBRL Document Set for the consolidated financial statements and accompanying notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. |                           |         |                                 |
| 104**          | Inline XBRL for the cover page of this Annual Report on Form 10-K, included in the Exhibit 101 Inline XBRL Document Set.  |                           |         |                                 |

\* Indicates management contract or compensatory plan or arrangement.

\*\* Filed herewith.

\*\*\* Furnished herewith.

(1) Certain instruments defining the rights of holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.

## Item 16. Form 10-K Summary

None.

## SIGNATURES

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

Date: October 29, 2020

Apple Inc.

By: /s/ Luca Maestri  
Luca Maestri  
Senior Vice President,  
Chief Financial Officer

## Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Timothy D. Cook and Luca Maestri, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| <u>Name</u>   | <u>Title</u>  | <u>Date</u>      |
|---|---|------------------|
| <u>/s/ Timothy D. Cook</u><br>TIMOTHY D. COOK       | Chief Executive Officer and Director<br>(Principal Executive Officer)           | October 29, 2020 |
| <u>/s/ Luca Maestri</u><br>LUCA MAESTRI             | Senior Vice President, Chief Financial Officer<br>(Principal Financial Officer) | October 29, 2020 |
| <u>/s/ Chris Kondo</u><br>CHRIS KONDO               | Senior Director of Corporate Accounting<br>(Principal Accounting Officer)       | October 29, 2020 |
| <u>/s/ James A. Bell</u><br>JAMES A. BELL           | Director  | October 29, 2020 |
| <u>/s/ Al Gore</u><br>AL GORE                       | Director  | October 29, 2020 |
| <u>/s/ Andrea Jung</u><br>ANDREA JUNG               | Director  | October 29, 2020 |
| <u>/s/ Arthur D. Levinson</u><br>ARTHUR D. LEVINSON | Director  | October 29, 2020 |
| <u>/s/ Ronald D. Sugar</u><br>RONALD D. SUGAR       | Director  | October 29, 2020 |
| <u>/s/ Susan L. Wagner</u><br>SUSAN L. WAGNER       | Director  | October 29, 2020 |

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of September 26, 2020, Apple Inc. ("Apple" or the "Company") had eleven classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (i) Common Stock, \$0.00001 par value per share ("Common Stock"); (ii) 1.000% Notes due 2022 (the "2022 Notes"); (iii) 1.375% Notes due 2024 (the "2024 Notes"); (iv) 0.000% Notes due 2025 (the "0.000% 2025 Notes"); (v) 0.875% Notes due 2025 (the "0.875% 2025 Notes"); (vi) 1.625% Notes due 2026 (the "2026 Notes"); (vii) 2.000% Notes due 2027 (the "2027 Notes"); (viii) 1.375% Notes due 2029 (the "1.375% 2029 Notes"); (ix) 3.050% Notes due 2029 (the "3.050% 2029 Notes"); (x) 0.500% Notes due 2031 (the "2031 Notes"); and (xi) 3.600% Notes due 2042 (the "2042 Notes," and together with the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes, the 3.050% 2029 Notes, and the 2031 Notes, the "Notes"). Each of the Company's securities registered under Section 12 of the Exchange Act are listed on The Nasdaq Stock Market LLC.

**DESCRIPTION OF COMMON STOCK**

The following is a description of the rights of Common Stock and related provisions of the Company's Restated Articles of Incorporation (the "Articles") and Amended and Restated Bylaws (the "Bylaws") and applicable California law. This description is qualified in its entirety by, and should be read in conjunction with, the Articles, Bylaws and applicable California law.

**Authorized Capital Stock**

The Company's authorized capital stock consists of 50,400,000,000 shares of Common Stock.

**Common Stock**

***Fully Paid and Nonassessable***

All of the outstanding shares of the Company's Common Stock are fully paid and nonassessable.

***Voting Rights***

The holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by such holders. Holders of shares of Common Stock are not entitled to cumulative voting rights.

Except as described below or as required by law, all matters to be voted on by shareholders must be approved by the affirmative vote of (i) a majority of the shares present or represented by proxy and voting and (ii) a majority of the shares required to constitute a quorum.

In an election of directors where the number of nominees exceeds the number of directors to be elected, the candidates receiving the highest number of affirmative votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares will be elected.

The Company's entire Board of Directors or any individual director may be removed without cause by an affirmative vote of a majority of the outstanding shares entitled to vote, subject to the provisions of the Company's Bylaws.

Vacancies created by the removal of a director must be filled only by approval of the shareholders, or by the unanimous written consent of all shares entitled to vote. The shareholders may elect a director at any time to fill a vacancy not filled by the directors, but any such election by written consent, other than to fill a vacancy created by removal, requires the consent of a majority of the outstanding shares entitled to vote thereon.

An amendment of the Bylaws or the Articles may be adopted by the vote of the majority of the outstanding shares entitled to vote. Any amendment of the Bylaws specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable board or vice versa may only be adopted by the shareholders; provided, however, that an amendment of the Bylaws or the Articles reducing the fixed number or the minimum number of directors to less than five cannot be adopted if the votes cast against its adoption are equal to more than 16 2/3% of the outstanding shares entitled to vote.

Any shareholders' meeting may be adjourned from time to time by the vote of a majority of the shares present in person or represented by proxy.

#### ***Dividends***

The holders of shares of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Company's Board of Directors in its discretion from funds legally available therefor.

#### ***Right to Receive Liquidation Distributions***

Upon liquidation, dissolution or winding-up, the holders of shares of Common Stock are entitled to receive pro rata all assets remaining available for distribution to holders of such shares.

#### ***No Preemptive or Similar Rights***

Common Stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares of Common Stock.

#### **Anti-Takeover Provisions of the Articles, Bylaws and California Law**

Provisions of the Articles and Bylaws may delay or discourage transactions involving an actual or potential change in control of the Company or change in its management, including transactions in which shareholders might otherwise receive a premium for their shares, or transactions that its shareholders might otherwise deem to be in their best interests. Among other things, the Articles and Bylaws:

- provide that, except for a vacancy caused by the removal of a director as provided in the Bylaws, a vacancy on the Company's Board of Directors may be filled by a person selected by a majority of the remaining directors then in office, whether or not less than a quorum, or by a sole remaining director;
- provide that shareholders seeking to present proposals before a meeting of shareholders or to nominate candidates for election as directors at a meeting of shareholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a shareholder's notice;
- provide that a shareholder, or group of up to 20 shareholders, that has owned continuously for at least three years shares of Common Stock representing an aggregate of at least 3% of the Company's outstanding shares of Common Stock, may nominate and include in the Company's proxy materials director nominees constituting up to 20% of the Company's Board of Directors, provided that the shareholder(s) and nominee(s) satisfy the requirements in the Bylaws;
- do not provide for cumulative voting rights for the election of directors; and
- provide that special meetings of the shareholders may only be called by two or more members of the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer or by one or more holders of shares entitled to cast not less than ten percent (10%) of the votes on the record date established pursuant to the Company's Bylaws.

In addition, as a California corporation, the Company is subject to the provisions of Section 1203 of the California General Corporation Law, which requires it to provide a fairness opinion to its shareholders in connection with their consideration of any proposed "interested party" reorganization transaction.

#### **Listing**

The Company's Common Stock is listed on The Nasdaq Stock Market LLC under the trading symbol "AAPL."

#### **DESCRIPTION OF DEBT SECURITIES**

The following description of the Notes is a summary and does not purport to be complete. This description is qualified in its entirety by reference, as applicable, to the Indenture, dated as of April 29, 2013, between Apple Inc. and The



Bank of New York Mellon Trust Company, N.A., as trustee (the “2013 Indenture”) and the Indenture, dated as of November 5, 2018, between Apple Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (the “2018 Indenture,” and together with the 2013 Indenture, the “Indentures”). References in this section to the “Company,” “us,” “we” and “our” are solely to Apple Inc. and not to any of its subsidiaries, unless the context requires otherwise.

## **The Notes**

Each of the Notes were issued under the applicable Indenture, which provides that debt securities may be issued under such Indenture from time to time in one or more series. The Indentures and the Notes are governed by, and construed in accordance with, the laws of the State of New York. The Indentures do not limit the amount of debt securities that we may issue thereunder. We may, without the consent of the holders of the debt securities of any series, issue additional debt securities ranking equally with, and otherwise similar in all respects to, the debt securities of the series (except for the date of issuance, the date interest begins to accrue and, in certain circumstances, the first interest payment date) so that those additional debt securities will be consolidated and form a single series with the debt securities of the series previously offered and sold; provided, however, that any additional debt securities will have a separate ISIN number unless certain conditions are met.

### ***The 2022 Notes***

We issued €1,400,000,000 aggregate principal amount of the 2022 Notes on November 10, 2014. The maturity date of the 2022 Notes is November 10, 2022, and interest at a rate of 1.000% per annum is paid annually on November 10 of each year, beginning on November 10, 2015, and on the maturity date. As of October 16, 2020, €1,400,000,000 aggregate principal amount of the 2022 Notes was outstanding.

### ***The 2024 Notes***

We issued €1,000,000,000 aggregate principal amount of the 2024 Notes on September 17, 2015. The maturity date of the 2024 Notes is January 17, 2024, and interest at a rate of 1.375% per annum is paid annually on January 17 of each year, beginning on January 17, 2016, and on the maturity date. As of October 16, 2020, €1,000,000,000 aggregate principal amount of the 2024 Notes was outstanding.

### ***The 0.000% 2025 Notes***

We issued €1,000,000,000 aggregate principal amount of the 0.000% 2025 Notes on November 15, 2019. The maturity date of the 0.000% 2025 Notes is November 15, 2025, and interest at a rate of 0.000% per annum is paid annually on November 15 of each year, beginning on November 15, 2020, and on the maturity date. As of October 16, 2020, €1,000,000,000 aggregate principal amount of the 0.000% 2025 Notes was outstanding.

### ***The 0.875% 2025 Notes***

We issued €1,250,000,000 aggregate principal amount of the 0.875% 2025 Notes on May 24, 2017. The maturity date of the 0.875% 2025 Notes is May 24, 2025, and interest at a rate of 0.875% per annum is paid annually on May 24 of each year, beginning on May 24, 2018, and on the maturity date. As of October 16, 2020, €1,250,000,000 aggregate principal amount of the 0.875% 2025 Notes was outstanding.

### ***The 2026 Notes***

We issued €1,400,000,000 aggregate principal amount of the 2026 Notes on November 10, 2014. The maturity date of the 2026 Notes is November 10, 2026, and interest at a rate of 1.625% per annum is paid annually on November 10 of each year, beginning on November 10, 2015, and on the maturity date. As of October 16, 2020, €1,400,000,000 aggregate principal amount of the 2026 Notes was outstanding.

### ***The 2027 Notes***

We issued €1,000,000,000 aggregate principal amount of the 2027 Notes on September 17, 2015. The maturity date of the 2027 Notes is September 17, 2027, and interest at a rate of 2.000% per annum is paid annually on September 17 of each year, beginning on September 17, 2016, and on the maturity date. As of October 16, 2020, €1,000,000,000 aggregate principal amount of the 2027 Notes was outstanding.

### ***The 1.375% 2029 Notes***

We issued €1,250,000,000 aggregate principal amount of the 1.375% 2029 Notes on May 24, 2017. The maturity date of the 1.375% 2029 Notes is May 24, 2029, and interest at a rate of 1.375% per annum is paid annually on May 24 of each year, beginning on May 24, 2018, and on the maturity date. As of October 16, 2020, €1,250,000,000 aggregate principal amount of the 1.375% 2029 Notes was outstanding.

### ***The 3.050% 2029 Notes***

We issued £750,000,000 aggregate principal amount of the 3.050% 2029 Notes on July 31, 2015. The maturity date of the 3.050% 2029 Notes is July 31, 2029, and interest at a rate of 3.050% per annum is paid semi-annually on January 31 and July 31 of each year, beginning on January 31, 2016, and on the maturity date. As of October 16, 2020, £750,000,000 aggregate principal amount of the 3.050% 2029 Notes was outstanding.

### ***The 2031 Notes***

We issued €1,000,000,000 aggregate principal amount of the 2031 Notes on November 15, 2019. The maturity date of the 2031 Notes is November 15, 2031, and interest at a rate of 0.500% per annum is paid annually on November 15 of each year, beginning on November 15, 2020, and on the maturity date. As of October 16, 2020, €1,000,000,000 aggregate principal amount of the 2031 Notes was outstanding.

### ***The 2042 Notes***

We issued £500,000,000 aggregate principal amount of the 2042 Notes on July 31, 2015. The maturity date of the 2042 Notes is July 31, 2042, and interest at a rate of 3.600% per annum is paid semi-annually on January 31 and July 31 of each year, beginning on January 31, 2016, and on the maturity date. As of October 16, 2020, £500,000,000 aggregate principal amount of the 2042 Notes was outstanding.

## **Ranking**

The Notes are our senior unsecured indebtedness and rank equally with each other and with all of our other senior unsecured and unsubordinated indebtedness from time to time outstanding. However, the Notes are structurally subordinated to any indebtedness and preferred stock, if any, of our subsidiaries and are effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness. Claims of the creditors of our subsidiaries generally have priority with respect to the assets and earnings of such subsidiaries over the claims of our creditors, including holders of the Notes. Accordingly, the Notes are effectively subordinated to creditors, including trade creditors and preferred stockholders, if any, of our subsidiaries. The Indentures do not restrict our ability or that of our subsidiaries to incur additional indebtedness.

## **Payment on the Notes**

All payments of principal of, the redemption price (if any), and interest and additional amounts (if any) on the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes and the 2031 Notes are payable in euro, provided that, if the euro is unavailable to the Company due to the imposition of exchange controls or other circumstances beyond the Company's control, or if the euro is no longer being used by the then member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes and the 2031 Notes will be made in U.S. dollars, until the euro is again available to the Company or so used. The amount payable on any date in euro will be converted into U.S. dollars at the rate mandated by the U.S. Federal Reserve Board as of the close of business on the second Business Day prior to the relevant payment date or, in the event the U.S. Federal Reserve Board has not mandated a rate of conversion, on the basis of the most recent U.S. dollar/euro exchange rate published in The Wall Street Journal on or prior to the second Business Day prior to the relevant payment date. Any payment in respect of the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes and the 2031 Notes so made in U.S. dollars will not constitute an event of default under such Notes or the applicable Indenture.

With respect to the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes and the 2031 Notes, "Business Day" means any day, other than a Saturday or Sunday, (1) which is not a day on which banking institutions in The City of New York or London are

authorized or required by law, regulation or executive order to close and (2) on which the Trans-European Automated Real-time Gross Settlement Express Transfer system (the TARGET2 system), or any successor thereto, is open.

All payments of principal of, the redemption price (if any), and interest and additional amounts (if any) on the 3.050% 2029 Notes and the 2042 Notes are payable in pounds sterling, or, if the United Kingdom adopts euro as its lawful currency, in euro. If pounds sterling or, in the event the Notes are redenominated into euro, euro is unavailable to the Company due to the imposition of exchange controls or other circumstances beyond the Company's control or, in the event the notes are redenominated into euro, the euro is no longer being used by the then member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of the 3.050% 2029 Notes and the 2042 Notes will be made in U.S. dollars until the pound sterling or euro, as the case may be, is again available to the Company or so used. The amount payable on any date in pounds sterling or, in the event such Notes are redenominated into euro, euro will be converted into U.S. dollars at the rate mandated by the U.S. Federal Reserve Board as of the close of business on the second Business Day prior to the relevant payment date or, in the event the U.S. Federal Reserve Board has not mandated a rate of conversion, on the basis of the most recent U.S. dollar/pounds sterling or, in the event the Notes are redenominated into euro, the most recent U.S. dollar/euro exchange rate published in The Wall Street Journal on or prior to the second Business Day prior to the relevant payment date. Any payment in respect of the 3.050% 2029 Notes and the 2042 Notes so made in U.S. dollars will not constitute an event of default under such Notes or the 2013 Indenture.

With respect to the 3.050% 2029 Notes and the 2042 Notes, "Business Day" means any day which is not a day on which banking institutions in The City of New York or London or the relevant place of payment are authorized or required by law, regulation or executive order to close.

### **Payment of Additional Amounts**

The terms of the Notes state that all payments of principal and interest in respect of the Notes will be made free and clear of, and without deduction or withholding for or on account of any present or future taxes, duties, assessments or other governmental charges of whatsoever nature required to be deducted or withheld by the United States or any political subdivision or taxing authority of or in the United States, unless such withholding or deduction is required by law.

All of the Notes also contain a covenant substantially similar to the following:

The Company will, subject to the exceptions and limitations set forth below, pay as additional interest on the Notes such additional amounts ("Additional Amounts") as are necessary in order that the net payment by the Company or the paying agent of the Company for the applicable Notes ("Paying Agent") of the principal of and interest on the Notes to a holder who is not a United States person (as defined below), after withholding or deduction for any present or future tax, assessment or other governmental charge ("Tax") imposed by the United States or a taxing authority in the United States, will not be less than the amount provided in the Notes to be then due and payable; provided, however, that the foregoing obligation to pay Additional Amounts shall not apply:

- (1) to any Tax that is imposed by reason of the holder (or the beneficial owner for whose benefit such holder holds the Notes), or a fiduciary, settlor, beneficiary, member or shareholder of the holder if the holder is an estate, trust, partnership or corporation, or a person holding a power over an estate or trust administered by a fiduciary holder, being considered as:
  - (a) being or having been engaged in a trade or business in the United States or having or having had a permanent establishment in the United States;
  - (b) having a current or former connection with the United States (other than a connection arising solely as a result of the ownership of the Notes, the receipt of any payment or the enforcement of any rights hereunder), including being or having been a citizen or resident of the United States;
  - (c) being or having been a personal holding company, a passive foreign investment company or a controlled foreign corporation for U.S. federal income tax purposes or a corporation that has accumulated earnings to avoid U.S. federal income tax;
  - (d) being or having been a "10-percent shareholder" of the Company as defined in Section 871(h)(3) of the Internal Revenue Code of 1986, as amended (the "Code");

- (e) being a controlled foreign corporation that is related to the Company within the meaning of Section 864(d)(4) of the Code; or
  - (f) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;
- (2) to any holder that is not the sole beneficial owner of the Notes, or a portion of the Notes, or that is a fiduciary, partnership or limited liability company, but only to the extent that a beneficial owner with respect to the holder, a beneficiary or settlor with respect to the fiduciary, or a beneficial owner or member of the partnership or limited liability company would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment;
  - (3) to any Tax that would not have been imposed but for the failure of the holder or any other person to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of the Notes, if compliance is required by statute, by regulation of the United States or any taxing authority therein or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such Tax (including, but not limited to, the requirement to provide Internal Revenue Service Forms W-8BEN, W-8BEN-E, W-8ECI, or any subsequent versions thereof or successor thereto, and any documentation requirement under an applicable income tax treaty);
  - (4) to any Tax that is imposed otherwise than by withholding by the Company or a Paying Agent from the payment;
  - (5) to any Tax that would not have been imposed but for a change in law, regulation, or administrative or judicial interpretation that becomes effective more than 10 days after the payment becomes due or is duly provided for, whichever occurs later;
  - (6) to any estate, inheritance, gift, sales, excise, transfer, wealth, capital gains or personal property or similar Tax;
  - (7) to any Tax required to be withheld by any paying agent from any payment of principal of or interest on any Note, if such payment can be made without such withholding by at least one other paying agent;
  - (8) to any Tax that would not have been imposed but for the presentation by the holder of any Note, where presentation is required, for payment on a date more than 30 days after the date on which payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
  - (9) to any Tax imposed under Sections 1471 through 1474 of the Code (or any amended or successor provisions), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such sections of the Code; or
- (10) in the case of any combination of items (1) through (9) above.

The Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable to the Notes. Except as specifically provided under this heading “—Payment of Additional Amounts,” the Company will not be required to make any payment for any Tax imposed by any government or a political subdivision or taxing authority of or in any government or political subdivision. As used under “—Payment of Additional Amounts” and under “—Redemption for Tax Reasons,” the term “United States” means the United States of America (including the states and the District of Columbia and any political subdivision thereof), and the term “United States person” means any individual who is a citizen or resident of the United States for U.S. federal income tax purposes, a corporation, partnership or other entity created or organized in or under the laws of the United States, any state of the United States or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), or any estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

## Redemption for Tax Reasons

If, as a result of any change in, or amendment to, or, in the case of the 0.000% 2025 Notes and the 2031 Notes, introduction of, the laws (or any regulations or rulings promulgated under the laws) of the United States (or any political subdivision or taxing authority of or in the United States), or any change in, or amendments to, an official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the date of the applicable prospectus supplement, we become, or based upon a written opinion of independent counsel selected by us, will become obligated to pay additional amounts as described above under the heading "Payments of Additional Amounts" with respect to a series of the Notes, then we may at our option redeem, in whole, but not in part, in the case of the 2022 Notes, the 2024 Notes, the 2026 Notes, the 2027 Notes, the 3.050% 2029 Notes and the 2042 Notes, the Notes of such series on not less than 30 nor more than 60 days' prior notice, in the case of the 0.875% 2025 Notes and the 1.375% 2029 Notes, the Notes of such series on not less than 15 nor more than 60 days' notice, and in the case of the 0.000% 2025 Notes and the 2031 Notes, the Notes of such series on not less than 10 nor more than 60 days' prior notice, in each case at a redemption price equal to 100% of their principal amount, together with interest accrued but unpaid on those Notes to (and, in the case of the 0.000% 2025 Notes and the 2031 Notes, but not including) the date fixed for redemption.

## Optional Redemption

We may redeem the 2022 Notes, the 2024 Notes, the 2026 Notes, the 2027 Notes, the 3.050% 2029 Notes and the 2042 Notes at our option, at any time in whole or from time to time in part, at a redemption price equal to the greater of:

- 100% of the principal amount of the Notes to be redeemed; or
- the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on an annual basis (ACTUAL/ACTUAL (ICMA)) at the applicable Comparable Government Bond Rate (as defined below), plus 5 basis points in the case of the 2022 Notes, plus 10 basis points in the case of the 2026 Notes, plus 15 basis points in the case of the 2024 Notes, the 3.050% 2029 Notes and the 2042 Notes and plus 20 basis points in the case of the 2027 Notes.

We may redeem the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 1.375% 2029 Notes and the 2031 Notes at our option, at any time in whole or from time to time in part, prior to the applicable Par Call Date at a redemption price equal to the greater of:

- 100% of the principal amount of the Notes to be redeemed; or
- the sum of the present values of the remaining scheduled payments of principal and interest thereon assuming that the Notes matured on the applicable Par Call Date (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on an annual basis (ACTUAL/ACTUAL (ICMA)) at the applicable Comparable Government Bond Rate (as defined below), plus 10 basis points in the case of the 0.000% 2025 Notes, plus 15 basis points in the case of the 0.875% 2025 Notes and the 2031 Notes, and 20 basis points in the case of the 2029 Notes.

"Par Call Date" means (i) with respect to the 0.000% 2025 Notes, August 15, 2025 (three months prior to the maturity date of the 0.000% 2025 Notes), (ii) with respect to the 0.875% 2025 Notes, February 24, 2025 (three months prior to the maturity date of the 0.875% 2025 Notes), (iii) with respect to the 1.375% 2029 Notes, February 24, 2029 (three months prior to the maturity date of 1.375% 2029 Notes) and (iv) with respect to the 2031 Notes, August 15, 2031 (three months prior to the maturity of the 2031 Notes).

If any of the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 1.375% 2029 Notes or the 2031 Notes are redeemed on or after the applicable Par Call Date, the redemption price for such Notes will equal 100% of the principal amount of the Notes being redeemed.

In each case upon redemption of the Notes, we will pay accrued and unpaid interest on the principal amount being redeemed to, but excluding, the date of redemption.

Installments of interest on Notes being redeemed that are due and payable on interest payment dates falling on or prior to a redemption date shall be payable on the interest payment date to the holders as of the close of business on the relevant regular record date according to the Notes and the applicable Indenture.

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation for the 2022 Notes, the 2024 Notes, the 2026 Notes and the 2027 Notes, at the discretion of an independent investment bank selected by us, a German government bond whose maturity is closest to the maturity of the Notes being redeemed, or if such independent investment bank in its discretion determines that such similar bond is not in issue, such other German government bond as such independent investment bank may, with the advice of three brokers of, and/or market makers in, German government bonds selected by us, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation for the 3.050% 2029 Notes and the 2042 Notes, at the discretion of an independent investment bank selected by us, a United Kingdom government bond whose maturity is closest to the maturity of the Notes being redeemed, or if such independent investment bank in its discretion determines that such similar bond is not in issue, such other United Kingdom government bond as such independent investment bank may, with the advice of three brokers of, and/or market makers in, United Kingdom government bonds selected by us, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation for the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 1.375% 2029 Notes and the 2031 Notes, at the discretion of an independent investment bank selected by us, a German government bond whose maturity is closest to the applicable Par Call Date of the Notes being redeemed, or if such independent investment bank in its discretion determines that such similar bond is not in issue, such other German government bond as such independent investment bank may, with the advice of three brokers of, and/or market makers in, German government bonds selected by us, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes, if they were to be purchased at such price on the third business day prior to the date fixed for redemption, would be equal to the gross redemption yield on such business day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such business day as determined by an independent investment bank selected by us.

## **Covenants**

The Indentures set forth limited covenants that apply to the Notes. However, these covenants do not, among other things:

- limit the amount of indebtedness or lease obligations that may be incurred by us and our subsidiaries;
- limit our ability or that of our subsidiaries to issue, assume or guarantee debt secured by liens; or
- restrict us from paying dividends or making distributions on our capital stock or purchasing or redeeming our capital stock.

## ***Consolidation, Merger and Sale of Assets***

The Indentures provide that we may consolidate with or merge with or into any other person, and may sell, transfer, or lease or convey all or substantially all of our properties and assets to another person; provided that the following conditions are satisfied:

- we are the continuing entity, or the resulting, surviving or transferee person (the “Successor”) is a person (if such person is not a corporation, then the Successor will include a corporate co-issuer of the debt securities) organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and the Successor (if not us) will expressly assume, by supplemental indenture, all of our obligations under the debt securities and the applicable Indenture and, for each security that by its terms provides for conversion, provide for the right to convert such security in accordance with its terms;

- immediately after giving effect to such transaction, no default or event of default under the applicable Indenture has occurred and is continuing; and
- in the case of the 2013 Indenture, the trustee receives from us an officers' certificate and an opinion of counsel that the transaction and such supplemental indenture, as the case may be, complies with the applicable provisions of the 2013 Indenture.

If we consolidate or merge with or into any other person or sell, transfer, lease or convey all or substantially all of our properties and assets in accordance with the Indentures, the Successor will be substituted for us in the Indentures, with the same effect as if it had been an original party to the Indentures. As a result, the Successor may exercise our rights and powers under the Indentures, and we will be released from all our liabilities and obligations under the Indentures and under the debt securities.

For purposes of this covenant, "person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof or any other entity.

### **Events of Default**

Each of the following events are defined in the Indentures as an "event of default" (whatever the reason for such event of default and whether or not it will be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) with respect to the debt securities of any series:

- (1) default in the payment of any installment of interest on any debt securities of such series for 30 days after becoming due;
- (2) default in the payment of principal of or premium, if any, on any debt securities of such series when it becomes due and payable at its stated maturity, upon optional redemption, upon declaration or otherwise;
- (3) default in the performance, or breach, of any covenant or agreement of ours in the applicable Indenture with respect to the debt securities of such series (other than a covenant or agreement, a default in the performance of which or a breach of which is elsewhere in the applicable Indenture specifically dealt with or that has expressly been included in the applicable Indenture solely for the benefit of a series of debt securities other than such series), which continues for a period of 90 days after written notice to us by the trustee or to us and the trustee by the holders of, in the case of the 2013 Indenture, at least 25% in aggregate principal amount of the outstanding debt securities of that series, and in the case of the 2018 Indenture, at least 33% in aggregate principal amount of the outstanding debt securities of that series;
- (4) we, pursuant to or within the meaning of the Bankruptcy Law:
  - commence a voluntary case or proceeding;
  - consent to the entry of an order for relief against us in an involuntary case or proceeding;
  - consent to the appointment of a custodian of us or for all or substantially all of our property;
  - make a general assignment for the benefit of our creditors;
  - file a petition in bankruptcy or answer or consent seeking reorganization or relief;
  - consent to the filing of such petition or the appointment of or taking possession by a custodian; or
  - take any comparable action under any foreign laws relating to insolvency;
- (5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- is for relief against us in an involuntary case, or adjudicates us insolvent or bankrupt;
- appoints a custodian of us or for all or substantially all of our property; or
- orders the winding-up or liquidation of us (or any similar relief is granted under any foreign laws);

and the order or decree remains unstayed and in effect for 90 days (or, in the case of the 2018 Indenture, 90 consecutive days); or

(6) any other event of default provided with respect to debt securities of such series occurs.

“Bankruptcy Law” means Title 11, United States Code or any similar federal or state or foreign law for the relief of debtors. “Custodian” means any custodian, receiver, trustee, assignee, liquidator or other similar official under any Bankruptcy Law.

If an event of default with respect to debt securities of any series (other than an event of default relating to certain events of bankruptcy, insolvency, or reorganization of us) occurs and is continuing, the trustee by notice to us, or the holders of, in the case of the 2013 Indenture, at least 25% in aggregate principal amount of the outstanding debt securities of such series, and in the case of the 2018 Indenture, at least 33% in aggregate principal amount of the outstanding debt securities of such series, by notice to us and the trustee, may, and the trustee at the request of these holders will, declare the principal of and premium, if any, and accrued and unpaid interest on all the debt securities of such series to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. If an event of default relating to certain events of bankruptcy, insolvency, or reorganization of us occurs and is continuing, the principal of and premium, if any, and accrued and unpaid interest on the debt securities of such series will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holders.

The holders of not less than a majority in aggregate principal amount of the outstanding debt securities of any series may rescind a declaration of acceleration and its consequences, if we have deposited certain sums with the trustee and all events of default with respect to the debt securities of such series, other than the non-payment of the principal or interest which have become due solely by such acceleration, have been cured or waived, as provided in the Indentures.

An event of default for a particular series of debt securities does not necessarily constitute an event of default for any other series of debt securities issued under the Indentures.

We are required to furnish the trustee annually within 120 days after the end of our fiscal year a statement by one of our officers to the effect that, to the best knowledge of such officer, we are not in default in the fulfillment of any of our obligations under the applicable Indenture or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof.

No holder of any debt securities of any series will have any right to institute any judicial or other proceeding with respect to the applicable Indenture, or for the appointment of a receiver or trustee, or for any other remedy unless:

- (1) an event of default has occurred and is continuing and such holder has given the trustee prior written notice of such continuing event of default with respect to the debt securities of such series;
- (2) in the case of the 2013 Indenture, the holders of not less than 25% of the aggregate principal amount of the outstanding debt securities of such series, and in the case of the 2018 Indenture, the holders of not less than 33% of the aggregate principal amount of the outstanding debt securities of such series have requested the trustee to institute proceedings in respect of such event of default;
- (3) the trustee has been offered indemnity reasonably satisfactory to it against its costs, expenses and liabilities in complying with such request;
- (4) the trustee has failed to institute proceedings 60 days after the receipt of such notice, request and offer of indemnity; and



- (5) no direction inconsistent with such written request has been given for 60 days by the holders of a majority in aggregate principal amount of the outstanding debt securities of such series.

The holders of a majority in aggregate principal amount of outstanding debt securities of a series will have the right, subject to certain limitations, to direct the time, method and place of conducting any proceeding for any remedy available to the trustee with respect to the debt securities of that series or exercising any trust or power conferred to the trustee, and to waive certain defaults. Each of the Indentures provides that if an event of default occurs and is continuing, the trustee will exercise such of its rights and powers under such Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the applicable Indenture at the request of any of the holders of the debt securities of a series unless they will have offered to the trustee security or indemnity satisfactory to the trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request.

Notwithstanding the foregoing, the holder of any debt security will have an absolute and unconditional right to receive payment of the principal of and premium, if any, and interest on that debt security on or after the due dates expressed in that debt security and to institute suit for the enforcement of payment.

#### **Modification and Waivers**

Modification and amendments of the Indentures and the Notes may be made by us and the trustee with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding series of Notes affected thereby; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding Note of that series affected thereby:

- change the stated maturity of the principal of, or installment of interest on, any Note;
- reduce the principal amount of any Note or reduce the amount of the principal of any Note which would be due and payable upon a declaration of acceleration of the maturity thereof or reduce the rate of interest on any Note;
- reduce any premium payable on the redemption of any Note or change the date on which any Note may or must be redeemed (in the case of the 2018 Indenture, it being understood that a change to any notice requirement with respect to such date shall not be deemed to be a change of such date);
- change the coin or currency in which the principal of, premium, if any, or interest on any Note is payable;
- impair the right of any holder to institute suit for the enforcement of any payment on or after the stated maturity of any Note (or, in the case of redemption, on or after the redemption date);
- reduce the percentage in principal amount of the outstanding Notes, the consent of whose holders is required in order to take certain actions;
- reduce the requirements for quorum or voting by holders of Notes in the applicable Indenture or the Note;
- modify any of the provisions in the applicable Indenture regarding the waiver of past defaults and the waiver of certain covenants by the holders of Notes except to increase any percentage vote required or to provide that certain other provisions of the applicable Indenture cannot be modified or waived without the consent of the holder of each Notes affected thereby;
- make any change that adversely affects the right to convert or exchange any debt security or decreases the conversion or exchange rate or increases the conversion price of any convertible or exchangeable debt security, unless such decrease or increase is permitted by the terms of the debt securities; or
- modify any of the above provisions.

We and the trustee may, without the consent of any holders, modify or amend the terms of the Indentures and any series of Notes with respect to the following:

- to add to our covenants for the benefit of holders of all or any series of the Notes or to surrender any right or power conferred upon us;
- to evidence the succession of another person to, and the assumption by the successor of our covenants, agreements and obligations under, the applicable Indenture pursuant to the covenant described above under the caption “Covenants—Consolidation, Merger and Sale of Assets”;
- to add any additional events of default for the benefit of holders of all or any series of the Notes;
- to add one or more guarantees, and in the case of the 2018 Indenture, co-obligors, for the benefit of holders of the Notes;
- to secure the Notes pursuant to the covenants of the Indenture;
- to add or appoint a successor or separate trustee or other agent;
- to provide for the issuance of additional debt securities of any series;
- to establish the form or terms of the debt securities of any series as permitted by the Indenture;
- to comply with the rules of any applicable securities depository;
- to provide for uncertificated Notes in addition to or in place of certificated Notes;
- in the case of the 2013 Indenture, to add to, change or eliminate any of the provisions of the 2013 Indenture in respect of one or more series of debt securities; provided that any such addition, change or elimination (a) shall neither (1) apply to any debt security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (2) modify the rights of the holder of any such debt security with respect to such provision or (b) shall become effective only when there is no debt security described in clause (a)(1) outstanding;
- in the case of the 2018 Indenture, to add to, change or eliminate any of the provisions of the 2018 Indenture in respect of one or more series of debt securities; provided that any such addition, change or elimination shall become effective only when there is no outstanding security of any series created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision and as to which such supplemental indenture would apply;
- to cure any ambiguity, omission, defect or inconsistency;
- to change any other provision; provided that the change does not adversely affect the interests of the holders of debt securities of, in the case of the 2013 Indenture any series, and in the case of the 2018 Indenture, any outstanding series, in any material respect;
- to supplement any of the provisions of the applicable Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Notes pursuant to the Indenture; provided that any such action shall not adversely affect the interests of the holders of Notes of such series or any other series of debt securities in any material respect;
- to comply with the rules or regulations of any securities exchange or automated quotation system on which any of the Notes may be listed or traded; and
- to add to, change or eliminate any of the provisions of the applicable Indenture as shall be necessary or desirable in accordance with any amendments to the Trust Indenture Act of 1939, as amended, and in the case of the 2013 Indenture, provided that such action does not adversely affect the rights or interests of any holder of debt securities in any material respect.

The holders of at least a majority in aggregate principal amount of the outstanding Notes of any series may, on behalf of the holders of all Notes of that series, waive compliance by us with certain restrictive provisions of the Indentures. The holders of not less than a majority in aggregate principal amount of the outstanding Notes of a series

may, on behalf of the holders of all Notes of that series, waive any past default and its consequences under the applicable Indenture with respect to the Notes of that series, except a default (1) in the payment of principal or premium, if any, or interest on Notes of that series or (2) in respect of a covenant or provision of the applicable Indenture that cannot be modified or amended without the consent of the holder of each Note of that series. Upon any such waiver, such default will cease to exist, and any event of default arising therefrom will be deemed to have been cured, for every purpose of the Indenture; however, no such waiver will extend to any subsequent or other default or event of default or impair any rights consequent thereon.

### **Discharge, Defeasance and Covenant Defeasance**

We may discharge certain obligations to holders of the Notes of a series that have not already been delivered to the trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by depositing with the trustee, in trust, funds in U.S. dollars in an amount sufficient to pay the entire indebtedness including, but not limited to, the principal and premium, if any, and interest to the date of such deposit (if due and payable) or to the maturity thereof or the redemption date of the Notes of that series, as the case may be. We may direct the trustee to invest such funds in U.S. Treasury securities with a maturity of one year or less or in a money market fund that invests solely in short-term U.S. Treasury securities.

The Indentures provide that we may elect either (1) to defease and be discharged from any and all obligations with respect to the Notes of a series (except for, among other things, obligations to register the transfer or exchange of the Notes, to replace temporary or mutilated, destroyed, lost or stolen Notes, to maintain an office or agency with respect to the Notes and to hold moneys for payment in trust) (“legal defeasance”) or (2) to be released from our obligations to comply with the restrictive covenants under the applicable Indenture, and any omission to comply with such obligations will not constitute a default or an event of default with respect to the Notes of a series and clauses (3) and (6) under the caption “Events of Default” above will no longer be applied (“covenant defeasance”). Legal defeasance or covenant defeasance, as the case may be, will be conditioned upon, among other things, the irrevocable deposit by us with the trustee, in trust, of an amount in U.S. dollars, or U.S. government obligations (as such term is modified below), or both, applicable to the Notes of that series which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal or premium, if any, and interest on the Notes on the scheduled due dates therefor.

If we effect covenant defeasance with respect to the Notes of any series, the amount in U.S. dollars, or U.S. government obligations (as such term is modified below), or both, on deposit with the trustee will be sufficient, in the opinion of a nationally recognized firm of independent accountants, to pay amounts due on the Notes of that series at the time of the stated maturity but may not be sufficient to pay amounts due on the Notes of that series at the time of the acceleration resulting from such event of default. However, we would remain liable to make payment of such amounts due at the time of acceleration.

With respect to the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes and the 2031 Notes, the term “U.S. government obligations” shall instead mean (x) any security that is (i) a direct obligation of the German government or (ii) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of the German government the payment of which is fully and unconditionally guaranteed by the German government or the central bank of the German government, which, in either case (x)(i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (x)(i) or (x)(ii) above or in any specific principal or interest payments due in respect thereof.

With respect to the 3.050% 2029 Notes and the 2042 Notes, the term “U.S. government obligations” shall instead mean (x) any security that is (i) a direct obligation of the United Kingdom government or (ii) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of the United Kingdom government the payment of which is fully and unconditionally guaranteed by the United Kingdom government or the central bank of the United Kingdom government, which, in either case (x)(i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (x)(i) or (x)(ii) above or in any specific principal or interest payments due in respect thereof.

We will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance will not cause the holders and beneficial owners of the Notes of that series to recognize income, gain or loss for

federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the U.S. Internal Revenue Service or a change in law to that effect.

We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option.

### **Book-Entry and Settlement**

The Notes were issued in book-entry form and are represented by global notes deposited with, or on behalf of, a common depository on behalf of Euroclear and Clearstream, and are registered in the name of the common depository or its nominee. Except as described herein, certificated notes will not be issued in exchange for beneficial interests in the global notes.

### **Certificated Notes**

Subject to certain conditions, the Notes represented by the global notes are exchangeable for certificated notes in definitive form of like tenor, in minimum denominations of €100,000 principal amount and integral multiples of €1,000 in excess thereof in the case of the 2022 Notes, the 2024 Notes, the 0.000% 2025 Notes, the 0.875% 2025 Notes, the 2026 Notes, the 2027 Notes, the 1.375% 2029 Notes and the 2031 Notes, and in minimum denominations of £100,000 principal amount and integral multiples of £1,000 in excess thereof in the case of the 3.050% 2029 Notes and the 2042 Notes, if:

1. the common depository notifies us that it is unwilling or unable to continue as depository or if the common depository ceases to be eligible under the applicable Indenture and we do not appoint a successor depository within 90 days;
2. we determine that the Notes will no longer be represented by global securities and execute and deliver to the trustee an order to that effect; or
3. an event of default with respect to the Notes will have occurred and be continuing.

Any Note that is exchangeable as above is exchangeable for certificated notes issuable in authorized denominations and registered in such names as the common depository shall direct. Subject to the foregoing, a global note is not exchangeable, except for a global note of the same aggregate denomination to be registered in the name of the common depository or its nominee.

### **The Trustee for the Notes**

The Bank of New York Mellon Trust Company, N.A. is the trustee under the Indentures. We have commercial deposits and custodial arrangements with The Bank of New York Mellon Trust Company, N.A. and its affiliates ("BNYM"). We may enter into similar or other banking relationships with BNYM in the future in the normal course of business. In addition, BNYM acts as trustee and as paying agent with respect to other debt securities issued by us, and may do so for future issuances of debt securities by us as well.

**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](mailto: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.

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**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 event pursuant to Section 3 or Section 8 (and in all events not later than two and one-half (2 ½) months after such vesting event), 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 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.** 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. Notwithstanding the foregoing, in the event the Participant’s Termination of Service is due to the Participant’s Disability at a time when Stock Units remain unvested under the Award, (a) the Award shall vest with respect to the number of Stock Units determined by multiplying (i) the number of then-outstanding and unvested Stock Units as well as the related Dividend Equivalent Rights subject to the Award that would have otherwise vested pursuant to Section 3 on the next Vesting Date following the Severance Date but for such

Termination of Service, by (ii) a fraction, the numerator of which shall be the number of days that have elapsed between the Vesting Date that immediately preceded the Severance Date (or, in the case of a Termination of Service prior to the initial Vesting Date, the Vesting Commencement Date) and the Severance Date, and the denominator of which shall be the number of days between the Vesting Date that immediately preceded the Severance Date (or, in the case of a Termination of Service prior to the initial Vesting Date, the Vesting Commencement Date) and the next Vesting Date following the Severance Date that would have occurred but for such Termination of Service; and (b) any Stock Units (as well as the related Dividend Equivalent Rights) that are not vested after giving effect to the foregoing clause (a) shall terminate on the Severance Date. Further, in the event the Participant's Termination of Service is due to the Participant's death, any unvested Stock Units shall be fully vested as of the Severance Date, and any Dividend Equivalent Rights credited to the Participant shall be paid. 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, 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. Construction.** 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. This Award Agreement shall be construed and interpreted with that intent.

**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.

**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](mailto: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.

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**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 event pursuant to Section 3 or Section 8 (and in all events not later than two and one-half (2 ½) months after such vesting event), 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.** Except as 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. In the event the Participant's Severance Date is the result of the Participant's Termination of Service due to the Participant's death or Disability and the Severance Date occurs prior to the Vesting Date, on the Vesting Date the Award shall vest with respect to a number of Stock Units determined by multiplying (i) the Stock

Units as well as the related Dividend Equivalent Rights subject to the Award that would have otherwise vested pursuant to the Award on such Vesting Date but for the Termination of Service and to the extent the applicable performance-based vesting requirement is satisfied, by (ii) the Severance Fraction (determined as set forth below). Any Stock Units (as well as the related Dividend Equivalent Rights) that are unvested on the Severance Date and that are not eligible to vest on the Vesting Date following the Severance Date pursuant to the preceding sentence shall terminate as of the Severance Date, and any Stock Units that remain outstanding and unvested after giving effect to the preceding sentence shall terminate as of the Vesting Date. The “**Severance Fraction**” means a fraction, the numerator of which shall be determined by subtracting the number of days remaining in the Performance Period on the Severance Date from the total number of days in the Performance Period, and the denominator of which shall be the total number of days in the Performance Period. 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 the applicable performance-based vesting conditions are not satisfied, 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, 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 (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. Construction.** 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. This Award Agreement shall be construed and interpreted consistent with that intent.

**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.

\* \* \* \* \*

**Subsidiaries of  
Apple Inc.\***

|   | <b>Jurisdiction<br/>of Incorporation</b> |
|---|--|
| Apple Canada Inc.                           | Canada                                   |
| Apple Computer Trading (Shanghai) Co., Ltd. | China                                    |
| Apple Distribution International Limited    | Ireland                                  |
| Apple Europe Limited                        | United Kingdom                           |
| Apple France                                | France                                   |
| Apple GmbH                                  | Germany                                  |
| Apple Japan, Inc.                           | Japan                                    |
| Apple Operations Limited                    | Ireland                                  |
| Apple Operations Europe Limited             | Ireland                                  |
| Apple Operations International Limited      | Ireland                                  |
| Apple Pty Limited                           | Australia                                |
| Apple Sales International Limited           | Ireland                                  |
| Apple Value Services, LLC                   | Virginia, U.S.                           |
| Braeburn Capital, Inc.                      | Nevada, U.S.                             |

\* Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries of Apple Inc. are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of the end of the year covered by this report.

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 ASR No. 333-228159) of Apple Inc.,
- (2) Registration Statement (Form S-8 No. 333-226986) pertaining to Apple Inc. Deferred Compensation Plan,
- (3) Registration Statement (Form S-8 No. 333-203698) pertaining to Apple Inc. Employee Stock Purchase Plan,
- (4) Registration Statement (Form S-8 No. 333-195509) pertaining to Apple Inc. 2014 Employee Stock Plan,
- (5) Registration Statement (Form S-8 No. 333-193709) pertaining to Topsy Labs, Inc. 2007 Stock Plan,
- (6) Registration Statement (Form S-8 No. 333-184706) pertaining to AuthenTec, Inc. 2010 Incentive Plan, as amended,
- (7) Registration Statement (Form S-8 No. 333-179189) pertaining to Anobit Technologies Ltd. Global Share Incentive Plan (2006), and
- (8) Registration Statement (Form S-8 No. 333-60455) pertaining to Apple Inc. Non-Employee Director Stock Plan;

of our reports dated October 29, 2020 with respect to the consolidated financial statements of Apple Inc., and the effectiveness of internal control over financial reporting of Apple Inc., included in this Annual Report on Form 10-K for the year ended September 26, 2020.

/s/ Ernst & Young LLP

San Jose, California  
October 29, 2020







