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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended March 26, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-10030

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**APPLE INC.**

(Exact name of Registrant as specified in its charter)

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

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

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

**95014**  
(Zip Code)

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

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

Yes  No

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

Yes  No

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

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

Accelerated filer   
Smaller reporting company

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

Yes  No

924,754,561 shares of common stock issued and outstanding as of April 8, 2011

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**  
(in millions, except share amounts which are reflected in thousands and per share amounts)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>March 26, 2011</u>	<u>March 27, 2010</u>	<u>March 26, 2011</u>	<u>March 27, 2010</u>
Net sales	\$ 24,667	\$ 13,499	\$ 51,408	\$ 29,182
Cost of sales	14,449	7,874	30,892	17,146
Gross margin	10,218	5,625	20,516	12,036
Operating expenses:				
Research and development	581	426	1,156	824
Selling, general and administrative	1,763	1,220	3,659	2,508
Total operating expenses	2,344	1,646	4,815	3,332
Operating income	7,874	3,979	15,701	8,704
Other income and expense	26	50	162	83
Income before provision for income taxes	7,900	4,029	15,863	8,787
Provision for income taxes	1,913	955	3,872	2,335
Net income	<u>\$ 5,987</u>	<u>\$ 3,074</u>	<u>\$ 11,991</u>	<u>\$ 6,452</u>
Earnings per common share:				
Basic	\$ 6.49	\$ 3.39	\$ 13.02	\$ 7.12
Diluted	\$ 6.40	\$ 3.33	\$ 12.83	\$ 7.00
Shares used in computing earnings per share:				
Basic	923,196	907,548	921,245	905,545
Diluted	935,944	922,878	934,549	921,331

See accompanying Notes to Condensed Consolidated Financial Statements.

**APPLE INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
(in millions, except share amounts)

	<u>March 26, 2011</u>	<u>September 25, 2010</u>
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 15,978	\$ 11,261
Short-term marketable securities	13,256	14,359
Accounts receivable, less allowances of \$57 and \$55, respectively	5,798	5,510
Inventories	930	1,051
Deferred tax assets	1,683	1,636
Vendor non-trade receivables	5,297	4,414
Other current assets	<u>4,055</u>	<u>3,447</u>
Total current assets	46,997	41,678
Long-term marketable securities	36,533	25,391
Property, plant and equipment, net	6,241	4,768
Goodwill	741	741
Acquired intangible assets, net	507	342
Other assets	<u>3,885</u>	<u>2,263</u>
Total assets	<u>\$ 94,904</u>	<u>\$ 75,183</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 13,714	\$ 12,015
Accrued expenses	7,022	5,723
Deferred revenue	<u>3,591</u>	<u>2,984</u>
Total current liabilities	24,327	20,722
Deferred revenue – non-current	1,230	1,139
Other non-current liabilities	<u>7,870</u>	<u>5,531</u>
Total liabilities	<u>33,427</u>	<u>27,392</u>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity:</b>		
Common stock, no par value; 1,800,000,000 shares authorized; 924,674,079 and 915,970,050 shares issued and outstanding, respectively	12,326	10,668
Retained earnings	49,025	37,169
Accumulated other comprehensive income/(loss)	<u>126</u>	<u>(46)</u>
Total shareholders' equity	<u>61,477</u>	<u>47,791</u>
Total liabilities and shareholders' equity	<u>\$ 94,904</u>	<u>\$ 75,183</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(in millions)

	Six Months Ended	
	March 26, 2011	March 27, 2010
Cash and cash equivalents, beginning of the period	\$ 11,261	\$ 5,263
Operating activities:		
Net income	11,991	6,452
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation, amortization and accretion	790	425
Stock-based compensation expense	586	436
Deferred income tax expense	1,563	893
Changes in operating assets and liabilities:		
Accounts receivable, net	(288)	482
Inventories	121	(183)
Vendor non-trade receivables	(883)	(47)
Other current and non-current assets	(1,886)	(619)
Accounts payable	1,626	(18)
Deferred revenue	698	577
Other current and non-current liabilities	1,674	(287)
Cash generated by operating activities	<u>15,992</u>	<u>8,111</u>
Investing activities:		
Purchases of marketable securities	(42,260)	(25,061)
Proceeds from maturities of marketable securities	10,211	13,331
Proceeds from sales of marketable securities	21,705	8,686
Payments made in connection with business acquisitions, net of cash acquired	0	(325)
Payments for acquisition of property, plant and equipment	(1,838)	(650)
Payments for acquisition of intangible assets	(81)	(32)
Other	12	10
Cash used in investing activities	<u>(12,251)</u>	<u>(4,041)</u>
Financing activities:		
Proceeds from issuance of common stock	494	534
Excess tax benefits from equity awards	740	413
Taxes paid related to net share settlement of equity awards	(258)	(262)
Cash generated by financing activities	<u>976</u>	<u>685</u>
Increase in cash and cash equivalents	4,717	4,755
Cash and cash equivalents, end of the period	<u>\$ 15,978</u>	<u>\$ 10,018</u>
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	\$ 1,913	\$ 2,144

See accompanying Notes to Condensed Consolidated Financial Statements.

## Apple Inc.

### Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Apple Inc. and its wholly-owned subsidiaries (collectively “Apple” or the “Company”) designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as third-party cellular network carriers, wholesalers, resellers and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Macintosh (“Mac”), and iPod compatible products including application software, printers, storage devices, speakers, headphones, and various other accessories and supplies through its online and retail stores. The Company sells to consumers, small and mid-sized businesses, education, enterprise and government customers.

#### Basis of Presentation and Preparation

The accompanying condensed consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current period’s presentation.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and the notes thereto for the fiscal year ended September 25, 2010, included in its Annual Report on Form 10-K (the “2010 Form 10-K”). Unless otherwise stated, references to particular years or quarters refer to the Company’s fiscal years ended in September and the associated quarters of those fiscal years.

During the first quarter of 2011, the Company adopted the Financial Accounting Standard Board’s (“FASB”) new accounting standard on consolidation of variable interest entities. This new accounting standard eliminates the mandatory quantitative approach in determining control for evaluating whether variable interest entities need to be consolidated in favor of a qualitative analysis, and requires an ongoing reassessment of control over such entities. The adoption of this new accounting standard did not impact the Company’s condensed consolidated financial statements.

#### Earnings Per Common Share

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

The following table summarizes the computation of basic and diluted earnings per common share for the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in thousands, except net income in millions and per share amounts):

	Three Months Ended		Six Months Ended	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
<b>Numerator:</b>				
Net income	\$ 5,987	\$ 3,074	\$ 11,991	\$ 6,452
<b>Denominator:</b>				
Weighted-average shares outstanding	923,196	907,548	921,245	905,545
Effect of dilutive securities	12,748	15,330	13,304	15,786
Weighted-average diluted shares	<u>935,944</u>	<u>922,878</u>	<u>934,549</u>	<u>921,331</u>
Basic earnings per common share	\$ 6.49	\$ 3.39	\$ 13.02	\$ 7.12
Diluted earnings per common share	\$ 6.40	\$ 3.33	\$ 12.83	\$ 7.00

Potentially dilutive securities representing approximately 220,000 shares and 1.3 million shares of common stock for the three months ended March 26, 2011 and March 27, 2010, respectively, and 297,000 shares and 772,000 shares of common stock for the six months ended March 26, 2011 and March 27, 2010, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been antidilutive.

### **Fair Value Measurements**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

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

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

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

## Note 2 – Financial Instruments

### Cash, Cash Equivalents and Marketable Securities

The following tables summarize the Company's available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short-term or long-term marketable securities as of March 26, 2011 and September 25, 2010 (in millions):

	March 26, 2011						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 3,203	\$ 0	\$ 0	\$ 3,203	\$ 3,203	\$ 0	\$ 0
Level 1:							
Money market funds	1,908	0	0	1,908	1,908	0	0
Level 2:							
U.S. Treasury securities	10,379	8	(18)	10,369	1,930	2,046	6,393
U.S. agency securities	10,213	6	(7)	10,212	2,463	2,222	5,527
Non-U.S. government securities	3,638	4	(2)	3,640	0	1,203	2,437
Certificates of deposit and time deposits	3,628	1	(2)	3,627	868	797	1,962
Commercial paper	6,881	0	0	6,881	5,542	1,339	0
Corporate securities	23,030	68	(31)	23,067	51	5,159	17,857
Municipal securities	2,856	10	(6)	2,860	13	490	2,357
Subtotal	<u>60,625</u>	<u>97</u>	<u>(66)</u>	<u>60,656</u>	<u>10,867</u>	<u>13,256</u>	<u>36,533</u>
Total	<u>\$65,736</u>	<u>\$ 97</u>	<u>\$ (66)</u>	<u>\$65,767</u>	<u>\$ 15,978</u>	<u>\$ 13,256</u>	<u>\$ 36,533</u>

	September 25, 2010						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 1,690	\$ 0	\$ 0	\$ 1,690	\$ 1,690	\$ 0	\$ 0
Level 1:							
Money market funds	2,753	0	0	2,753	2,753	0	0
Level 2:							
U.S. Treasury securities	9,872	42	0	9,914	2,571	2,130	5,213
U.S. agency securities	8,717	10	0	8,727	1,916	4,339	2,472
Non-U.S. government securities	2,648	13	0	2,661	10	865	1,786
Certificates of deposit and time deposits	2,735	5	(1)	2,739	374	850	1,515
Commercial paper	3,168	0	0	3,168	1,889	1,279	0
Corporate securities	17,349	102	(9)	17,442	58	4,522	12,862
Municipal securities	1,899	19	(1)	1,917	0	374	1,543
Subtotal	<u>46,388</u>	<u>191</u>	<u>(11)</u>	<u>46,568</u>	<u>6,818</u>	<u>14,359</u>	<u>25,391</u>
Total	<u>\$50,831</u>	<u>\$ 191</u>	<u>\$ (11)</u>	<u>\$51,011</u>	<u>\$ 11,261</u>	<u>\$ 14,359</u>	<u>\$ 25,391</u>

The net unrealized gains as of March 26, 2011 and September 25, 2010 related primarily to long-term marketable securities. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The Company recognized net realized gains of \$41 million and \$56 million during the three- and six-month periods ended March 26, 2011, respectively. The Company recognized no significant net realized gains or losses during the three- and six-month periods ended March 27, 2010. The maturities of the Company's long-term marketable securities generally range from one year to five years.

As of March 26, 2011 and September 25, 2010, gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer were not significant.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company typically invests in highly-rated securities, and its policy generally limits the amount of credit exposure to any one issuer. The Company's investment policy requires investments to generally be investment grade, primarily rated single-A or better, with the objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's amortized cost basis. During the three- and six-month periods ended March 26, 2011 and March 27, 2010, the Company did not recognize any significant impairment charges. As of March 26, 2011, the Company does not consider any of its investments to be other-than-temporarily impaired.

### Derivative Financial Instruments

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

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

The Company had a net deferred loss associated with cash flow hedges of approximately \$91 million and \$252 million, net of taxes, recorded in other comprehensive income as of March 26, 2011 and September 25, 2010, respectively. 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. Substantially all of the Company's hedged transactions as of March 26, 2011 are expected to occur within six months.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in other comprehensive income associated with such derivative instruments are reclassified immediately into earnings through other income and expense. Any subsequent changes in fair value of such derivative instruments are reflected in other income and expense unless they are re-designated as hedges of other transactions. The Company did not recognize any significant net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three- and six-month periods ended March 26, 2011 and March 27, 2010.

The Company's unrealized net gains and losses on net investment hedges, included in the cumulative translation adjustment account of accumulated other comprehensive income ("AOCI"), were not significant as of March 26, 2011 and September 25, 2010, respectively. The ineffective portions and amounts excluded from the effectiveness test of net investment hedges are recorded in other income and expense.

The Company recognized in earnings a net loss on foreign currency forward and option contracts not designated as hedging instruments of \$84 million and \$55 million during the three- and six-month periods ended March 26, 2011, respectively, and a net gain on foreign currency forward and option contracts not designated as hedging instruments of \$24 million and a net loss of \$10 million during the three- and six-month periods ended March 27, 2010, respectively. These amounts recorded in other income and expense represent the net gain or loss on the derivative contracts and do not include changes in the related exposures, which generally offset a portion of the gain or loss on the derivative contracts.

The following table summarizes the notional principal amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of March 26, 2011 and September 25, 2010 (in millions):

	March 26, 2011		September 25, 2010	
	Notional Principal	Credit Risk Amounts	Notional Principal	Credit Risk Amounts
<b>Instruments qualifying as accounting hedges:</b>				
Foreign exchange contracts	\$10,393	\$ 27	\$13,957	\$ 62
<b>Instruments other than accounting hedges:</b>				
Foreign exchange contracts	\$ 8,460	\$ 5	\$10,727	\$ 45

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

The Company generally enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received 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. As of March 26, 2011, the Company posted cash collateral related to the derivative instruments under its collateral security arrangements of \$64 million and recorded the offsetting balance as other current assets in the Condensed Consolidated Balance Sheet. As of September 25, 2010, the Company posted cash collateral related to the derivative instruments under its collateral security arrangements of \$445 million and recorded the offsetting balance as other current assets in the Condensed Consolidated Balance Sheet. The Company did not have any derivative instruments with credit-risk related contingent features that would require it to post additional collateral as of March 26, 2011 or September 25, 2010.

The following tables summarize the gross fair value of the Company's derivative instruments as reflected in the Condensed Consolidated Balance Sheets as of March 26, 2011 and September 25, 2010 (in millions):

	March 26, 2011		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
<b>Derivative assets (a):</b>			
Foreign exchange contracts	\$ 27	\$ 5	\$ 32
<b>Derivative liabilities (b):</b>			
Foreign exchange contracts	\$ 178	\$ 56	\$ 234

	September 25, 2010		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
<b>Derivative assets (a):</b>			
Foreign exchange contracts	\$ 62	\$ 45	\$ 107
<b>Derivative liabilities (b):</b>			
Foreign exchange contracts	\$ 488	\$ 118	\$ 606

- (a) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets in the Condensed Consolidated Balance Sheets.
- (b) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses in the Condensed Consolidated Balance Sheets.

The following table summarizes the pre-tax effect of the Company's derivative instruments designated as cash flow and net investment hedges in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in millions):

	Three Month Periods						
	Gains/(Losses) Recognized in OCI - Effective Portion (e)		Gains/(Losses) Reclassified from AOCI into Income - Effective Portion (e)		Gains/(Losses) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing		
	March 26, 2011	March 27, 2010	March 26, 2011 (a)	March 27, 2010 (b)	Location	March 26, 2011	March 27, 2010
<b>Cash flow hedges:</b>							
Foreign exchange contracts	\$ (216)	\$ 50	\$ (90)	\$ 33	Other income and expense	\$ (140)	\$ (24)
<b>Net investment hedges:</b>							
Foreign exchange contracts	(11)	3	0	0	Other income and expense	0	0
<b>Total</b>	<u>\$ (227)</u>	<u>\$ 53</u>	<u>\$ (90)</u>	<u>\$ 33</u>		<u>\$ (140)</u>	<u>\$ (24)</u>

	Six Month Periods						
	Gains/(Losses) Recognized in OCI - Effective Portion (e)		Gains/(Losses) Reclassified from AOCI into Income - Effective Portion (e)		Gains/(Losses) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing		
	March 26, 2011	March 27, 2010	March 26, 2011 (c)	March 27, 2010 (d)	Location	March 26, 2011	March 27, 2010
<b>Cash flow hedges:</b>							
Foreign exchange contracts	\$ (282)	\$ 62	\$ (539)	\$ 13	Other income and expense	\$ (119)	\$ (38)
<b>Net investment hedges:</b>							
Foreign exchange contracts	(14)	2	0	0	Other income and expense	0	0
<b>Total</b>	<u>\$ (296)</u>	<u>\$ 64</u>	<u>\$ (539)</u>	<u>\$ 13</u>		<u>\$ (119)</u>	<u>\$ (38)</u>

- (a) Includes gains/(losses) reclassified from AOCI into income for the effective portion of cash flow hedges, of which \$(24) million and \$(66) million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the three months ended March 26, 2011. There were no amounts reclassified from AOCI into income for the effective portion of net investment hedges for the three months ended March 26, 2011.
- (b) Includes gains/(losses) reclassified from AOCI into income for the effective portion of cash flow hedges, of which \$29 million and \$4 million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the three months ended March 27, 2010. There were no amounts reclassified from AOCI into income for the effective portion of net investment hedges for the three months ended March 27, 2010.
- (c) Includes gains/(losses) reclassified from AOCI into income for the effective portion of cash flow hedges, of which \$(281) million and \$(258) million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the six months ended March 27, 2011. There were no amounts reclassified from AOCI into income for the effective portion of net investment hedges for the six months ended March 27, 2011.
- (d) Includes gains/(losses) reclassified from AOCI into income for the effective portion of cash flow hedges, of which \$31 million and (\$18) million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the six months ended March 27, 2010. There were no amounts reclassified from AOCI into income for the effective portion of net investment hedges for the six months ended March 27, 2010.
- (e) Refer to Note 5, "Shareholders' Equity and Stock-Based Compensation" of this Form 10-Q, which summarizes the activity in AOCI related to derivatives.

### Accounts Receivable

The Company has considerable trade receivables not covered by collateral, third-party financing arrangements or credit insurance outstanding with its third-party cellular network carriers, wholesalers, retailers, value-added resellers, small and mid-sized businesses, and education, enterprise and government customers. Trade receivables from two of the Company's customers accounted for 12% and 10% of trade receivables as of March 26, 2011. Trade receivables from two of the Company's customers accounted for 15% and 12% of trade receivables as of September 25, 2010. The Company's cellular network carriers accounted for 64% of trade receivables as of March 26, 2011 and September 25, 2010. Additionally, the Company has non-trade receivables from certain of its manufacturing vendors. Vendor non-trade receivables from two of the Company's vendors accounted for 53% and 25% of non-trade receivables as of March 26, 2011 and two of the Company's vendors accounted for 57% and 24% of non-trade receivables as of September 25, 2010.

### Note 3 – Condensed Consolidated Financial Statement Details

The following tables summarize the Company's condensed consolidated financial statement details as of March 26, 2011 and September 25, 2010 (in millions):

#### Property, Plant and Equipment

	March 26, 2011	September 25, 2010
Land and buildings	\$ 1,995	\$ 1,471
Machinery, equipment and internal-use software	5,069	3,589
Office furniture and equipment	165	144
Leasehold improvements	2,187	2,030
Gross property, plant and equipment	9,416	7,234
Accumulated depreciation and amortization	(3,175)	(2,466)
Net property, plant and equipment	<u>\$ 6,241</u>	<u>\$ 4,768</u>

#### Accrued Expenses

	March 26, 2011	September 25, 2010
Accrued warranty and related costs	\$ 1,103	\$ 761
Deferred margin on component sales	1,237	663
Accrued taxes	931	524
Accrued compensation and employee benefits	514	436
Accrued marketing and selling expenses	487	396
Other current liabilities	2,750	2,943
Total accrued expenses	<u>\$ 7,022</u>	<u>\$ 5,723</u>

#### Non-Current Liabilities

	March 26, 2011	September 25, 2010
Deferred tax liabilities	\$ 6,150	\$ 4,300
Other non-current liabilities	1,720	1,231
Total other non-current liabilities	<u>\$ 7,870</u>	<u>\$ 5,531</u>

### Note 4 – Income Taxes

As of March 26, 2011, the Company recorded gross unrecognized tax benefits of \$1.1 billion, of which \$489 million, if recognized, would affect the Company's effective tax rate. As of September 25, 2010, the total amount of gross unrecognized tax benefits was \$943 million, of which \$404 million, if recognized, would affect the Company's effective tax rate. The Company's total gross unrecognized tax benefits are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. The Company had \$260 million and \$247 million of gross interest and penalties accrued as of March 26, 2011 and September 25, 2010, respectively, which are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next 12 months.

## Note 5 – Shareholders’ Equity and Stock-Based Compensation

### Preferred Stock

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

### Comprehensive Income

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

The following table summarizes the components of total comprehensive income, net of taxes, during the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
Net income	\$ 5,987	\$ 3,074	\$11,991	\$ 6,452
Other comprehensive income:				
Change in unrecognized gains/losses on derivative instruments	(82)	10	161	28
Change in foreign currency translation	74	6	90	11
Change in unrealized gains/losses on marketable securities	20	(2)	(79)	9
Total comprehensive income	<u>\$ 5,999</u>	<u>\$ 3,088</u>	<u>\$12,163</u>	<u>\$ 6,500</u>

The following table summarizes activity in other comprehensive income related to derivatives, net of taxes, held by the Company during the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
Change in fair value of derivatives	\$ (140)	\$ 30	\$ (183)	\$ 36
Adjustment for net gains/losses realized and included in income	58	(20)	344	(8)
Change in unrecognized gains/losses on derivative instruments	<u>\$ (82)</u>	<u>\$ 10</u>	<u>\$ 161</u>	<u>\$ 28</u>

The following table summarizes the components of AOCI, net of taxes, as of March 26, 2011 and September 25, 2010 (in millions):

	March 26, 2011	September 25, 2010
Net unrealized gains/losses on marketable securities	\$ 92	\$ 171
Net unrecognized gains/losses on derivative instruments	(91)	(252)
Cumulative foreign currency translation	125	35
Accumulated other comprehensive income/(loss)	<u>\$ 126</u>	<u>\$ (46)</u>

## Equity Awards

A summary of the Company's RSU activity and related information for the six months ended March 26, 2011, is as follows (in thousands, except per share amounts):

	Number of Shares	Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value
Balance at September 25, 2010	13,034	\$ 165.63	
RSUs granted	4,920	\$ 293.25	
RSUs vested	(2,283)	\$ 148.62	
RSUs cancelled	(390)	\$ 169.53	
Balance at March 26, 2011	<u>15,281</u>	\$ 209.16	\$5,372,009

RSUs that vested during the three- and six-month periods ended March 26, 2011 had a fair value of \$69 million and \$728 million, respectively, as of the vesting date. RSUs that vested during the three- and six-month periods ended March 27, 2010 had a fair value of \$345 million and \$637 million, respectively, as of the vesting date.

A summary of the Company's stock option activity and related information for the six months ended March 26, 2011, is as follows (in thousands, except per share amounts and contractual term in years):

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at September 25, 2010	21,725	\$ 90.46		
Options granted	1	\$342.62		
Options cancelled	(113)	\$ 119.05		
Options exercised	(6,861)	\$ 60.13		
Balance at March 26, 2011	<u>14,752</u>	\$ 104.38	2.77	\$3,645,999
Exercisable at March 26, 2011	12,786	\$ 95.72	2.61	\$3,270,977
Expected to vest after March 26, 2011	1,966	\$ 160.79	3.81	\$ 375,022

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price multiplied by the number of options outstanding or exercisable. The aggregate intrinsic value excludes stock options that have a zero or negative intrinsic value. The total intrinsic value of options at the time of exercise was \$875 million and \$1.8 billion for the three- and six-month periods ended March 26, 2011, respectively, and \$377 million and \$1.1 billion for the three- and six-month periods ended March 27, 2010, respectively.

The Company had approximately 53.8 million shares and 62.7 million shares reserved for future issuance under the Company's stock plans as of March 26, 2011 and September 25, 2010, respectively. RSUs granted are deducted from the shares available for grant under the Company's stock plans utilizing a factor of two times the number of RSUs granted. Similarly, RSUs cancelled are added back to the shares available for grant under the Company's stock plans utilizing a factor of two times the number of RSUs cancelled.

## Stock-Based Compensation

Stock-based compensation cost for RSUs is measured based on the closing fair market value of the Company's common stock on the date of grant. Stock-based compensation cost for stock options and employee stock purchase plan rights ("stock purchase rights") is estimated at the grant date and offering date, respectively, based on the fair-value as calculated using the Black-Scholes Merton ("BSM") option-pricing model. The BSM option-pricing model incorporates various assumptions including expected volatility, expected life and interest rates. The expected volatility is based on the historical volatility of the Company's common stock over the most recent period commensurate with the expected life of the Company's stock options and other relevant factors including implied volatility in market traded options on the Company's common stock. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock awards it grants to employees. The Company recognizes stock-based compensation cost as expense on a straight-line basis over the requisite service period.

During the three- and six-month periods ended March 26, 2011, the Company granted 1,370 stock options, which had a weighted-average grant date fair value of \$181.13 per share. During the three- and six-month periods ended March 27, 2010, the Company granted approximately 33,000 stock options, which had a weighted-average grant date fair value of \$108.58 per share. Additionally, during the three- and six-month periods ended March 27, 2010, the Company assumed 67,000 stock options in conjunction with certain business combinations, which had a weighted-average fair value of \$198.22 per share.

The weighted-average fair value of stock purchase rights per share was \$68.95 and \$65.15 during the three- and six-month periods ended March 26, 2011, respectively, and was \$46.82 and \$39.98 during the three- and six-month periods ended March 27, 2010, respectively.

The following table summarizes the stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in millions):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>March 26, 2011</u>	<u>March 27, 2010</u>	<u>March 26, 2011</u>	<u>March 27, 2010</u>
Cost of sales	\$ 51	\$ 37	\$ 103	\$ 74
Research and development	104	86	217	160
Selling, general and administrative	132	108	266	202
Total stock-based compensation expense	<u>\$ 287</u>	<u>\$ 231</u>	<u>\$ 586</u>	<u>\$ 436</u>

Stock-based compensation expense capitalized as software development costs was not significant as of March 26, 2011 or September 25, 2010. The income tax benefit related to stock-based compensation expense was \$140 million and \$236 million for the three- and six-month periods ended March 26, 2011, respectively, and \$79 million and \$161 million for the three- and six-month periods ended March 27, 2010, respectively. As of March 26, 2011, the total unrecognized compensation cost related to outstanding stock options and RSUs expected to vest was \$2.6 billion, which the Company expects to recognize over a weighted-average period of 2.9 years.

## **Employee Benefit Plans**

### *Rule 10b5-1 Trading Plans*

During the second quarter of 2011, executive officers Timothy D. Cook, Peter Oppenheimer, D. Bruce Sewell and Jeffrey E. Williams, and director William V. Campbell had trading plans pursuant to Rule 10b5-1(c)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). A trading plan is a written document that pre-establishes the amounts, prices and dates (or a formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including the exercise and sale of employee stock options and shares acquired pursuant to the Company's employee stock purchase plan and upon vesting of RSUs.

## Note 6 – Commitments and Contingencies

### Accrued Warranty and Indemnifications

The following table summarizes changes in the Company's accrued warranties and related costs for the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in millions):

	Three Months Ended		Six Months Ended	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
Beginning accrued warranty and related costs	\$ 904	\$ 584	\$ 761	\$ 577
Cost of warranty claims	(249)	(137)	(502)	(272)
Accruals for product warranty	448	141	844	283
Ending accrued warranty and related costs	<u>\$ 1,103</u>	<u>\$ 588</u>	<u>\$ 1,103</u>	<u>\$ 588</u>

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a potential liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs related to indemnification as of either March 26, 2011 or September 25, 2010.

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

### Concentrations in the Available Sources of Supply of Materials and Product

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

The Company and other participants in the mobile communication and media device, and personal computer industries also compete for various components with other industries that have experienced increased demand for their products. In addition, the Company uses some custom components that are not common to the rest of these industries, 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 manufacturing capacity has increased. If the Company's supply of a key single-sourced component for a new or existing product were delayed or constrained, if such components were available only at significantly higher prices, or if a key 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 adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet the Company's requirements.

Substantially all of the Company's iPhones, iPads, Macs, iPods, logic boards and other assembled products are manufactured by outsourcing partners, primarily in various parts of Asia. A significant concentration of this outsourced manufacturing is currently performed by only a few outsourcing partners of the Company, often in single locations. Certain of these outsourcing partners are the sole-sourced supplier of components and manufacturing outsourcing for many of the Company's key products including but not limited to final assembly of substantially all of the Company's hardware products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's purchase commitments typically cover its requirements for periods ranging from 30 to 150 days.

### **Long-Term Supply Agreements**

The Company has entered into long-term agreements to secure the supply of certain inventory components. These agreements generally expire between 2011 and 2022. As of March 26, 2011, the Company had a total of \$2.4 billion of inventory component prepayments outstanding, of which \$179 million is classified as other current assets and \$2.2 billion is classified as other assets in the Condensed Consolidated Balance Sheets. The Company had a total of \$956 million of inventory component prepayments outstanding as of September 25, 2010. The Company's outstanding prepayments will be applied to certain inventory component purchases made during the term of each respective agreement. As of March 26, 2011, the Company had off-balance sheet commitments under long-term supply agreements totaling approximately \$2.0 billion to make additional inventory component prepayments and to acquire capital equipment in 2011 and beyond.

### **Other Off-Balance Sheet Commitments**

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of September 25, 2010, the Company's total future minimum lease payments under noncancelable operating leases were \$2.1 billion, of which \$1.7 billion related to leases for retail space. As of March 26, 2011, total future minimum lease payments under noncancelable operating leases related to leases for retail space were \$2.0 billion.

Additionally, as of March 26, 2011, the Company had outstanding off-balance sheet commitments for outsourced manufacturing and component purchases of \$11.0 billion. Other outstanding obligations were \$747 million as of March 26, 2011, and were comprised mainly of commitments to acquire product tooling and manufacturing process equipment and commitments related to advertising, research and development, Internet and telecommunications services and other obligations. These commitments exclude the off-balance sheet commitments under the long-term supply agreements described above.

### **Contingencies**

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated, which are discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Part II Item 1A under the heading "Risk Factors." In the opinion of management, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. If the Company failed to prevail in any of these legal matters or if several of these legal matters were resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

On March 14, 2008, Mirror Worlds, LLC filed an action against the Company alleging that certain of its products infringed on three patents covering technology used to display files. On October 1, 2010, a jury returned a verdict against the Company, and awarded damages of \$208 million per patent for each of the three patents asserted. On April 4, 2011, the Judge overturned the verdict in the Company's favor. The Company had not recorded a loss contingency for this action.

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

#### **Note 7 – Segment Information and Geographic Data**

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

The Company manages its business primarily on a geographic basis. Accordingly, the Company determined its operating and reporting segments, which are generally based on the nature and location of its customers, to be the Americas, Europe, Japan, Asia-Pacific and Retail operations. The Americas, Europe, Japan and Asia-Pacific reportable segment results do not include results of the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Asia-Pacific segment includes Australia and Asia, but does not include Japan. The Retail segment operates Apple retail stores in 11 countries, including the U.S. Each reportable operating segment provides similar hardware and software products and similar services. The accounting policies of the various segments are the same as those described in Note 1, “Summary of Significant Accounting Policies” of this Form 10-Q and in the Notes to Consolidated Financial Statements in the Company's 2010 Form 10-K.

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

The Company has certain retail stores that have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company's more typical retail stores. The Company allocates certain operating expenses associated with its high-profile stores to corporate expense to reflect the estimated Company-wide benefit. The allocation of these operating costs to corporate expense is based on the amount incurred for a high-profile store in excess of that incurred by a more typical Company retail location. The Company had opened a total of 16 high-profile stores as of March 26, 2011. Amounts allocated to corporate expense resulting from the operations of high-profile stores were \$25 million and \$49 million during the three- and six-month periods ended March 26, 2011, respectively, and \$19 million and \$36 million during the three- and six-month periods ended March 27, 2010, respectively.

Summary information by operating segment for the three- and six-month periods ended March 26, 2011 and March 27, 2010 is as follows (in millions):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>March 26, 2011</u>	<u>March 27, 2010</u>	<u>March 26, 2011</u>	<u>March 27, 2010</u>
<b>Americas:</b>				
Net sales	\$ 9,323	\$ 4,993	\$18,541	\$ 11,085
Operating income	\$ 3,755	\$ 1,674	\$ 6,654	\$ 3,485
<b>Europe:</b>				
Net sales	\$ 6,027	\$ 4,050	\$13,283	\$ 9,074
Operating income	\$ 2,551	\$ 1,661	\$ 5,307	\$ 3,826
<b>Japan:</b>				
Net sales	\$ 1,383	\$ 887	\$ 2,816	\$ 1,670
Operating income	\$ 689	\$ 441	\$ 1,261	\$ 795
<b>Asia-Pacific:</b>				
Net sales	\$ 4,743	\$ 1,886	\$ 9,730	\$ 3,699
Operating income	\$ 2,045	\$ 892	\$ 4,087	\$ 1,712
<b>Retail:</b>				
Net sales	\$ 3,191	\$ 1,683	\$ 7,038	\$ 3,654
Operating income	\$ 807	\$ 373	\$ 1,837	\$ 854

A reconciliation of the Company's segment operating income to the condensed consolidated financial statements for the three- and six-month periods ended March 26, 2011 and March 27, 2010 is as follows (in millions):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>March 26, 2011</u>	<u>March 27, 2010</u>	<u>March 26, 2011</u>	<u>March 27, 2010</u>
Segment operating income	\$ 9,847	\$ 5,041	\$19,146	\$10,672
Stock-based compensation expense	(287)	(231)	(586)	(436)
Other corporate expenses, net (a)	(1,686)	(831)	(2,859)	(1,532)
Total operating income	<u>\$ 7,874</u>	<u>\$ 3,979</u>	<u>\$15,701</u>	<u>\$ 8,704</u>

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

#### **Note 8 – Related Party Transactions and Certain Other Transactions**

The Company entered into a Reimbursement Agreement with its CEO, Steve Jobs, for the reimbursement of expenses incurred by Mr. Jobs in the operation of his private plane when used for Apple business. The Company did not recognize any expenses pursuant to the Reimbursement Agreement during the three months ended March 26, 2011 and recognized a total of \$15,000 in expenses pursuant to the Reimbursement Agreement during the six-month period ended March 26, 2011. The Company recognized a total of \$127,000 and \$143,000 in expenses pursuant to the Reimbursement Agreement during the three- and six-month periods ended March 27, 2010, respectively. All expenses recognized pursuant to the Reimbursement Agreement have been included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can be identified by words such as “anticipates,” “expects,” “believes,” “plans,” “predicts,” and similar terms. Forward-looking statements are not guarantees of future performance and the Company’s actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A, “Risk Factors,” which are incorporated herein by reference. The following discussion should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended September 25, 2010 (the “2010 Form 10-K”) filed with the U.S. Securities and Exchange Commission (“SEC”) and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-Q. All information presented herein is based on the Company’s fiscal calendar. Unless otherwise stated, references in this report to particular years or quarters refer to the Company’s fiscal years ended in September and the associated quarters of those fiscal years. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

### **Available Information**

The Company’s Annual Report 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 (“Exchange Act”) are filed with the SEC. Such reports and other information filed by the Company with the SEC are available on the Company’s website at <http://www.apple.com/investor> when such reports are available on the SEC website. The public may read and copy any materials filed by the Company with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy, and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. The contents of these websites are not incorporated into this filing. Further, the Company’s references to the URLs for these websites are intended to be inactive textual references only.

### **Executive Overview**

The Company designs, manufactures, and markets a range of mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company’s products and services include iPhone®, iPad®, Mac® computers, iPod®, Apple TV®, a portfolio of consumer and professional software applications, the iOS and Mac OS® X operating systems, third-party digital content and applications through the iTunes Store®, App Store<sup>SM</sup>, iBookstore<sup>SM</sup>, and Mac App Store<sup>SM</sup>, and a variety of accessory, service and support offerings. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as third-party cellular network carriers, wholesalers, retailers, and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Mac and iPod compatible products, including application software, printers, storage devices, speakers, headphones, and various other accessories and peripherals through its online and retail stores. The Company sells to consumers, small and mid-sized businesses, education, enterprise and government customers.

The Company is committed to bringing the best user experience to its customers through its innovative hardware, software, peripherals, services, and Internet offerings. The Company’s business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design. The Company believes continual investment in research and development is critical to the development and enhancement of innovative products and technologies. In conjunction with its strategy, the Company continues to build and host a robust platform for the discovery and delivery of third-party digital content and applications through the iTunes Store. Within the iTunes Store, the Company has expanded its offerings through the App Store and iBookstore, which allow customers to browse, search for, and purchase third-party applications and books through either a Mac or Windows-based computer or by wirelessly downloading directly to an iPhone, iPad or iPod touch. In January 2011, the Company opened the Mac App Store allowing customers to easily find, download and install applications for their Macs. The Company also works to support a community for the development of third-party software and hardware products and digital content that complement the Company’s offerings. Additionally, the Company’s strategy includes expanding its distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience. The Company is therefore uniquely positioned to offer superior and well-integrated digital lifestyle and productivity solutions.

The Company participates in several highly competitive markets, including mobile communications and media devices with its iPhone, iPad and iPod product families; personal computers with its Mac computers; and distribution of third-party digital content and applications through the iTunes Store, App Store, iBookstore, and Mac App Store. While the Company is widely recognized as a leading innovator in the markets where it competes, these markets are highly competitive and subject to aggressive pricing. To remain competitive, the Company believes that increased investment in research and development and marketing and advertising is necessary to maintain or expand its position in the markets where it competes. The Company's research and development spending is focused on investing in new hardware and software products, and in further developing its existing products, including iPhone, iPad, Mac, and iPod hardware; iOS and Mac OS X operating systems; and a variety of application software. The Company also believes increased investment in marketing and advertising programs is critical to increasing product and brand awareness.

The Company utilizes a variety of direct and indirect distribution channels, including its retail stores, online stores, and direct sales force, and third-party cellular network carriers, wholesalers, retailers, and value-added resellers. The Company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware, software, and peripheral integration, demonstrate the unique digital lifestyle solutions that are available on its products, and demonstrate the compatibility of the Mac with the Windows platform and networks. The Company further believes providing direct contact with its targeted customers is an effective way to demonstrate the advantages of its products over those of its competitors and providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers. To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to expand and improve its distribution capabilities by expanding the number of its own retail stores worldwide. Additionally, the Company has invested in programs to enhance reseller sales by placing high quality Apple fixtures, merchandising materials and other resources within selected third-party reseller locations. Through the Apple Premium Reseller Program, certain third-party resellers focus on the Apple platform by providing a high level of integration and support services, and product expertise.

## **Products**

The Company offers a range of mobile communication and media devices, personal computing products, and portable digital music players, as well as a variety of related software, services, peripherals, networking solutions and various third-party hardware and software products. In addition, the Company offers its own software products, including iOS, the Company's proprietary mobile operating system; Mac OS X, the Company's proprietary operating system software for its Mac computers; server software; and application software for consumer, education, and business customers. A detailed discussion of the Company's other products may be found in Part I, Item 1, "Business," of the Company's 2010 Form 10-K.

## **Japan Earthquake and Tsunami**

On March 11, 2011, the northeast coast of Japan experienced a severe earthquake followed by a tsunami, with continuing aftershocks. These geological events have caused significant damage in the region, including severe damage to nuclear power plants, and have impacted Japan's power and other infrastructure as well as its economy. Certain of the Company's suppliers are located in Japan, and certain of its other Asian suppliers integrate components or use materials manufactured in Japan in the production of its products. To the extent that component production has been affected, the Company has generally obtained alternative sources of supply or implemented other measures. The Company does not currently believe these events will have a material impact on its operations in the third quarter of 2011 unless conditions worsen, including, but not limited to, power outages and expansion of evacuation zones around the nuclear power plants.

Beyond the third quarter of 2011, uncertainty exists with respect to the availability of electrical power, the damage to nuclear power plants and the impact to other infrastructure. Thus, there is a risk that the Company could in the future experience delays or other constraints in obtaining key components and products and/or price increases related to such components and products that could materially adversely affect the Company's financial condition and operating results.

## **Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles (“GAAP”) and the Company’s discussion and analysis of its financial condition and operating results require the Company’s management to make judgments, assumptions, and estimates that affect the amounts reported in its condensed consolidated financial statements and accompanying notes. Note 1, “Summary of Significant Accounting Policies” of this Form 10-Q and in the Notes to Consolidated Financial Statements in the Company’s 2010 Form 10-K describes the significant accounting policies and methods used in the preparation of the Company’s condensed 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 and impairment of marketable securities, inventory valuation and inventory purchase commitments, warranty costs, income taxes, and legal and other contingencies. Management considers these policies critical because they are both important to the portrayal of the Company’s financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company’s senior management has reviewed these critical accounting policies and related disclosures with the Audit and Finance Committee of the Company’s Board of Directors.

### *Revenue Recognition*

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

For multi-element arrangements that include tangible products containing software essential to the tangible product’s functionality and undelivered software elements relating to the tangible product’s essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price (“TPE”) and (iii) best estimate of the selling price (“ESP”). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company’s best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

For all past and current sales of iPhone, iPad, Apple TV and for sales of iPod touch beginning in June 2010, the Company indicated it might from time-to-time provide future unspecified software upgrades and features free of charge to customers. Because the Company has neither VSOE nor TPE for embedded unspecified software upgrade rights, revenue is allocated to these rights based on the Company’s ESPs. Revenue allocated to the embedded unspecified software upgrade rights is deferred and recognized on a straight-line basis over the 24-month estimated life of each of the related hardware products. The Company’s process for determining ESPs involves management’s judgment. The Company’s process considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable. If the facts and circumstances underlying the factors considered change or should future facts and circumstances lead the Company to consider additional factors, the Company’s ESP for software upgrades related to future sales of these devices could change. If the estimated life of one or more of the hardware products should change, the future rate of amortization of the revenue allocated to the software upgrade rights would also change.

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

#### *Valuation and Impairment of Marketable Securities*

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

#### *Inventory Valuation and Inventory Purchase Commitments*

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

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

### *Warranty Costs*

The Company provides for the estimated cost of hardware and software warranties at the time the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company's typical experience. Each quarter, the Company reevaluates its estimates to assess the adequacy of its recorded warranty liabilities considering the size of the installed base of products subject to warranty protection and adjusts the amounts as necessary. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liability would be required and could materially affect the Company's results of operations.

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

### *Income Taxes*

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

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

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

### *Legal and Other Contingencies*

As discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Note 6, "Commitments and Contingencies" in Notes to Condensed Consolidated Financial Statements, 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. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management's opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

## Net Sales

The following table summarizes net sales by operating segment and net sales and unit sales by product during the three- and six-month periods ended March 26, 2011 and March 27, 2010 (in millions, except unit sales in thousands and per unit amounts):

	Three Months Ended			Six Months Ended		
	March 26, 2011	March 27, 2010	Change	March 26, 2011	March 27, 2010	Change
<b>Net Sales by Operating Segment:</b>						
Americas net sales	\$ 9,323	\$ 4,993	87%	\$18,541	\$11,085	67%
Europe net sales	6,027	4,050	49%	13,283	9,074	46%
Japan net sales	1,383	887	56%	2,816	1,670	69%
Asia-Pacific net sales	4,743	1,886	151%	9,730	3,699	163%
Retail net sales	3,191	1,683	90%	7,038	3,654	93%
Total net sales	<u>\$24,667</u>	<u>\$13,499</u>	83%	<u>\$51,408</u>	<u>\$29,182</u>	76%
<b>Net Sales by Product:</b>						
Desktops (a)	\$ 1,441	\$ 1,532	(6)%	\$ 3,172	\$ 3,224	(2)%
Portables (b)	3,535	2,228	59%	7,234	4,986	45%
Total Mac net sales	4,976	3,760	32%	10,406	8,210	27%
iPod	1,600	1,861	(14)%	5,025	5,252	(4)%
Other music related products and services (c)	1,634	1,327	23%	3,065	2,491	23%
iPhone and related products and services (d)	12,298	5,445	126%	22,766	11,023	107%
iPad and related products and services (e)	2,836	0	NM	7,444	0	NM
Peripherals and other hardware (f)	580	472	23%	1,173	941	25%
Software, service and other sales (g)	743	634	17%	1,529	1,265	21%
Total net sales	<u>\$24,667</u>	<u>\$13,499</u>	83%	<u>\$51,408</u>	<u>\$29,182</u>	76%
<b>Unit Sales by Product:</b>						
Desktops (a)	1,009	1,147	(12)%	2,236	2,381	(6)%
Portables (b)	2,751	1,796	53%	5,658	3,924	44%
Total Mac unit sales	<u>3,760</u>	<u>2,943</u>	28%	<u>7,894</u>	<u>6,305</u>	25%
iPod unit sales	9,017	10,885	(17)%	28,463	31,855	(11)%
iPhone unit sales	18,647	8,752	113%	34,882	17,489	99%
iPad unit sales	4,694	0	NM	12,025	0	NM

(a) Includes iMac, Mac mini, Mac Pro and Xserve product lines.

(b) Includes MacBook, MacBook Air and MacBook Pro product lines.

(c) Includes sales from the iTunes Store, App Store, and iBookstore in addition to sales of iPod services and Apple-branded and third-party iPod accessories.

(d) Includes revenue recognized from iPhone sales, carrier agreements, services, and Apple-branded and third-party iPhone accessories.

(e) Includes revenue recognized from iPad sales, services, and Apple-branded and third-party iPad accessories.

(f) Includes sales of displays, wireless connectivity and networking solutions, and other hardware accessories.

(g) Includes sales from the Mac App Store in addition to sales of other Apple-branded and third-party Mac software and Mac and Internet services.

NM = Not Meaningful

Net sales during the second quarter of 2011 and the first six months of 2011 increased \$11.2 billion or 83%, and \$22.2 billion or 76%, respectively, compared to the same periods in 2010. Several factors contributed positively to this increase, including the following:

- Net sales of iPhone and related products and services were \$12.3 billion and \$22.8 billion in the second quarter of 2011 and first six months of 2011, respectively, representing an increase of 126% and 107%, compared to the same periods in 2010. Net sales of iPhone and related products and services accounted for 50% and 44% of the Company's total net sales for the second quarter of 2011 and first six months of 2011, respectively. iPhone handset unit sales totaled 18.6 million and 34.9 million during the second quarter of 2011 and first six months of 2011, respectively. iPhone unit sales increased 9.9 million or 113% during the second quarter of 2011 and 17.4 million or 99% during the first six months of 2011 compared to the same periods in 2010. iPhone year-over-year net sales growth reflects strong demand for iPhone 4 in all of the Company's operating segments and the expanded U.S. distribution of iPhone to the Verizon Wireless network beginning in February 2011. Continued expansion of distribution with other new carriers and resellers also contributed to the year-over-year growth of iPhone. As of March 26, 2011, the Company distributed iPhone in 90 countries through 186 carriers.
- Net sales of iPad and related products and services were \$2.8 billion and \$7.4 billion in the second quarter of 2011 and first six months of 2011, respectively. Unit sales of iPad were 4.7 million and 12.0 million during the second quarter of 2011 and first six months of 2011. The iPad 2 was introduced in March 2011. Including both the original iPad and iPad 2, the Company had distribution in 59 countries as of March 26, 2011. The Company distributes iPad through its direct channels, certain cellular network carriers' distribution channels and certain third-party resellers. Net sales of iPad and related products and services accounted for 11% and 14% of the Company's total net sales for the second quarter of 2011 and first six months of 2011.
- Mac net sales increased by \$1.2 billion or 32% and \$2.2 billion or 27% in the second quarter of 2011 and first six months of 2011, respectively, compared to the same periods in 2010. Mac unit sales increased by 817,000 or 28% and 1.6 million or 25% in the second quarter of 2011 and first six months of 2011, respectively, compared to the same periods in 2010. The year-over-year growth in Mac net sales and unit sales was due to higher demand for MacBook Pro and MacBook Air, which were updated in February 2011 and October 2010, respectively, and experienced significant growth in all of the Company's operating segments. Net sales per Mac unit sold for the second quarter of 2011 and first six months of 2011 increased 4% and 1%, respectively, compared to the same periods in 2010. Net sales of the Company's Macs accounted for 20% of the Company's total net sales for both the second quarter of 2011 and first six months of 2011.
- Net sales of iPod decreased \$261 million or 14% during the second quarter of 2011, and decreased \$227 million or 4% during the first six months of 2011 compared to the same periods in 2010. Similarly, iPod unit sales decreased by 17% and 11% in the second quarter of 2011 and first six months of 2010, respectively, compared to the same periods in 2010. However, net sales per iPod unit sold increased from \$171 in the second quarter of 2010 to \$177 in the second quarter of 2011, and increased from \$165 for the first six months of 2010 to \$177 for the first six months of 2011. The increases in net sales per iPod unit sold resulted from a shift in product mix toward iPod touch. Net sales of iPod accounted for 6% and 10% of the Company's total net sales for the second quarter of 2011 and first six months of 2011, respectively.
- Net sales of other music related products and services increased \$307 million or 23% and \$574 million or 23% during the second quarter of 2011 and first six months of 2011, respectively, compared to the same periods in 2010. The increases were due primarily to increased net sales from the iTunes Store, which experienced growth in all of the Company's geographic segments. During the second quarter of 2011 and the first six months of 2011, the combined net sales for the iTunes Store, App Store and iBookstore were \$1.4 billion and \$2.5 billion, respectively. The Company believes this continued growth is the result of heightened consumer interest in downloading third-party digital content, continued growth in its customer base of iPhone, iPad and iPod customers, the expansion of third-party audio and video content available for sale and rent via the iTunes Store, and the continued interest in and growth of the App Store. The Company continues to expand its iTunes content and applications offerings around the world. Net sales of other music related products and services accounted for 7% and 6% of the Company's total net revenue for the second quarter of 2011 and first six months of 2011, respectively.

## Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable operating and reporting segments consist of the Americas, Europe, Japan, Asia-Pacific and Retail operations. The Americas, Europe, Japan and Asia-Pacific reportable segment results do not include the results of the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries as well as the Middle East and Africa. The Asia-Pacific segment includes Australia and Asia, but does not include Japan. The Retail segment operates Apple retail stores in 11 countries, including the U.S. Each reportable operating segment provides similar hardware and software products and similar services. Further information regarding the Company's operating segments may be found in Note 7, "Segment Information and Geographic Data" in Notes to Condensed Consolidated Financial Statements of this Form 10-Q.

### *Americas*

Net sales in the Americas during the second quarter of 2011 increased \$4.3 billion or 87% compared to the same period in 2010. The increase in net sales during the second quarter of 2011 was attributable to increased iPhone revenue driven by expanded U.S. distribution to the Verizon Wireless network beginning in February 2011, the introduction of iPad in the second half of 2010, and strong demand for Macs. Also contributing to the increase were higher sales of third-party digital content and applications from the iTunes Store and App Store. The Americas segment represented 38% and 37% of the Company's total net sales in the second quarter of 2011 and 2010, respectively.

During the first six months of 2011, net sales in the Americas segment increased \$7.5 billion or 67% compared to the same period in 2010. The primary contributors to the growth in net sales during the first six months of 2011 were a significant year-over-year increase in iPhone revenue from carrier expansion, the launch of iPad, and increased sales of Macs. Higher sales of third-party digital content and applications from the iTunes Store and App Store also drove higher sales during the first six months of 2011. The Americas segment represented approximately 36% and 38% of the Company's total net sales for the first six months of 2011 and 2010, respectively.

### *Europe*

Net sales in Europe increased \$2.0 billion or 49% during the second quarter of 2011 compared to the second quarter of 2010. The growth in net sales was mainly due to an increase in iPhone revenue attributable to country and carrier expansion, the launch of iPad, and increased sales of Mac portable systems. The Europe segment represented 24% and 30% of the Company's total net sales in the second quarter of 2011 and 2010, respectively.

For the first six months of 2011, net sales in Europe increased \$4.2 billion or 46%, compared to the same period in 2009. The increase in net sales during the first six months of 2011 was attributable primarily to the continued year-over-year increase in iPhone revenue, the launch of iPad, and strong demand for Mac portable systems, partially offset by the impact of a stronger U.S. dollar. The Europe segment represented 26% and 31% of total net sales for the first six months in 2011 and 2010, respectively.

### *Japan*

Japan's net sales increased \$496 million or 56% during the second quarter of 2011 and increased \$1.1 billion or 69% during the first six months of 2011 compared to the same periods in 2010. The key contributors to Japan's net sales growth for both the second quarter and first six months of 2011 were increased iPhone revenue, the launch of iPad, increased sales of Macs, and strength in the Japanese Yen relative to the U.S. dollar. The Japan segment represented 6% of total net sales in the second quarter of 2011 compared to 7% in the year ago quarter, and 5% of total net sales in the first six months of 2011 compared to 6% in the first six months of 2010.

The recent earthquakes and tsunami that struck the northeast coast of Japan has created uncertainty regarding the effect on general economic and market conditions in Japan. Any significant impact on consumer demand could negatively impact the Company's net sales in the Japan segment. The Company does not currently believe that such impact will have a material adverse effect on the Company or its results of operations.

### *Asia-Pacific*

Net sales in Asia Pacific increased \$2.9 billion or 151% during the second quarter of 2011 and increased \$6.0 billion or 163% during the first six months of 2011 compared to the same periods in 2010. The Company experienced particularly strong year-over-year net sales growth in China, Hong Kong and Korea during the second quarter of 2011 and first six months of 2011. Higher net sales in the Asia Pacific segment were due mainly to the increase in iPhone revenue primarily attributable to new carrier launches, introduction of iPad, and increased sales of Macs. The Asia Pacific segment represented 19% and 14% of total net sales in the second quarter of 2011 and 2010, respectively, and 19% and 13% of total net sales in the first six months of 2011 and 2010, respectively.

### *Retail*

Retail net sales increased \$1.5 billion or 90% during the second quarter of 2011 compared to the second quarter of 2010. The increase in net sales was driven primarily by higher iPhone sales, the launch of iPad, and higher sales of Macs. The Company did not open any new retail stores during the second quarter of 2011, ending the quarter with 323 stores open compared to 286 stores at the end of the second quarter of 2010. With an average of 323 stores and 284 stores open during the second quarter of 2011 and 2010, respectively, average revenue per store increased 67% to \$9.9 million in the second quarter of 2011 compared to the second quarter of 2010. The Retail segment represented 13% and 12% of total net sales in the second quarter of 2011 and 2010, respectively.

Retail net sales grew \$3.4 billion or 93% during the first six months of 2011 compared to the same period in 2010 driven primarily by the launch of iPad, a significant year-over-year increase in iPhone sales, and higher sales of Macs. Average revenue per store increased 68% to \$21.9 million for the first six months of 2011 compared to the same period in 2010. The Retail segment represented 14% and 12% of total net sales for the first six months of 2011 and 2010, respectively.

The Retail segment reported operating income of \$807 million during the second quarter of 2011 compared to operating income of \$373 million during the second quarter of 2010, and reported operating income of \$1.8 billion during the first six months of 2011 compared to \$854 million during the first six months of 2010. The year-over-year increase in Retail operating income was primarily attributable to higher overall net sales that resulted in significantly higher average revenue per store during the second quarter and first six months of 2011 compared to the same periods in 2010.

Expansion of the Retail segment has required and will continue to require a substantial investment in fixed assets and related infrastructure, operating lease commitments, personnel, and other operating expenses. Capital asset purchases associated with the Retail segment since inception totaled \$2.3 billion through the second quarter of 2011. As of March 26, 2011, the Retail segment had approximately 30,200 full-time equivalent employees and had outstanding lease commitments associated with retail space and related facilities of \$2.0 billion. The Company would incur substantial costs if it were to close multiple retail stores and such costs could adversely affect the Company's financial condition and operating results.

### **Gross Margin**

Gross margin for the three- and six-month periods ended March 26, 2011 and March 27, 2010 was as follows (in millions, except gross margin percentages):

	Three Months Ended		Six Months Ended	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
Net sales	\$ 24,667	\$ 13,499	\$ 51,408	\$ 29,182
Cost of sales	14,449	7,874	30,892	17,146
Gross margin	\$ 10,218	\$ 5,625	\$ 20,516	\$ 12,036
Gross margin percentage	41.4%	41.7%	39.9%	41.2%

The gross margin percentage in the second quarter of 2011 was 41.4%, relatively consistent with the 41.7% in the second quarter of 2010. The gross margin percentage for the first six months of 2011 was 39.9% compared to 41.2% for the first six months of 2010. This year-over-year decline in gross margin is primarily attributable to new and innovative products that have higher cost structures, including iPhone 4 and iPad, that was partially offset by lower other manufacturing costs.

The Company expects to experience decreases in its gross margin percentage in future periods, as compared to levels achieved during the first half of 2011, largely due to a higher mix of new and innovative products that have higher cost structures and deliver greater value to customers, and expected and potential future component cost and other cost increases.

The foregoing statements regarding the Company's expected gross margin percentage are forward-looking and could differ from anticipated levels because of several factors including, but not limited to certain of those set forth below in Part II, Item 1A, "Risk Factors" under the subheading "*Future operating results depend upon the Company's ability to obtain key components including but not limited to microprocessors, NAND flash memory, DRAM and LCDs at favorable prices and in sufficient quantities,*" which is incorporated herein by reference. In general, gross margins and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions and potential and expected increases in the cost of key components including but not limited to microprocessors, NAND flash memory, DRAM and LCDs, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to these competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, financial results can be significantly affected in the short-term by fluctuations in exchange rates.

### Operating Expenses

Operating expenses for the three- and six-month periods ended March 26, 2011 and March 27, 2010, were as follows (in millions, except for percentages):

	Three Months Ended		Six Months Ended	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
Research and development	\$ 581	\$ 426	\$ 1,156	\$ 824
Percentage of net sales	2%	3%	2%	3%
Selling, general and administrative	\$ 1,763	\$ 1,220	\$ 3,659	\$ 2,508
Percentage of net sales	7%	9%	7%	9%

#### *Research and Development Expense ("R&D")*

R&D expense increased \$155 million or 36% to \$581 million during second quarter of 2011 compared to the same period of 2010, and increased \$332 million or 40% to \$1.2 billion during the first six months of 2011 compared to the same period in 2010. These increases were due primarily to an increase in headcount and related expenses to support expanded R&D activities.

Although total R&D expense increased 36% and 40% during the second quarter and first six months of 2011, compared to the same periods in 2010, respectively, it declined as a percentage of net sales, due to the 83% and 76% year-over-year growth in the Company's net sales during the second quarter and first six months of 2011, respectively. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company's core business strategy. As such, the Company expects to make further investments in R&D to remain competitive.

#### *Selling, General and Administrative Expense ("SG&A")*

SG&A expense increased \$543 million or 45% to \$1.8 billion during second quarter of 2011 compared to the same period of 2010, and increased \$1.2 billion or 46% to \$3.7 billion during the first six months of 2011 compared to the same period in 2010. These increases were due primarily to the Company's continued expansion of its Retail segment, higher spending on marketing and advertising programs, and increased variable costs associated with the overall growth of the Company's net sales.

## Other Income and Expense

Total other income and expense decreased \$24 million or 48% to \$26 million during second quarter of 2011 compared to the same period of 2010, and increased \$79 million or 95% to \$162 million during the first six months of 2011 compared to the same period in 2010. The overall decrease during second quarter of 2011 in other income and expense is primarily attributable to higher premium expenses on foreign exchange option contracts, partially offset by higher interest income on the Company's higher cash, cash equivalents and marketable securities balances as compared to the second quarter of 2010. The overall increase during the first six months of 2011 in other income and expense is primarily attributable to higher interest income and net realized gains on sales of marketable securities, partially offset by higher premium expenses on foreign exchange option contracts as compared to the first six months of 2010. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities increased to 0.76% in the second quarter of 2011 from 0.70% in the second quarter of 2010.

## Provision for Income Taxes

The Company's effective tax rates for the three- and six-month periods ended March 26, 2011 were approximately 24% for both periods, compared to approximately 24% and 27% for the three- and six-month periods ended March 27, 2010, respectively. The Company's effective rates for both periods differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S. taxes are provided because such earnings are intended to be indefinitely reinvested outside the U.S. The lower effective tax rate during the first six months of 2011 compared to the same period in 2010 is due primarily to a higher proportion of foreign earnings and the recognition of a tax benefit as a result of legislation enacted during the first quarter of 2011 retroactively reinstating the research and development tax credit.

The Internal Revenue Service (the "IRS") has completed its field audit of the Company's federal income tax returns for the years 2004 through 2006 and proposed certain adjustments. The Company has contested certain of these adjustments through the IRS Appeals Office. The IRS is currently examining the years 2007 through 2009. All IRS audit issues for years prior to 2004 have been resolved. In addition, the Company is subject to audits by state, local, and foreign tax authorities. Management believes that adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

## Liquidity and Capital Resources

The following table summarizes selected financial information and statistics as of March 26, 2011 and September 25, 2010 (in millions):

	March 26, 2011	September 25, 2010
Cash, cash equivalents and marketable securities	\$ 65,767	\$ 51,011
Accounts receivable, net	\$ 5,798	\$ 5,510
Inventory	\$ 930	\$ 1,051
Working capital	\$ 22,670	\$ 20,956

As of March 26, 2011, the Company had \$65.8 billion in cash, cash equivalents and marketable securities, an increase of \$14.8 billion from September 25, 2010. The principal component of this net increase was the cash generated by operating activities of \$16.0 billion, which was partially offset by payments for acquisition of property, plant and equipment of \$1.8 billion. The Company believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations over the next 12 months.

The Company's marketable securities investment portfolio is invested primarily in highly rated securities, generally with a minimum rating of single-A or equivalent. As of March 26, 2011 and September 25, 2010, \$40.2 billion and \$30.8 billion, respectively, of the Company's cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings.

## Capital Assets

The Company's capital expenditures were \$2.2 billion during the first six months of 2011 consisting of approximately \$142 million for retail store facilities and \$2.1 billion for other capital expenditures, including product tooling and manufacturing process equipment, real estate for the future development of the Company's second corporate campus, and other corporate facilities and infrastructure. The Company's actual cash payments for capital expenditures during the first six months of 2011 were \$1.8 billion, of which \$151 million relates to retail store facilities.

The Company anticipates utilizing approximately \$5.7 billion for capital expenditures during 2011, including approximately \$700 million for retail store facilities and approximately \$5.0 billion for product tooling and manufacturing process equipment, and corporate facilities and infrastructure, including information systems hardware, software and enhancements.

Historically the Company has opened between 25 and 50 new retail stores per year. During 2011, the Company expects to open about 40 new retail stores, nearly three-quarters of which are expected to be located outside of the U.S.

### **Off-Balance Sheet Arrangements and Contractual Obligations**

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

#### *Lease Commitments*

As of September 25, 2010, the Company had total outstanding commitments on noncancelable operating leases of \$2.1 billion, \$1.7 billion of which related to the lease of retail space and related facilities. The Company's major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. Total outstanding commitments on noncancelable operating leases related to the lease of retail space were \$2.0 billion as of March 26, 2011.

#### *Purchase Commitments with Outsourcing Partners and Component Suppliers*

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and test of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods ranging from 30 to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of March 26, 2011, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of \$11.0 billion.

The Company has also entered into long-term agreements to secure the supply of certain inventory components. These agreements generally expire between 2011 and 2022. As of March 26, 2011, the Company had off-balance sheet commitments under long-term supply agreements totaling approximately \$2.0 billion to make additional inventory component prepayments and to acquire capital equipment in 2011 and beyond.

#### *Other Obligations*

Other outstanding obligations were \$747 million as of March 26, 2011, and were comprised mainly of commitments to acquire product tooling and manufacturing process equipment, in addition to that noted above under long-term supply agreements, and commitments related to advertising, research and development, Internet and telecommunications services and other obligations.

The Company's other non-current liabilities in the Condensed Consolidated Balance Sheets consist primarily of deferred tax liabilities, gross unrecognized tax benefits and the related gross interest and penalties. As of March 26, 2011, the Company had non-current deferred tax liabilities of \$6.2 billion. Additionally, as of March 26, 2011, the Company had gross unrecognized tax benefits of \$1.1 billion and an additional \$260 million for gross interest and penalties classified as non-current liabilities. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes.

## **Indemnifications**

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs related to indemnification as of either March 26, 2011 or September 25, 2010.

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

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's market risk profile has not changed significantly during the first six months of 2011.

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

The Company regularly reviews its foreign exchange forward and option positions, both on a stand-alone basis and in conjunction with its underlying foreign currency and interest rate related exposures. However, given the effective horizons of the Company's risk management activities and the anticipatory nature of the exposures, there can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in either foreign exchange or interest rates. In addition, the timing of the accounting for recognition of gains and losses related to mark-to-market instruments for any given period 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*

While the Company is exposed to interest rate fluctuations in many of the world's leading industrialized countries, the Company's interest income and expense is most sensitive to fluctuations in the general level of U.S. interest rates. As such, changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents and marketable securities, the fair value of those investments, as well as costs associated with foreign currency hedges.

The Company's investment policy and strategy are focused on preservation of capital and supporting the liquidity requirements of the Company. A portion of the Company's cash is managed by external managers within the guidelines of the Company's investment policy and to objective market benchmarks. The Company's internal portfolio is benchmarked against external manager performance.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company typically invests in highly rated securities and its policy generally limits the amount of credit exposure to any one issuer. The Company's investment policy requires investments to generally be investment grade, primarily rated single-A or better with the objective of minimizing the potential risk of principal loss. All highly liquid investments with initial maturities of three months or less at the date of purchase are classified as cash equivalents. The Company classifies its marketable securities as either short-term or long-term based on each instrument's underlying contractual maturity date. All short-term marketable securities have maturities less than 12 months, while all long-term marketable securities have maturities greater than 12 months. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to anticipation of credit deterioration and duration management.

### *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 also a risk that the Company will have to adjust local currency product 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. Generally, the Company's practice is to hedge a majority of its material foreign exchange exposures, typically for three to six months. However, the Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the prohibitive economic cost of hedging particular exposures.

#### **Item 4. Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") were effective as of March 26, 2011 to ensure 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 Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### *Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting during the second quarter of 2011, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

As of March 26, 2011, the end of the quarterly period covered by this report, the Company was subject to the various legal proceedings and claims discussed below, as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. In the opinion of management, the Company does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected. See the risk factors "*The Company's future results could be materially adversely affected if it is found to have infringed on intellectual property rights.*" and "*Unfavorable results of legal proceedings could materially adversely affect the Company.*" in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading "Risk Factors." The Company settled certain matters during the second quarter of 2011 that did not individually or in the aggregate have a material impact on the Company's financial condition and results of operations.

##### *In re Apple & AT&T Antitrust Litigation (brought on behalf of named plaintiffs Kliegerman, Holman, Rivello, Smith, Lee, Macasaddu, Morikawa, Scotti and Sesso)*

This is a purported class action filed against the Company and AT&T Mobility in the United States District Court for the Northern District of California. The Consolidated Complaint alleges that the Company and AT&T Mobility violated the federal antitrust laws by monopolizing and/or attempting to monopolize the "aftermarket for voice and data services" for the iPhone and that the Company monopolized and/or attempted to monopolize the "aftermarket for software applications for iPhones." Plaintiffs are seeking unspecified compensatory and punitive damages for the class, treble damages, injunctive relief and attorneys fees. On July 8, 2010 the Court granted in part plaintiffs' motion for class certification. The case is currently stayed until the Supreme Court rules on the enforceability of the AT&T Mobility arbitration clause in the AT&T Mobility v. Conception case.

*The Apple iPod iTunes Antitrust Litigation (formerly Charoensak v. Apple Computer, Inc. and Tucker v. Apple Computer, Inc.); Somers v. Apple Inc.*

These related cases have been filed on January 3, 2005, July 21, 2006 and December 31, 2007 in the United States District Court for the Northern District of California on behalf of a purported class of direct and indirect purchasers of iPods and iTunes Store content, alleging various claims including alleged unlawful tying of music and video purchased on the iTunes Store with the purchase of iPods and unlawful acquisition or maintenance of monopoly market power and unlawful acquisition or maintenance of monopoly market power under §§1 and 2 of the Sherman Act, the Cartwright Act, California Business & Professions Code §17200 (unfair competition), the California Consumer Legal Remedies Act and California monopolization law. Plaintiffs are seeking unspecified compensatory and punitive damages for the class, treble damages, injunctive relief, disgorgement of revenues and/or profits and attorneys fees. Plaintiffs are also seeking digital rights management (“DRM”) free versions of any songs downloaded from iTunes or an order requiring the Company to license its DRM to all competing music players. The cases are currently pending.

#### **Item 1A. Risk Factors**

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.

*Economic conditions could materially adversely affect the Company.*

The Company’s operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a risk as consumers and businesses may continue to postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values, which could have a material negative effect on demand for the Company’s products and services. Demand also could differ materially from the Company’s expectations since the Company generally raises prices on goods and services sold outside the U.S. to offset the effect of a strengthening of the U.S. dollar. Other factors that could influence demand include increases in fuel and other energy costs, conditions in the real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could materially adversely affect demand for the Company’s products and services and the Company’s financial condition and operating results.

In the event of renewed financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed income, credit, currency, and equity markets. In addition, the risk remains that there could be a number of follow-on effects from the credit crisis on the Company’s business, including the insolvency of key outsourcing partners or suppliers or their inability to obtain credit to finance development and/or manufacture products resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of the Company’s products and/or customer, including channel partner, insolvencies; and failure of derivative counterparties and other financial institutions negatively impacting the Company’s treasury operations. Other income and expense also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realized in the future on the Company’s financial instruments differing significantly from the fair values currently assigned to them.

Uncertainty about current global economic conditions could also continue to increase the volatility of the Company’s stock price.

*Global markets for the Company's products and services are highly competitive and subject to rapid technological change. If the Company is unable to compete effectively in these markets, its financial condition and operating results could be materially adversely affected.*

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

The Company's ability to compete successfully depends heavily on its ability to ensure a continuing and timely introduction of innovative new products 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 research and development and as such, the Company currently holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. By contrast, many of the Company's competitors seek to compete primarily through aggressive pricing and very low cost structures. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if other companies infringe on the Company's intellectual property, the Company's ability to maintain a competitive advantage could be negatively affected and its financial condition and operating results could be materially adversely affected.

The Company currently markets certain mobile communication and media devices, and third-party digital content and applications. The Company faces substantial competition from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships. Additionally, the Company faces significant price competition as competitors reduce their selling prices and attempt to imitate the Company's product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. The Company also competes with illegitimate ways to obtain third-party digital content and applications. The Company has entered the mobile communications and media device markets, and many of its competitors in these markets have significantly greater experience, product breadth and distribution channels than the Company. Because some current and potential competitors have substantial resources and/or experience and a lower cost structure, they may be able to provide such products and services at little or no profit or even at a loss. The Company also expects competition to intensify as competitors attempt to imitate the Company's approach to providing these components seamlessly within their individual offerings or work collaboratively to offer integrated solutions.

The Company currently receives subsidies from its carriers providing cellular network service for iPhone. There is no assurance that such subsidies 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.

In the market for personal computers and peripherals, the Company faces a significant number of competitors, many of which have broader product lines, lower priced products, and larger installed customer bases. Consolidation in this market has resulted in larger and potentially stronger competitors. Price competition has been particularly intense as competitors selling Windows-based personal computers have aggressively cut prices and lowered product margins. The Company also faces increased competition in key market segments, including consumer, SMB, education, enterprise, government and creative markets. An increasing number of Internet devices that include software applications and are smaller and simpler than traditional personal computers compete for market share with the Company's existing products.

The Company is currently the only authorized maker of hardware using the Mac OS. The Mac OS has a minority market share in the personal computer market, which is dominated by computer makers using competing operating systems, most notably Windows. The Company's financial condition and operating results depend substantially on the Company's ability to continually improve the Mac platform to maintain functional and design advantages. Use of unauthorized copies of the Mac OS on other companies' hardware products may result in decreased demand for the Company's hardware products, and could materially adversely affect the Company's financial condition and operating results.

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 product introductions and transitions.*

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, and effectively stimulate customer demand for new and upgraded products. The success of new product introductions depends on a number of factors including but not limited to timely and successful product development, market acceptance, the Company's ability to manage the risks associated with new products and production ramp 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 costs to meet anticipated demand, and the risk that new products may have quality or other defects in the early stages of introduction. Accordingly, the Company cannot determine in advance the ultimate effect of new product introductions and transitions on its financial condition and operating results.

*The Company faces substantial inventory and other asset risk 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 net realizable value and accrues necessary cancellation fee reserves for orders of excess products and components. The Company also reviews its long-lived assets for impairment whenever events or changed circumstances indicate the carrying amount of an asset may not be recoverable. If the Company determines that impairment has occurred, it records a write-down equal to the amount by which the carrying value of the assets exceeds its fair market value. Although the Company believes its provisions related to inventory, other assets and purchase commitments are currently adequate, no assurance can be given that the Company will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Company competes. Such charges could materially adversely affect the Company's financial condition and operating results.

The Company must order components for its products and build inventory in advance of product announcements and shipments. Consistent with industry practice, components are normally acquired through a combination of purchase orders, supplier contracts, open orders and, where appropriate, inventory component prepayments, in each case based on projected demand. Such purchase commitments typically cover forecasted component and manufacturing requirements for 30 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. The Company's financial condition and operating results have been in the past and could be in the future materially adversely affected by the Company's ability to manage its inventory levels and respond to short-term shifts in customer demand patterns.

*Future operating results depend upon the Company's ability to obtain key components including but not limited to microprocessors, NAND flash memory, DRAM and LCDs at favorable prices and in sufficient quantities.*

Because the Company currently obtains certain key components including but not limited to microprocessors, enclosures, certain LCDs, certain optical drives, and ASICs, from single or limited sources, the Company is subject to significant supply and pricing risks. Many of these and other key components that are available from multiple sources including but not limited to NAND flash memory, DRAM and certain LCDs, are subject at times to industry-wide shortages and significant commodity pricing fluctuations. The Company has entered into certain agreements for the supply of key components including but not limited to microprocessors, NAND flash memory, DRAM and LCDs with favorable pricing, but there can be no guarantee that the Company will be able to extend or renew these agreements on similar favorable terms, or at all, upon expiration or otherwise obtain favorable pricing in the future. The follow-on effects from the credit crisis on the Company's key suppliers, referred to in "*Economic conditions could materially adversely affect the Company*" above, which is incorporated herein by reference, also could affect the Company's ability to obtain key components. Therefore, the Company remains subject to significant risks of supply shortages and/or price increases that could materially adversely affect the Company's financial condition and operating results. The Company expects to experience decreases in its gross margin percentage in future periods, as compared to levels achieved during the first half of 2011, largely due to a higher mix of new and innovative products that have higher cost structures and deliver greater value to customers, and expected and potential future component cost and other cost increases. For additional information refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the subheading "Gross Margin," which is incorporated herein by reference.

The Company and other participants in the mobile communication and media device, and personal computer industries compete for various components with other industries that have experienced increased demand for their products. The Company uses some custom components that are not common to the rest of these industries. 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 manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet the Company's requirements. If the supply of a key single-sourced component for a new or existing product were delayed or constrained, if such components were available only at significantly higher prices, or if a key manufacturing vendor delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected.

Please also refer to the discussion of risks related to the March 11, 2011, Japan earthquake and tsunami in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the subheading "Japan Earthquake and Tsunami," which is incorporated herein by reference.

*The Company depends on component and product manufacturing and logistical services provided by third parties, many of whom are located outside of the U.S.*

Substantially all of the Company's manufacturing is performed in whole or in part by a few outsourcing partners. The Company has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Company's direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of products or services, or the Company's flexibility to respond to changing conditions. Although arrangements with such manufacturers or individual component suppliers may contain provisions for warranty expense reimbursement, the Company may remain responsible to the consumer for warranty service in the event of product defects. In addition, the Company relies on third-party manufacturers to adhere to the Company's supplier code of conduct. Any unanticipated product defect or warranty liability, whether pursuant to arrangements with outsourcing partners or otherwise, or material violations of the supplier code of conduct, could materially adversely affect the Company's reputation, financial condition and operating results.

The supply and manufacture of many critical components is performed by sole-sourced third-party vendors in the U.S., Asia and Europe. Single-sourced third-party vendors in Asia perform final assembly of substantially all of the Company's hardware products. If manufacturing or logistics in these locations is disrupted for any reason including, but not limited to, natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, or political issues, the Company's financial condition and operating results could be materially adversely affected.

Please also refer to the discussion of risks related to the March 11, 2011, Japan earthquake and tsunami in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the subheading "Japan Earthquake and Tsunami," which is incorporated herein by reference.

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

Many of the Company's products are designed to include third-party intellectual property, and in the future the Company may need to seek or renew licenses relating to various aspects of its products and business. Although the Company believes that, based on past experience and industry practice, such licenses generally could be obtained on reasonable terms, there is no assurance that the necessary licenses would be available on acceptable terms or at all. If the Company is unable to obtain or renew critical licenses on reasonable terms, the Company's financial condition and operating results may be materially adversely affected.

The Company also contracts with certain third parties to offer their digital content through the Company's iTunes Store. The Company's licensing arrangements with these third parties are short-term and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Company to license their content in the future. Other content owners, providers or distributors may seek to limit the Company's access to, or increase the total cost of, such content. If the Company is unable to continue to offer a wide variety of content at reasonable prices with acceptable usage rules, or continue to expand its geographic reach, the Company's financial condition and operating results may be materially adversely affected.

Many third-party content providers require that the Company provide certain DRM and other security solutions. If these 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 legislation that would force the Company to license its DRM, which could lessen the protection of content and subject it to piracy and also could affect arrangements with the Company's content providers.

*The Company's future results could be materially adversely affected if it is found to have infringed on intellectual property rights.*

Technology companies, including many of the Company's competitors, frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As the Company has grown, the intellectual property rights claims against it have increased and may continue to increase as it develops new products and technologies. In particular, with the introduction of iPhone and 3G enabled iPads, the Company began to compete with mobile communication and media device companies that hold significant patent portfolios, and the number of patent claims against the Company in that technological space has increased. The Company is vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in Europe and Asia. The plaintiffs in these actions frequently seek injunctions and substantial damages.

The Company's products and technologies may not be able to withstand these or any other third-party claims regardless of the merits of the claim.

Regardless of the scope or validity of such patents or the merits of any patent claims by potential or actual litigants, the Company may have to engage in protracted litigation, enter into expensive license agreements or settlements, pay significant damage awards, and/or modify or even discontinue one or more of its products or technologies. Any of these events could have a material adverse impact on the Company's financial condition and operating results.

In certain cases, the Company may consider the desirability of entering into licensing agreements, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses. If the Company is found to be infringing one or more patents, it may be required to pay substantial damages. If there is a temporary or permanent injunction prohibiting the Company from marketing or selling certain products or a successful claim of infringement against the Company requires it to pay royalties to a third party, the Company's financial condition and operating results could be materially adversely affected, regardless of whether it can develop non-infringing technology.

While in management's opinion the Company does not have a potential liability for damages or royalties from any known current legal proceedings or claims related to the infringement of patent or other intellectual property rights that would individually or in the aggregate materially adversely affect its financial condition and operating results, the results of such legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any of the matters related to infringement of patent or other intellectual property rights of others or should several of these matters be resolved against the Company in the same reporting period, the Company's financial condition and operating results could be materially adversely affected.

*The Company's future performance depends on support from third-party software developers. 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 decisions by customers to purchase its hardware products, including its iPhones, iPads, Macs and iPods, are often based to a certain extent on the availability of third-party software applications, and services, including online services. There is no assurance that third-party developers will continue to develop and maintain applications and services for the Company's products on a timely basis or at all, and discontinuance or delay of these applications and services could materially adversely affect the Company's financial condition and operating results.

With respect to its Mac products, the Company believes the availability of third-party software applications and services depends in part on the developers' perception and analysis of the relative benefits of developing, maintaining, and upgrading such software for the Company's products compared to Windows-based products. This analysis may be based on factors such as the perceived strength of the Company and its products, the anticipated revenue that may be generated, continued acceptance by customers of Mac OS X, and the costs of developing such applications and services. If the Company's minority share of the global personal computer market causes developers to question the Company's prospects, developers could be 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 the larger Windows market. The Company's development of its own software applications and services may also negatively affect the decisions of third-party developers, such as Microsoft, Adobe and Google, to develop, maintain, and upgrade similar or competitive software and services for the Company's products.

With respect to iPhone, iPad and iPod touch, the Company relies on the continued availability and development of compelling and innovative software applications. Unlike third-party software applications for Mac products, the software applications for the iPhone, iPad and iPod touch platforms are distributed through a single distribution channel, the App Store. The absence of multiple distribution channels, which are available for competing platforms, may limit the availability and acceptance of third-party applications by the Company's customers, thereby causing developers to curtail significantly, or stop, development for the Company's platforms. In addition, iPhone, iPad and iPod touch are subject to rapid technological change, and, if third-party developers are unable to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. Further, if the Company develops its own software applications and services, such development may negatively affect the decisions of third-party developers to develop, maintain, and upgrade similar or competitive applications for the iPhone, iPad and iPod touch platforms. As with applications for the Company's Mac products, the availability and development of these applications also depend on developers' perceptions and analysis of the relative benefits of developing software for the Company's products rather than its competitors' products, including devices that use competing platforms. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Company's devices may suffer.

*The Company's future operating performance depends on the performance of distributors, carriers and other resellers.*

The Company distributes its products through wholesalers, resellers, national and regional retailers, value-added resellers, and cataloguers, many of whom distribute products from competing manufacturers. The Company also sells many of its products and resells third-party products in most of its major markets directly to customers, certain education customers, cellular network carriers' distribution channels and certain resellers through its online and retail stores.

Many resellers operate on narrow operating margins and have been negatively affected in the past by weak economic conditions. Some resellers have perceived the expansion of the Company's direct sales as conflicting with their business interests as distributors and resellers of the Company's products. Such a perception could discourage resellers from investing resources in the distribution and sale of the Company's products or lead them to limit or cease distribution of those products. The Company's financial condition and operating results could be materially adversely affected if the financial condition of these resellers weakens, if resellers stopped distributing the Company's products, or if uncertainty regarding demand for the Company's products caused resellers to reduce their ordering and marketing of the Company's products. 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 could require a substantial investment while providing no assurance of return or incremental revenue.

*The Company's Retail business has required and will continue to require a substantial investment and commitment of resources and is subject to numerous risks and uncertainties.*

The Company's retail stores have required substantial fixed investment in equipment and leasehold improvements, information systems, inventory and personnel. The Company also has entered into substantial operating lease commitments for retail space, with terms ranging from five to 20 years, the majority of which are for 10 years. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company's more typical retail stores. Due to the high fixed cost structure associated with the Retail segment, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements, and severance costs that could materially adversely affect the Company's financial condition and operating results.

Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties that could materially adversely affect the Company's financial condition and operating results. These risks and uncertainties include, but are not limited to, macro-economic factors that could have a negative effect on general retail activity, as well as the Company's inability to manage costs associated with store construction and operation, inability to sell third-party products at adequate margins, failure to manage relationships with existing retail channel partners, more challenging environment in managing retail operations outside the U.S., costs associated with unanticipated fluctuations in the value of retail inventory, and inability to obtain and renew leases in quality retail locations at a reasonable cost.

*Investment in new business strategies and initiatives could disrupt the Company's ongoing business and present risks not originally contemplated.*

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, insufficient revenue to offset liabilities assumed and expenses associated with the strategy, inadequate return of capital, and unidentified issues not discovered in the Company's due diligence. Because these new ventures are inherently risky, no assurance can be given that such strategies and initiatives will be successful and will not materially adversely affect the Company's financial condition and operating results.

*The Company's products and services experience quality problems from time to time that can result in decreased sales and operating margin.*

The Company sells highly complex hardware and software products and services that can contain defects in design and manufacture. Sophisticated operating system software and applications, such as those sold by the Company, often contain "bugs" that can unexpectedly interfere with the software's intended operation. Defects may also occur in components and products the Company purchases from third parties. There can be no assurance the Company will be able to detect and fix all defects in the hardware, software and services it sells. Failure to do so could result in lost revenue, harm to reputation, and significant warranty and other expenses, and could have a material adverse impact on the Company's financial condition and operating results.

*The Company is subject to risks associated with laws, regulations and industry-imposed standards related to mobile communications and media devices.*

Laws and regulations related to mobile communications and media devices in the many jurisdictions in which the Company operates are extensive and subject to change. Such changes, which could include but are not limited to restrictions on production, manufacture, distribution, and use of the device, locking the device to a carrier's network, or mandating the use of the device on more than one carrier's network, could materially adversely affect the Company's financial condition and operating results.

Mobile communication and media devices, such as iPhones and 3G enabled iPads, are subject to certification and regulation by governmental and standardization bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications or delays in product shipment dates, which could materially adversely affect the Company's financial condition and operating results.

*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 CEO, its executive team and highly skilled employees in technical, marketing and staff positions. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in the Silicon Valley, where most of the Company's key personnel are located. The Company's CEO has taken a medical leave of absence and will continue to be involved in major strategic decisions during his leave. There can be no assurance that the Company will continue to attract and retain key personnel.

*Political events, war, terrorism, public health issues, natural disasters and other circumstances could materially adversely affect the Company.*

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a strong negative effect on the Company, its suppliers, logistics providers, manufacturing vendors and customers, including channel partners. The Company's business operations are subject to interruption by natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other events beyond its control. Such events could decrease demand for the Company's products, make it difficult or impossible for the Company to make and deliver products to its customers, including channel partners, or to receive components from its suppliers, and create delays and inefficiencies in the Company's supply chain. Should major public health issues, including pandemics, arise, the Company could be negatively affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of the Company's manufacturing vendors and component suppliers. The majority of the Company's research and development activities, its corporate headquarters, information technology systems, and other critical business operations, including certain component suppliers and manufacturing vendors, are in locations that could be affected by natural disasters. In the event of a natural disaster, losses and significant recovery time could be required to resume operations and the Company's financial condition and operating results could be materially adversely affected.

Please also refer to the discussion of risks related to the March 11, 2011, Japan earthquake and tsunami in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the subheading "Japan Earthquake and Tsunami," which is incorporated herein by reference.

*The Company may be subject to information technology system failures, network disruptions and breaches in data security.*

Information technology system failures, network disruptions and breaches of data security caused by such factors including, but not limited to, earthquakes, fire, theft, fraud, malicious attack or other causes could disrupt the Company's operations by causing delays or cancellation of customer, including channel partner, orders, negatively affecting the Company's online, iTunes, MobileMe and retail offerings and services, impeding the manufacture or shipment of products, processing transactions and reporting financial results, resulting in the unintentional disclosure of customer or Company information, or damage to the Company's reputation. While management has taken steps to address these concerns by implementing sophisticated network security and internal control measures, there can be no assurance that a system failure or loss or data security breach will not materially adversely affect the Company's financial condition and operating results.

*The Company expects its quarterly revenue and operating results to fluctuate for a variety of reasons.*

The Company's profit margins vary among its products and its distribution channels. The Company's software, accessories, and service and support contracts generally have higher gross margins than certain of the Company's other products. Gross margins on the Company's hardware products vary across product lines and can change over time as a result of product transitions, pricing and configuration changes, and component, warranty, and other cost fluctuations. The Company's direct sales generally have higher associated gross margins than its indirect sales through its channel partners. In addition, the Company's gross margin and operating margin percentages, as well as overall profitability, may be materially adversely impacted as a result of a shift in product, geographic or channel mix, new products, component cost increases, strengthening U.S. dollar, or price competition. The Company has typically experienced greater net sales in the first and fourth fiscal quarters compared to the second and third fiscal quarters due to seasonal demand related to the holiday season and the beginning of the school year, respectively. Furthermore, the Company sells more products from time-to-time during the third month of a quarter than it does during either of the first two months. Developments late in a quarter, such as lower-than-anticipated demand for the Company's products, issues with new product introductions, an internal systems failure, or failure of one of the Company's key logistics, components supply, or manufacturing partners, could have a material adverse impact on the Company's financial condition and operating results.

*The Company's stock price continues to be volatile.*

The Company's stock has at times experienced substantial price volatility due to a number of factors including, but not limited to variations between its actual and anticipated financial results, announcements by the Company and its competitors, and uncertainty about current global economic conditions. The stock market as a whole also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies' operating performance. Furthermore, the Company believes its stock price reflects high future growth and profitability expectations. If the Company fails to meet these expectations its stock price may significantly decline, which could have a material adverse impact on investor confidence and employee retention.

*The Company's business is subject to the risks of international operations.*

The Company derives a significant portion of its revenue and earnings from its international operations. Compliance with U.S. and foreign laws and regulations that apply to the Company's international operations, including without limitation import and export requirements, anti-corruption laws, tax laws (including U.S. taxes on foreign subsidiaries), foreign exchange controls and cash repatriation restrictions, data privacy requirements, labor laws, and anti-competition regulations, increases the costs of doing business in foreign jurisdictions, and any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation. Furthermore, the Company has implemented policies and procedures designed to ensure compliance with these 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. Any such violations could individually or in the aggregate materially adversely affect the Company's financial condition or operating results.

The Company's financial condition and operating results also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs, political instability, and changes in the value of the U.S. dollar versus local currencies. Margins on sales of the Company's products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including duties, tariffs and antidumping penalties. Additionally, the Company is exposed to credit and collectability risk on its trade receivables with customers in certain international markets. There can be no assurance it can effectively limit its credit risk and avoid losses, which could materially adversely affect the Company's financial condition and operating results.

The Company's primary exposure to movements in foreign currency exchange rates relate to non-U.S. dollar denominated sales in Europe, Japan, Australia, Canada and certain parts of Asia, as well as non-U.S. dollar denominated operating expenses incurred throughout the world. Weakening of foreign currencies relative to the U.S. dollar will adversely affect the U.S. dollar value of the Company's foreign currency-denominated sales and earnings, and generally will lead the Company to raise international pricing, potentially reducing demand for the Company's products. In some circumstances, due to competition or other reasons, the Company may decide not to raise local prices to the full extent of the dollar's strengthening, or at all, which would adversely affect the U.S. dollar value of the Company's foreign currency denominated sales and earnings. Conversely, a strengthening of foreign currencies, 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 also increase the Company's cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Company has used 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 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 market values of its investment portfolio.*

Although the Company has not recognized any significant losses to date on its cash, cash equivalents and marketable securities, any significant future declines in their market values could materially adversely affect the Company's financial condition and operating results. Given the global nature of its business, the Company has investments both domestically and internationally. Credit ratings and pricing of these investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, or other factors. As a result, the value or liquidity of the Company's cash, cash equivalents and marketable securities could decline and result in a material impairment, which could materially adversely affect 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. This risk is heightened during periods when economic conditions worsen.*

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and value-added resellers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. The Company's exposure to credit and collectability risk on its trade receivables are increased in certain international markets and its ability to mitigate such risks may be limited. Cellular network carriers accounted for a significant portion of the Company's trade receivables as of March 26, 2011. 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. Two vendors accounted for a significant portion of the Company's non-trade receivables as of March 26, 2011. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of certain inventory components. 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, which could materially adversely affect the Company's financial condition and operating results.

*Unfavorable results of legal proceedings could materially adversely affect the Company.*

The Company is subject to various legal proceedings and claims that have arisen out of the ordinary conduct of its business and are not yet resolved and additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of merit, litigation may be both time-consuming and disruptive to the Company's operations and cause significant expense and diversion of management attention. In recognition of these considerations, the Company may enter into material settlements. Should the Company fail to prevail in certain matters, or should several of these matters be resolved against the Company in the same reporting period, the Company may be faced with significant compensatory, punitive or trebled monetary damages, disgorgement of revenues or profits, remedial corporate measures or injunctive relief against it that would materially adversely affect a portion of its business and might materially affect the Company's financial condition and operating results.

*The Company is subject to risks associated with laws and regulations related to health, safety and environmental protection.*

The Company's products and services, and the production and distribution of those goods and services, are subject to a variety of laws and regulations. These may require the Company to offer customers the ability to return a product at the end of its useful life and place responsibility for environmentally safe disposal or recycling with the Company. Such laws and regulations have been passed in several jurisdictions in which the Company operates, including various countries within Europe and Asia and certain states and provinces within North America. Although the Company does not anticipate any material adverse effects based on the nature of its operations and the focus of such laws, there is no assurance such existing laws or future laws will not materially adversely affect the Company's financial condition and operating results.

*Changes in the Company's tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities could affect its future results.*

The Company is subject to taxes in the United States and numerous foreign jurisdictions. The Company's future 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, or changes in tax laws or their interpretation. In addition, the current administration and Congress have announced proposals for new U.S. tax legislation that, if adopted, could adversely affect the Company's tax rate. Any of these changes could have a material adverse effect on the Company's profitability. The Company is also subject to the continual examination of its income tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance that the outcomes from these examinations will not materially adversely affect the Company's financial condition and operating results.

*The Company is subject to risks associated with the availability and coverage of insurance.*

For certain risks, the Company does not maintain insurance coverage because of cost and/or availability. Because the Company retains some portion of its insurable risks, and in some cases self-insures completely, unforeseen or catastrophic losses in excess of insured limits could materially adversely affect the Company's financial condition and operating results.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information**

(a) The Board of Directors amended the Bylaws of the Company, effective April 20, 2011, to clarify that the bylaws governing advance notice requirements for shareholder business and nominations shall not be deemed to affect any rights of shareholders to request inclusion of proposals or nominations in the Company's proxy statement pursuant to Rule 14a-8 promulgated under the Act.

A copy of the Amended Bylaws, effective April 20, 2011, is filed hereto as Exhibit 3.2 and is incorporated herein by reference.

**Item 6. Exhibits****(a) Index to Exhibits**

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>	
		<u>Form</u>	<u>Filing Date/Period End Date</u>
3.1	Restated Articles of Incorporation, filed with the Secretary of State of the State of California on July 10, 2009.	10-Q	6/27/09
3.2**	Bylaws of the Registrant, as amended through April 20, 2011.		
4.1	Form of Stock Certificate of the Registrant.	10-Q	12/30/06
10.1*	Employee Stock Purchase Plan, as amended through March 8, 2010.	10-Q	3/27/10
10.2*	Form of Indemnification Agreement between the Registrant and each director and executive officer of the Registrant.	10-Q	6/27/09
10.3*	1997 Director Stock Plan, as amended through February 25, 2010.	8-K	3/1/10
10.4*	2003 Employee Stock Plan, as amended through February 25, 2010.	8-K	3/1/10
10.5*	Reimbursement Agreement dated as of May 25, 2001 by and between the Registrant and Steven P. Jobs.	10-Q	6/29/02
10.6*	Form of Option Agreement.	10-K	9/24/05
10.7*	Form of Restricted Stock Unit Award Agreement effective as of August 28, 2007.	10-K	9/29/07
10.8*	Form of Restricted Stock Unit Award Agreement effective as of November 11, 2008.	10-Q	12/27/08
10.9*	Form of Restricted Stock Unit Award Agreement effective as of November 16, 2010.	10-Q	12/25/10
14.1	Business Conduct Policy of the Registrant dated July 2010.	10-K	9/25/10
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.		
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.		
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.		
101.INS****	XBRL Instance Document		
101.SCH****	XBRL Taxonomy Extension Schema Document		
101.CAL****	XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF****	XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB****	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE****	XBRL Taxonomy Extension Presentation Linkbase Document		

\* Indicates management contract or compensatory plan or arrangement.

\*\* Filed herewith.

\*\*\* Furnished herewith.

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

**SIGNATURE**

Pursuant to the requirements 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.

April 21, 2011

APPLE INC.

By: /s/ Peter Oppenheimer

Peter Oppenheimer  
Senior Vice President,  
Chief Financial Officer

**AMENDED BYLAWS  
OF  
APPLE INC.  
(as of April 20, 2011)**

**APPLE INC.**  
**AMENDED BYLAWS**  
**ARTICLE I**  
**CORPORATE OFFICES**

**1.1 Principal Office**

The Board of Directors shall fix the location of the principal executive office of Apple Inc. (the “Corporation”) at any place within or outside the State of California. If the principal executive office is located outside California and the Corporation has one or more business offices in California, then the Board of Directors shall fix and designate a principal business office in California.

**1.2 Other Offices**

The Board of Directors may at any time establish branch or subordinate offices at any place or places.

**ARTICLE II**  
**DIRECTORS**

**2.1 Powers**

Subject to the provisions of the California Corporation Code (the “Code”), any limitations in the Restated Articles of Incorporation (the “Articles of Incorporation”) and these Amended Bylaws (these “Bylaws”) relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised under the direction of the Board of Directors. The Board of Directors may delegate the management of the day-to-day operation of the business of the Corporation to a management company or other person provided that the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board of Directors.

**2.2 Number**

The number of directors of the Corporation shall be not less than five (5) nor more than nine (9). The exact number of directors shall be eight (8) until changed within the limits specified above, by a bylaw amending this Section 2.2, duly adopted by the Board of Directors or by the shareholders. The indefinite number of directors may be changed, or a definite number fixed without provision for an indefinite number, by a duly adopted amendment to the Articles of Incorporation or by amendment to these Bylaws duly adopted by the vote or written consent of holders of a majority of the outstanding

shares entitled to vote; provided, however, that an amendment reducing the fixed number or the minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting of the shareholders, or the shares not consenting in the case of action by written consent, are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote. No amendment may change the stated maximum number of authorized directors to a number greater than two times the stated minimum number of directors minus one.

### **2.3 Compensation**

Directors and members of committees may receive such compensation, if any, for their services, and may be reimbursed for expenses, as fixed or determined by resolution of the Board of Directors. This Section 2.3 shall not be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation for those services.

### **2.4 Election and Term of Office**

Each director shall be elected to serve until the annual meeting of shareholders held in the following fiscal year and until his or her successor shall have been duly elected and qualified.

### **2.5 Vacancies and Resignations**

(a) A vacancy or vacancies on the Board of Directors shall be deemed to exist (i) in the event of the death, resignation or removal of any director, (ii) if the authorized number of directors is increased, (iii) if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be elected at that meeting or (iv) if the Board of Directors declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony.

(b) Except for a vacancy caused by the removal of a director as provided in Section 2.7 of these Bylaws, a vacancy may be filled (i) by a person selected by a majority of the remaining directors then in office, whether or not less than a quorum or (ii) by a sole remaining director. Vacancies created by the removal of a director shall be filled only by the affirmative vote of shares holding a majority of the voting power represented and voting a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute a least a majority of the voting power required to constitute a quorum), or by the unanimous written consent of all shares entitled to vote thereon.

(c) The shareholders may elect a director at any time to fill a vacancy or vacancies not filled by the directors, but any such election by written consent, other than to fill a vacancy created by removal, shall require the consent of shares holding a majority of the voting power that are entitled to vote thereon. A director may not be elected by written consent to fill a vacancy created by removal except by unanimous consent of all shares entitled to vote for the election of directors.

(d) Any director may resign effective upon giving written notice to the General Counsel and Secretary of the Corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation of a director is effective at a future time, the Board of Directors may elect a successor to take office when the resignation becomes effective. A reduction of the authorized number of directors shall not remove any director prior to the expiration of such director's term of office.

### **2.6 *Chairman of the Board and Lead Directors***

The Corporation may have at the discretion of the Board of Directors, a Chairman of the Board of Directors and/or one or more Lead Directors. The Chairman of the Board of Directors, if there be one, or a Lead Director, shall have the power to preside at all meetings of the Board of Directors and shall have such other powers and shall be subject to such other duties as the Board of Directors may from time to time prescribe or as may be prescribed by these Bylaws. If there is more than one Lead Director, the Board of Directors may prescribe different responsibilities to each Lead Director.

### **2.7 *Removal***

The entire Board of Directors or any individual director may be removed without cause from office by an affirmative vote of a majority of the outstanding shares entitled to vote; provided that, unless the entire Board of Directors is removed, no director shall be removed when the votes cast against removal, or not consenting in writing to such removal, would be sufficient to elect such director if voted cumulatively (without regard to whether such shares may be voted cumulatively) at an election at which the same total number of votes were cast, or, if such action is taken by written consent, all shares entitled to vote were voted, and either the number of directors elected at the most recent annual meeting of shareholders, or if greater, the number of directors for whom removal is being sought, were then being elected. If any or all directors are so removed, new directors may be elected at the same meeting or at a subsequent meeting. If at any time a class or series of shares is entitled to elect one or more directors under authority granted by the Articles of Incorporation, the provisions of this Section 2.7 shall apply to the vote of that class or series and not to the vote of the outstanding shares as a whole.

## **ARTICLE III**

### **OFFICERS**

#### **3.1 *Officers***

The officers of the Corporation shall be a Chief Executive Officer or a President, a Secretary and a Chief Financial Officer. The Corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board of Directors, one or more Lead Directors, one or more Vice Presidents, a Treasurer, one or more Assistant Secretaries and one or more Assistant Treasurers and such officers as may be appointed in accordance with the provisions of Section 3.3 of these Bylaws. Any number of offices may be held by the same person.

### **3.2 Appointment of Officers**

The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 3.3 of these Bylaws, shall be chosen by the Board of Directors and serve at the pleasure of the Board of Directors, subject to the rights, if any, of an officer under any contract of employment.

### **3.3 Subordinate Officers**

The Board of Directors may appoint, or may empower the Chairman of the Board of Directors, a Lead Director, the Chief Executive Officer or the President to appoint such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

### **3.4 Term of Office and Compensation**

The term of office and salary of each of said officers and the manner and time of the payment of such salaries shall be fixed and determined by the Board of Directors and may be altered by the Board of Directors from time to time at its pleasure, subject to the rights, if any, of an officer under any contract of employment.

### **3.5 Removal or Resignation**

(a) Subject to the rights, if any, of an officer under any contract of employment, all officers serve at the pleasure of the Board of Directors and any officer may be removed, either with or without cause, by the Board of Directors at any regular or special meeting of the Board of Directors, or, except in the case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

(b) Any officer may resign at any time upon written notice to the Corporation, without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice, and, unless otherwise necessary to make it effective, the acceptance of the resignation shall not be necessary to make it effective.

### **3.6 Vacancies**

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed by these Bylaws for regular appointments to that office.

### **3.7 Chief Executive Officer**

The powers and duties of the Chief Executive Officer are:

(a) To act as the general manager and chief executive officer of the Corporation and, subject to the control of the Board of Directors, to have general supervision, direction and control of the business and affairs of the Corporation.

(b) To preside at all meetings of the shareholders and, in the absence of the Chairman of the Board of Directors and a Lead Director or if there be no Chairman of the Board of Directors or Lead Director, at all meetings of the Board of Directors.

(c) To call meetings of the shareholders and meetings of the Board of Directors to be held at such times and, subject to the limitations prescribed by law or by these Bylaws, at such places as he or she shall deem proper.

(d) To affix the signature of the Corporation to all deeds, conveyances, mortgages, leases, obligations, bonds, certificates and other papers and instruments in writing which have been authorized by the Board of Directors or which, in the judgment of the Chief Executive Officer, should be executed on behalf of the Corporation; to sign certificates for shares of stock of the Corporation; and, subject to the direction of the Board of Directors, to have general charge of the property of the Corporation and to supervise and control all officers, agents and employees of the Corporation.

### **3.8 *President***

The powers and duties of the President are:

(a) To act as the general manager of the Corporation and, subject to the control of the Board of Directors, to have general supervision, direction and control of the business and affairs of the Corporation.

(b) To preside at all meetings of the shareholders and, in the absence of the Chairman of the Board of Directors, a Lead Director and the Chief Executive Officer or if there be no Chairman of the Board of Directors, Lead Director or Chief Executive Officer, at all meetings of the Board of Directors.

(c) To affix the signature of the Corporation to all deeds, conveyances, mortgages, leases, obligations, bonds, certificates and other papers and instruments in writing which have been authorized by the Board of Directors or which, in the judgment of the President, should be executed on behalf of the Corporation; to sign certificates for shares of stock of the Corporation; and, subject to the direction of the Board of Directors, to have general charge of the property of the Corporation and to supervise and control all officers, agents and employees of the Corporation.

### **3.9 *President Pro Tem***

If neither the Chairman of the Board of Directors, any Lead Director, the Chief Executive Officer, the President, nor any Vice President is present at any meeting of the Board of Directors, a President pro tem may be chosen to preside and act at such meeting. If neither the Chief Executive Officer, the President nor any Vice President is present at

any meeting of the shareholders, a President pro tem may be chosen to preside at such meeting.

### **3.10 Vice President**

The titles, powers and duties of the Vice President or Vice Presidents shall be prescribed by the Board of Directors. In case of the absence, disability or death of the Chief Executive Officer, the President, the Vice President, or one of the Vice Presidents, shall exercise all his or her powers and perform all his or her duties. If there is more than one Vice President, the order in which the Vice Presidents shall succeed to the powers and duties of the Chief Executive Officer or President shall be as fixed by the Board of Directors.

### **3.11 Secretary**

The powers and duties of the Secretary are:

(a) To keep a book of minutes at the principal executive office of the Corporation, or such other place as the Board of Directors may order, of all meetings of its directors and shareholders with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at shareholders' meetings and the proceedings thereof.

(b) To keep the seal of the Corporation and to affix the same to all instruments which may require it.

(c) To keep or cause to be kept at the principal executive office of the Corporation, or at the office of the transfer agent or agents, a record of the shareholders of the Corporation, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder, the number and date of any certificates issued for shares, appropriate records with respect to uncertificated shares issued, the number and date of cancellation of every certificate surrendered for cancellation and the number and date of every replacement certificate or the appropriate records for uncertificated shares issued for lost, stolen or destroyed certificates.

(d) To keep a supply of certificates for shares of the Corporation, to fill and sign in all certificates issued or prepare the initial transaction statement or written statements for uncertificated shares, and to make a proper record of each such issuance; provided that so long as the Corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the Corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents.

(e) To transfer upon the share books of the Corporation or in accordance with a direct registration program as provided in Section 7.4(b) of these Bylaws any and all shares of the Corporation; provided that so long as the Corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of

shares, of the Corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents, and the method of transfer of each share shall be subject to the reasonable regulations of the transfer agent to which the shares are presented for transfer and, also, if the Corporation then has one or more duly appointed and acting registrars, subject to the reasonable regulations of the registrar to which a new certificate or a new issuance of shares is presented for registration; and provided, further, that no shares shall be issued, recorded or delivered or, if issued, recorded or delivered, shall have any validity whatsoever until and unless it has been signed or authenticated, as applicable, in the manner provided in Section 7.4 of these Bylaws.

(f) To make service and publication of all notices that may be necessary or proper and without command or direction from anyone. In case of the absence, disability, refusal or neglect of the Secretary to make service or publication of any notices, then such notices may be served and/or published by the Chief Executive Officer, the President or a Vice President, or by any person thereunto authorized by either of them or by the Board of Directors or by the holders of a majority of the outstanding shares of the Corporation.

(g) Generally to do and perform all such duties as pertain to such office and as may be required by the Board of Directors or these Bylaws.

### **3.12 Chief Financial Officer**

The powers and duties of the Chief Financial Officer are:

(a) To supervise and control the keeping and maintaining of adequate and correct accounts of the Corporation's properties and business transactions, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and shares. The books of account shall at all reasonable times be open to inspection by any director.

(b) To have the custody of all funds, securities, evidences of indebtedness and other valuable documents of the Corporation and, at his or her discretion, to cause any or all thereof to be deposited for the account of the Corporation with such depository as may be designated from time to time by the Board of Directors.

(c) To receive or cause to be received, and to give or cause to be given, receipts and acquittances for moneys paid in for the account of the Corporation.

(d) To disburse, or cause to be disbursed, all funds of the Corporation as may be directed by the Chief Executive Officer, the President or the Board of Directors, taking proper vouchers for such disbursements.

(e) To render to the Chief Executive Officer, the President or to the Board of Directors, whenever either may require, accounts of all transactions as Chief Financial Officer and of the financial condition of the Corporation.

(f) Generally to do and perform all such duties as pertain to such office and as may be required by the Board of Directors or these Bylaws.

### **3.13 Officers Appointed by Chief Executive Officer**

(a) The Chief Executive Officer of the Corporation shall have the power, in the exercise of his or her discretion, to appoint additional persons to hold positions and titles such as vice president of the Corporation or a division of the Corporation or president of a division of the Corporation, or similar such titles, as the business of the Corporation may require, subject to such limits in appointment power as the Board of Directors may determine. The Board of Directors shall be advised of any such appointment at a meeting of the Board of Directors, and the appointment shall be noted in the minutes of the meeting. The minutes shall clearly state that such persons are non-corporate officers appointed pursuant to this Section 3.13.

(b) Each such appointee shall have such title, shall serve in such capacity and shall have such authority and perform such duties as the Chief Executive Officer shall determine. Appointees may hold titles such as “president” of a division or other group within the Corporation, or “vice president” of the Corporation or of a division or other group within the Corporation. However, any such appointee, absent specific election by the Board of Directors as an elected corporate officer, (i) shall not be considered an officer elected by the Board of Directors pursuant to this Article III and shall not have the executive powers or authority of corporate officers elected pursuant to this Article III, (ii) shall not be considered (a) an “officer” of the Corporation for the purposes of Rule 3b-2 promulgated under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the “Exchange Act”) or an “executive officer” of the Corporation for the purposes of Rule 3b-7 promulgated under the Exchange Act, and similarly shall not be considered an “officer” of the Corporation for the purposes of Section 16 of the Exchange Act (as such persons shall not be given the access to inside information of the Corporation enjoyed by officers of the Corporation) or an “executive officer” of the Corporation for the purposes of Section 14 of the Exchange Act or (b) a “corporate officer” for the purposes of Section 312 of the Code, except in any such case as otherwise required by law, and (iii) shall be empowered to represent himself or herself to third parties as an appointed vice president, etc., only, and shall be empowered to execute documents, bind the Corporation or otherwise act on behalf of the Corporation only as authorized by the Chief Executive Officer or the President or by resolution of the Board of Directors.

(c) An elected officer of the Corporation may also serve in an appointed capacity hereunder.

**ARTICLE IV**  
**COMMITTEES**

**4.1**    *Committees of the Board of Directors*

The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two (2) or more directors, to serve at the pleasure of the Board of Directors. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee shall have authority to act in a manner and to the extent provided in the resolution of the Board of Directors and may have all the authority of the Board of Directors, except with respect to:

- (a) the approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares;
- (b) the filling of vacancies on the Board of Directors or in any committee;
- (c) the fixing of compensation of the director for serving on the Board of Directors or on any committee;
- (d) the amendment or repeal of these Bylaws or the adoption of new bylaws;
- (e) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
- (f) a distribution to the shareholders of the Corporation, except at a rate, in a periodic amount or within a price range set forth in the Articles of Incorporation or determined by the Board of Directors; and
- (g) the appointment or designation of any other committee of the Board of Directors or the members thereof.

**ARTICLE V**  
**MEETINGS OF SHAREHOLDERS**

**5.1**    *Place of Meetings*

(a) Meetings (whether regular, special or adjourned) of the shareholders of the Corporation shall be held at the principal executive office for the transaction of business of the Corporation, or at any place within or without the State which may be designated by written consent of all the shareholders entitled to vote thereat, or which may be designated by resolution of the Board of Directors. Any meeting shall be valid wherever

held if held by the written consent of all the shareholders entitled to vote thereat, given either before or after the meeting and filed with the Secretary.

(b) A meeting of the shareholders may be conducted in whole or in part, by electronic transmission by and to the Corporation or by electronic video screen communication if:

(i) the Corporation implements reasonable measures to provide shareholders (in person or by proxy) a reasonable opportunity to participate in the meeting and to vote on matters submitted to the shareholders; and

(ii) the Corporation maintains a record of the vote or action and any shareholder votes or other shareholder action is taken at the meeting by means of electronic transmission to the Corporation or electronic video screen communication.

Any request by the Corporation to a shareholder under Section 20(b) of the Code for consent to conduct a meeting of shareholders by electronic transmission must include a notice that absent consent of the shareholder, the meeting will be held at a physical location.

## **5.2 Annual Meetings**

An annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors. The annual meeting shall be held for the purpose of electing directors and for making reports of the affairs of the Corporation. Any other proper business may be transacted at the annual meeting of shareholders.

## **5.3 Special Meetings**

Special meetings of the shareholders for any purpose or purposes whatsoever may be called at any time by the President or by the Board of Directors, or by two or more members thereof, 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 Section 5.9 of these Bylaws. Upon request in writing sent by registered mail to the Chief Executive Officer, President, Vice President or Secretary, or delivered to any such officer in person, by any person or persons entitled to call a special meeting of shareholders (such request, if sent by a shareholder or shareholders, to include the information required by Section 5.14 of these Bylaws), it shall be the duty of such officer, subject to the immediately succeeding sentence, to cause notice to be given to the shareholders entitled to vote that a meeting will be requested by the person or persons calling the meeting, the date of which meeting, which shall be set by such officer, to be not less than thirty-five (35) days nor more than sixty (60) days after such request or, if applicable, determination of the validity of such request pursuant to the immediately succeeding sentence. Within seven (7) days after receiving such a written request from a shareholder or shareholders of the Corporation, the Board of Directors shall determine whether shareholders owning not less than ten percent (10%) of the shares as of the record date established pursuant to Section 5.9 of these Bylaws for such request support the call of a special meeting and notify the requesting party or parties of its finding. Nothing contained in this paragraph of this

Section 5.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board of Directors may be held.

#### **5.4     *Notice of Meetings***

Notice of any meeting of shareholders shall be given in writing not less than ten (10) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat by the Secretary or an Assistant Secretary, or other person charged with that duty, or if there be no such officer or person, or in case of his or her neglect or refusal, by any director or shareholder. The notice shall state the place, date and hour of the meeting and (a) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (b) in the case of the annual meeting, those matters which the Board of Directors, at the time of the mailing of the notice, intends to present for action by the shareholders, but any proper matter may be presented at the meeting for such action except as otherwise provided by Section 601(f) of the Code. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by management for election. If the meeting is to be held in whole or in part by electronic transmission, the notice shall state the means of electronic transmission by and to the Corporation to electronic video screen communication, if any, by which shareholders may participate in the meeting.

#### **5.5     *Manner of Giving Notice; Affidavit of Notice***

Written notice shall be given by the Corporation to any shareholder, either (a) personally or (b) by mail or other means of written communication (including electronic transmission by the Corporation), charges prepaid, addressed to such shareholder at such shareholder's physical or electronic address appearing on the books of the Corporation or given by such shareholder to the Corporation for the purpose of notice. If a shareholder gives no address or no such address appears on the books of the Corporation, notice shall be deemed to have been given if sent by mail or other means of written communication addressed to the place where the principal executive office of the Corporation is located, or if published at least once in a newspaper of general circulation in the county in which such office is located. The notice shall be deemed to have been given at the time when delivered personally or deposited in the United States mail, postage prepaid, or sent by other means of written communication and addressed as hereinbefore provided. An affidavit of delivery or mailing, or other authorized means of transmitting, of any notice in accordance with the provisions of this Section 5.5, executed by the Secretary, Assistant Secretary or any transfer agent, shall be prima facie evidence of the giving of the notice. If any notice addressed to the shareholder at the address of such shareholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at such address, all future notices shall be deemed to have been duly given without further mailing if the same shall be available for the shareholder upon written demand of the shareholder at the principal executive office of the Corporation for a period of one year from the date of the giving of the notice to all other shareholders. Notice shall not be given by electronic transmission by the Corporation after either one of

the following: (i) the Corporation is unable to deliver two consecutive notices to the shareholder by that means or (ii) the inability to so deliver such notices to the shareholder becomes known to the Secretary, any Assistant Secretary, the transfer agent, or other person responsible for the giving of the notice.

#### **5.6 *Consent to Shareholders' Meetings***

The transactions of any meeting of shareholders, however called and noticed, and wherever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the shareholders entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law to be included in the notice but not so included, if such objection is expressly made at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of shareholders need be specified in any written waiver of notice, except as to approval of contracts between the Corporation and any of its directors, amendment of the Articles of Incorporation, reorganization of the Corporation or winding up the affairs of the Corporation.

#### **5.7 *Quorum***

The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of shareholders shall constitute a quorum for the transaction of business. Shares shall not be counted to make up a quorum for a meeting if voting of such shares at the meeting has been enjoined or for any reason they cannot be lawfully voted at the meeting. The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

#### **5.8 *Adjourned Meetings***

Any shareholders' meeting, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but, except as provided in Section 5.7 of these Bylaws, in the absence of a quorum, no other business may be transacted at such meeting. When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if its time and place (or the means of electronic transmission by and to the Corporation or electronic video screen communication, if any, by which the shareholders may participate) are

announced at the meeting at which the adjournment is taken. When a meeting is adjourned for more than forty-five (45) days or if after adjournment a new record date is fixed for the adjourned meeting, a notice of the time and place adjourned meeting shall be given to each shareholder of record entitled to vote at a meeting. At any adjourned meeting the shareholders may transact any business which might have been transacted at the original meeting.

#### **5.9 Record Date for Shareholder Notice; Voting; Giving Consents**

(a) In order that the Corporation may determine the shareholders entitled to notice of any meeting or to vote, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of such meeting nor more than sixty (60) days before any other action. Only shareholders of record at the close of business on the record date are entitled to notice of, and to vote at, a meeting of shareholders, notwithstanding any transfer of any shares on the books or the Corporation after the record date, except as otherwise provided by in the Articles of Incorporation or the Code. In the absence of any contrary provision in the Articles of Incorporation or in any applicable statute relating to the election of directors or to other particular matters, each such person shall be entitled to one vote for each share.

(b) A determination of the shareholders of record entitled to notice of, and to vote at, a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, but the Board of Directors shall fix a new record date if the meeting is adjourned for more than forty-five (45) days from the date set for the original meeting.

(c) If the Board of Directors does not so fix a record date:

(i) the record date for determining shareholder entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(ii) the record date for determining shareholders entitled to given consent to corporate action in writing without a meeting (1) when no prior action by the Board of Directors has been taken, shall be the day on which the first written consent is given, or (2) when prior action by the Board of Directors has been taken, shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto, or the sixtieth (60<sup>th</sup>) day prior to the date of such other action, whichever is later.

#### **5.10 Action by Written Consent**

(a) Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to

authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

(b) If the consents of all shareholders entitled to vote have not been solicited in writing, the Secretary shall give prompt notice of any corporate action approved by the shareholders without a meeting by less than unanimous written consent to those shareholders entitled to vote who have not consented in writing. Such notice shall be given in the manner specified in Section 5.5 of these Bylaws and applicable law.

(c) In the case of approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Code, (ii) an amendment of the Articles of Incorporation, pursuant to Section 902 of the Code, (iii) a reorganization of the Corporation, pursuant to Section 1201 of the Code, (iv) a voluntary dissolution of the Corporation pursuant to Section 1900 of the Code or (v) a distribution in dissolution other than in accordance with the rights of any outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval, unless the consents of all shareholders entitled to vote have been solicited in writing.

(d) When written consents are given with respect to any shares, they shall be given by and accepted from the persons in whose names such shares stand on the books of the Corporation at the time such respective consents are given, or any shareholder's proxy holder, or a transferee of the shares or a personal representative of the shareholder or their respective proxy holders, may revoke the consent by a writing received by the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary, but may not do so thereafter. Such revocation is effective upon its receipt by the Secretary.

(e) Notwithstanding anything to the contrary, directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors; provided that the shareholders may elect a director to fill a vacancy not filled by the Board of Directors, other than a vacancy created by removal, by the written consent of a majority of the outstanding shares entitled to vote.

#### ***5.11 Election of Directors***

In any election of directors, 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 are elected; votes against the directors and votes withheld with respect to the election of the directors shall have no legal effect. Elections of directors need not be by ballot except upon demand made by a shareholder at the meeting and before the voting begins.

#### ***5.12 Proxies***

(a) Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or such person's duly authorized agent and filed with the Secretary. No

proxy shall be valid (a) after revocation thereof, unless the proxy is specifically made irrevocable and otherwise conforms to this Section 5.12 and applicable law, or (b) after the expiration of eleven (11) months from the date thereof, unless the person executing it specifies therein the length of time for which such proxy is to continue in force. Revocation may be effected by a writing delivered to the Secretary stating that the proxy is revoked or by a subsequent proxy executed by, or by attendance at the meeting and voting in person by, the person executing the proxy. A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, a written notice of such death or incapacity is received by the Corporation.

(b) A proxy which states that it is irrevocable is irrevocable for the period specified therein when it is held by any of the following or a nominee of any of the following: (i) a pledgee, (ii) a person who has purchased or agreed to purchase or holds an option to purchase the shares or a person who has sold a portion of such person's shares in the Corporation to the maker of the proxy, (iii) a creditor or creditors of the Corporation or the shareholder who extended or continued credit to the Corporation or the shareholder in consideration of the proxy if the proxy states that it was given in consideration of such extension or continuation of credit and the name of the person extending or continuing the credit, (iv) a person who has contracted to perform services as an employee of the Corporation, if a proxy is required by the contract of employment and if the proxy states that it was given in consideration of such contract of employment, the name of the employee and the period of employment contracted for, (v) a person designated by or under a close corporation shareholder agreement or a voting trust agreement. In addition, a proxy may be made irrevocable if it is given to secure the performance of a duty or to protect a title, either legal or equitable, until the happening of events which, by its terms, discharge the obligation secured by it.

Notwithstanding the period of irrevocability specified, the proxy becomes revocable when the pledge is redeemed, the option or agreement to purchase is terminated or the seller no longer owns any shares of the Corporation or dies, the debt of the Corporation or the shareholder is paid, the period of employment provided for in the contract of employment has terminated or the close corporation shareholder agreement or the voting trust agreement has terminated. In addition, a proxy may be revoked, notwithstanding a provision making it irrevocable, by a purchaser of shares without knowledge of the existence of the provision unless the existence of the proxy and its irrevocability appears on the certificate representing such shares or, in the case of uncertificated shares, on the initial transaction statement and written statements. Every form of proxy or written consent, which provides an opportunity to specify approval or disapproval with respect to any proposal, shall also contain an appropriate space marked "abstain", whereby a shareholder may indicate a desire to abstain from voting his or her shares on the proposal. A proxy marked "abstain" by the shareholder with respect to a particular proposal shall not be voted either for or against such proposal. In any election of directors, any form of proxy in which the directors to be voted upon are named therein as candidates and which is marked by a shareholder "withhold" or otherwise marked in a manner indicating that the authority to vote for the election of directors is withheld shall not be voted either for or against the election of a director.

### **5.13 *Inspectors of Elections***

Before any meeting of shareholders, the Board of Directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the Chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the Chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy. These inspectors shall:

(a) determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) receive votes, ballots, or consents;

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) count and tabulate all votes or consents;

(e) determine when the polls shall close;

(f) determine the result; and

(g) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

### **5.14 *Advance Notice of Shareholder Business and Nominations***

(a) Annual Meetings of Shareholders.

(i) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders only (a) pursuant to the Corporation's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board of Directors or any duly authorized committee thereof, or (c) by any shareholder of the Corporation who was a shareholder of record of the Corporation at the time the notice provided for in this Section 5.14 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting, and who complies with the notice procedures set forth in this Section 5.14.

(ii) For nominations or other business to be properly brought before an annual meeting of shareholders by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation and any such

proposed business must constitute a proper matter for shareholder action under the Code. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than sixty (60) days after such anniversary date, notice by the shareholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting of shareholders commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. To be in proper written form, a shareholder's notice to the Secretary (whether pursuant to this Section 5.14(a)(ii) or Section 5.14(b)) must set forth:

(A) as to each person, if any, whom the shareholder proposes to nominate for election as a director (x) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Exchange Act and (y) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected;

(B) if the notice relates to any business (other than the nomination of persons for election as directors) that the shareholder proposes to bring before the meeting, (w) a brief description of the business desired to be brought before the meeting, (x) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), (y) the reasons for conducting such business at the meeting, and (z) any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and

(C) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (w) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner, (x) the class or series and number of shares of capital stock of the Corporation that are, directly or indirectly, owned beneficially and of record by such shareholder and by such beneficial owner, (y) any derivative positions with respect to shares of capital stock of the Corporation held or beneficially held by or on behalf of such shareholder and by or on behalf of such beneficial owner, the extent to which any hedging or other transaction or series of transactions has been entered into with respect to the shares of capital stock of the Corporation by or on behalf of such shareholder and by or on behalf of such beneficial owner, and the extent to which any other agreement, arrangement or understanding has been made, the effect or intent of which is to increase or decrease the voting power of such shareholder and such beneficial owner with respect

to shares of capital stock of the Corporation, (z) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (aa) a representation whether the shareholder or the beneficial owner, if any, intends or is part of a group that intends (bb) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee or (cc) otherwise to solicit proxies from shareholders in support of such proposal or nomination.

The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine (x) the eligibility of such proposed nominee to serve as a director of the Corporation, and (y) whether such nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the Corporation.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 5.14 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this Section 5.14 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or any duly authorized committee thereof or (2) provided that the Board of Directors or any duly authorized committee thereof has determined that directors shall be elected at such meeting, by any shareholder of the Corporation who is a shareholder of record at the time the notice provided for in this Section 5.14 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election, and who complies with the notice procedures set forth in this Section 5.14. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the shareholder's notice in the same form as required by paragraph (a)(ii) of this Section 5.14 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close

of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above.

(c) General.

(i) Only such persons who are nominated in accordance with the procedures set forth in this Section 5.14 shall be eligible to be elected at an annual or special meeting of shareholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 5.14. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (A) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 5.14 and (B) if any proposed nomination or business was not made or proposed in compliance with this Section 5.14, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 5.14, unless otherwise required by law, if the shareholder (or a qualified representative of the shareholder) does not appear at the annual or special meeting of shareholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be considered, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 5.14, to be considered a qualified representative of the shareholder, a person must be authorized by a writing executed by such shareholder or an electronic transmission delivered by such shareholder to act for such shareholder as proxy at the meeting of shareholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of shareholders.

(ii) For purposes of this Section 5.14, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act.

(iii) Nothing in this Section 5.14 shall be deemed to affect any rights (a) of shareholders to request inclusion of proposals or nominations in the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor thereto) promulgated under the Exchange Act (and any proposal included in the Corporation's proxy statement pursuant to such Rule shall not be subject to any of the advance notice requirements in this Section 5.14) or (b) of the holders of any series of Preferred Stock to nominate and elect directors pursuant to and to the extent provided in any applicable provisions of the certificate of incorporation.

**ARTICLE VI**  
**MEETINGS OF DIRECTORS**

**6.1 Place of Meetings**

Meetings (whether regular, special or adjourned) of the Board of Directors shall be held at the principal office of the Corporation for the transaction of business, as specified in accordance with Section 1.1 of these Bylaws, or at any other place within or without the State which has been designated from time to time by resolution of the Board or which is designated in the notice of the meeting. Any meeting (whether regular, special or adjourned) may be held by conference telephone, electronic video screen communication or electronic communication by and to the Corporation. Participation in a meeting through the use of conference telephone or electronic video screen communication pursuant to this Section 6.1 constitutes presence in person at that meeting so long as all members participating in the meeting are able to hear one another. Participation in a meeting through electronic transmission by and to the Corporation (other than conference telephone and electronic video screen communication), pursuant to this Section 6.1 constitutes presence in person at that meeting if both of the following apply:

- (a) each member participating in the meeting can communicate with all of the other members concurrently; and
- (b) each member is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation.

**6.2 Regular Annual Meeting; Regular Meetings**

After the adjournment of each annual meeting of the shareholders, the Board of Directors shall hold a regular meeting (which regular directors' meeting shall be designated the "Regular Annual Meeting") and no notice need be given for the Regular Annual Meeting unless the Regular Annual Meeting is not held at the principal place of business provided at Section 1.1 of these Bylaws. Regular meetings of the Board of Directors may be held without notice if the time and place of such meetings are fixed by the Board of Directors.

**6.3 Special Meetings**

Special meetings of the Board of Directors may be called at any time by the Chairman of the Board, if any, or a Lead Director, if any, the President or the Chief Executive Officer, any Vice President, the Secretary, or by any two or more directors.

**6.4 Notice of Special Meetings**

Special meetings of the Board of Directors shall be held upon no less than four (4) days' notice by mail or forty-eight (48) hours' notice delivered personally or by

telephone to each director. Commencing on January 1, 2011, special meetings of the Board of Directors shall be held upon no less than four (4) days' notice by mail or forty-eight (48) hours' notice delivered personally or by telephone, including voice messaging system or by electronic transmission by the Corporation.

#### **6.5 Quorum**

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided by Section 6.6 of these Bylaws. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board of Directors, subject to the provisions of Section 310 of the Code (as to the approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of the Code (as to the appointment of committees), Section 317(a) of the Code (as to the indemnification of directors), the Articles of Incorporation or other applicable law. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

#### **6.6 Adjournment**

A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. If the meeting is adjourned for over twenty-four (24) hours, notice of any adjournment to another time and place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment.

#### **6.7 Waiver and Notice of Consent**

Notice of a meeting need not be given to a director who provides a waiver of notice or a consent to holding the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

#### **6.8 Action without a Meeting**

Any action required or permitted by law to be taken by the Board of Directors may be taken without a meeting, if all members of the Board of Directors shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors. Such action by written consent shall have the same force and effect as the unanimous vote of such directors.

#### **6.9 Committees**

The provisions of this Article VI also apply to committees of the Board of Directors and action by such committees, mutatis mutandis.

## ARTICLE VII

### GENERAL MATTERS

#### **7.1 *Record Date for Purposes Other than Notice and Voting***

For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action (other than with respect to notice or voting at a shareholders' meeting or action by shareholders by written consent without a meeting), the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action. Only shareholders of record at the close of business on the record date are entitled to receive the dividend, distribution or allotment or rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date, except as otherwise provided for in the Articles of Incorporation or the Code.

#### **7.2 *Instruments in Writing***

All checks, drafts, other orders for payments of money, notes or other evidences of indebtedness of the Corporation, and all written contracts of the Corporation, shall be signed by such officer or officers, agent or agents, as the Board of Directors may from time to time designate. No officer, agent, or employee of the Corporation shall have the power to bind the Corporation by contract or otherwise unless authorized to do so by these Bylaws or by the Board of Directors.

#### **7.3 *Shares Held by the Corporation***

Shares in other corporations standing in the name of the Corporation may be voted or represented and all rights incident thereto may be exercised on behalf of the Corporation by any officer of the Corporation authorized so to do by resolution of the Board of Directors. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or by power of attorney duly executed by such person having the authority.

#### **7.4 *Certificated and Uncertificated Shares***

(a) Certificates for the shares of stock of the Corporation shall be issued only to the extent as may be required by applicable law or as otherwise authorized by the Secretary or any Assistant Secretary, and if so issued shall be in such form as is consistent with the Articles of Incorporation of the Corporation and applicable law. Any such certificates shall be signed by, or in the name of the Corporation by, the Chief Executive Officer or the President and by the Secretary or any Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer transfer agent or registrar before

such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

(b) On or after November 17, 2010, unless otherwise required by applicable law or authorized by the Secretary or any Assistant Secretary, shares of the Corporation shall be issued, recorded and transferred exclusively in uncertificated book-entry form in accordance with a direct registration program operated by a clearing agency registered under Section 17A of the Exchange Act. Shares of the Corporation represented by certificates that were issued prior to November 17, 2010 shall continue to be certificated securities of the Corporation until the certificates therefor have been surrendered to the Corporation.

#### **7.5 *Lost Certificates***

Except as provided in this Section 7.5, no new shares shall be issued to replace a previously issued certificate unless the certificate is surrendered to the Corporation or its transfer agent or registrar and cancelled at the same time. When the owner of any certificate for shares of the Corporation claims that the certificate has been lost, stolen or destroyed, uncertificated shares, in accordance with Section 7.4(b) above, shall be issued in place of the original certificate if the owner (a) so requests before the Corporation has notice that the original certificate has been acquired by a bona fide purchaser, (b) files with the Corporation an indemnity bond in such form and in such amount sufficient to protect the Corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement shares, and (c) satisfies any other reasonable requirements imposed by the Corporation. The Board of Directors may adopt such other provisions and restrictions with reference to lost certificates, not inconsistent with applicable law, as it shall in its discretion deem appropriate.

#### **7.6 *Certification and Inspection of Bylaws***

The Corporation shall keep at its principal executive or business office the original or a copy of these Bylaws as amended or otherwise altered to date, which shall be open to inspection by the shareholders at all reasonable times during office hours.

#### **7.7 *Interpretation***

Reference in these Bylaws to any provision of the Code shall be deemed to include all amendments thereof.

#### **7.8 *Construction***

Unless the context requires otherwise, the general provisions, rules of construction and definitions in the Code shall govern the construction of these Bylaws. Without limiting the generality of the provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

## ARTICLE VIII

### CONSTRUCTION OF BYLAWS WITH REFERENCE TO PROVISIONS OF LAW

#### **8.1 *Bylaw Provisions Additional and Supplemental to Provisions of Law***

All restrictions, limitations, requirements and other provisions of these Bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

#### **8.2 *Bylaw Provisions Contrary to or Inconsistent with Provisions of Law***

Any article, section, subsection, subdivision, sentence, clause or phrase of these Bylaws which, upon being construed in the manner provided in Section 8.1 of these Bylaws, shall be contrary to or inconsistent with any applicable provision of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these Bylaws, it being hereby declared that these Bylaws, and each article, section, subsection, subdivision, sentence, clause, or phrase thereof, would have been adopted irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

## ARTICLE IX

### ADOPTION, AMENDMENT OR REPEAL OF BYLAWS

#### **9.1 *By Shareholders***

These Bylaws may be adopted, amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote. Any 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 a bylaw or amendment of the Articles of Incorporation reducing the number or the minimum number of directors to a number less than five cannot be adopted if the votes cast against its adoption at a meeting or the shares not consenting in the case of action by written consent are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote.

#### **9.2 *By the Board of Directors***

Subject to the right of shareholders to adopt, amend or repeal these Bylaws, other than a bylaw or amendment thereof 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 be adopted, amended or repealed by the Board of Directors. A bylaw adopted by the shareholders may restrict or eliminate the power of the Board of Directors to adopt, amend or repeal these Bylaws.

**ARTICLE X**  
**INDEMNIFICATION**

***10.1 Indemnification of Directors and Officers***

The Corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its directors and officers against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an agent of the Corporation. For purposes of this Article X, a “director” or “officer” of the Corporation includes any person (a) who is or was a director or officer of the Corporation, (b) who is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (c) who was a director or officer of a corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation.

***10.2 Indemnification of Others***

The Corporation shall have the power, to the extent and in the manner permitted by the Code, to indemnify each of its employees and agents (other than directors and officers) against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an agent of the Corporation. For purposes of this Article X, an “employee” or “agent” of the Corporation (other than a director or officer) includes any person (a) who is or was an employee or agent of the Corporation, (b) who is or was serving at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (c) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

***10.3 Payment of Expenses in Advance***

Expenses incurred in defending any proceeding for which indemnification is required pursuant to Section 10.1 of these Bylaws or for which indemnification is permitted pursuant to Section 10.2 of these Bylaws following authorization thereof by the Board of Directors, may be advanced by the Corporation prior to the final disposition of the proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay that amount if it shall be determined ultimately that the indemnified person is not entitled to be indemnified as authorized by this Article X.

***10.4 Indemnification not Exclusive***

The indemnification provided by this Article X for acts, omissions or transactions while acting in the capacity of, or while serving as, a director or officer of the Corporation but not involving a breach of duty to the Corporation and its shareholders

shall not be deemed exclusive of any other rights to those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, to the extent the additional rights to indemnification are authorized in the Articles of Incorporation.

#### **10.5 Insurance Indemnification**

The Corporation shall have the power to purchase and maintain insurance on behalf of any agent of the Corporation against any liability asserted against or incurred by the agent in that capacity or arising out of that agent's status as such whether or not the Corporation would have the power to indemnify the agent against that liability under the provisions of this Article X.

#### **10.6 Conflicts**

No indemnification or advance shall be made under this Article X, except where the court in which the proceeding is or was pending upon application made by the Corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not the application by the agent, attorney or other person is opposed by the Corporation:

(a) that it would be inconsistent with a provision of the Articles of Incorporation, these Bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) that it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

**CERTIFICATE OF ADOPTION OF  
AMENDED BYLAWS  
OF  
APPLE INC.**

The undersigned hereby certifies that he is the duly elected, qualified and acting Senior Vice President, General Counsel and Secretary of Apple Inc., a California corporation (the "Corporation"), and that the foregoing amended and restated bylaws were adopted as the Corporation's bylaws as of April 20, 2011 by the Corporation's Board of Directors.

The undersigned has executed this Certificate as of April 20, 2011.

/s/ D. Bruce Sewell  
D. Bruce Sewell  
Senior Vice President, General Counsel and  
Secretary

**CERTIFICATIONS**

I, Steven P. Jobs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2011

By: /s/ Steven P. Jobs  
Steven P. Jobs  
Chief Executive Officer

## CERTIFICATIONS

I, Peter Oppenheimer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apple Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2011

By: /s/ Peter Oppenheimer  
Peter Oppenheimer  
Senior Vice President,  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven P. Jobs, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended March 26, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc.

Date: April 21, 2011

By: /s/ Steven P. Jobs  
Steven P. Jobs  
Chief Executive Officer

I, Peter Oppenheimer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Apple Inc. on Form 10-Q for the period ended March 26, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Apple Inc.

Date: April 21, 2011

By: /s/ Peter Oppenheimer  
Peter Oppenheimer  
Senior Vice President,  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Apple Inc. and will be retained by Apple Inc. and furnished to the Securities and Exchange Commission or its staff upon request.