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APPLE INC
Form 10-Q
May 01, 2019

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 30, 2019

or

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

For the transition period from _____ to _____.

Commission File Number: **001-36743**

Apple Inc.

(Exact name of Registrant as specified in its charter)

California

(State or other jurisdiction
of incorporation or organization)

94-2404110

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

**One Apple Park Way
Cupertino, California**

(Address of principal executive offices) (Zip Code)

95014

(408) 996-1010

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Yes No

4,601,075,000 shares of common stock, par value \$0.00001 per share, issued and outstanding as of April 22, 2019

Apple Inc.

Form 10-Q

For the Fiscal Quarter Ended March 30, 2019

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PART I — FINANCIAL INFORMATION**Item 1. Financial Statements****Apple Inc.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

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

	Three Months Ended		Six Months Ended	
	March 30,	March 31,	March 30,	March 31,
	2019	2018	2019	2018
Net sales:				
Products	\$46,565	\$ 51,287	\$120,000	\$130,451
Services	11,450	9,850	22,325	18,979
Total net sales	58,015	61,137	142,325	149,430
Cost of sales:				
Products	32,047	33,936	80,285	84,511
Services	4,147	3,779	8,188	7,585
Total cost of sales	36,194	37,715	88,473	92,096
Gross margin	21,821	23,422	53,852	57,334
Operating expenses:				
Research and development	3,948	3,378	7,850	6,785
Selling, general and administrative	4,458	4,150	9,241	8,381
Total operating expenses	8,406	7,528	17,091	15,166
Operating income	13,415	15,894	36,761	42,168
Other income/(expense), net	378	274	938	1,030
Income before provision for income taxes	13,793	16,168	37,699	43,198
Provision for income taxes	2,232	2,346	6,173	9,311
Net income	\$11,561	\$ 13,822	\$31,526	\$33,887
Earnings per share:				
Basic	\$2.47	\$ 2.75	\$6.70	\$ 6.69
Diluted	\$2.46	\$ 2.73	\$6.66	\$ 6.63

Shares used in computing earnings per share:

Basic	4,674,071	5,024,877	4,704,945	5,068,877
Diluted	4,700,646	5,068,493	4,736,949	5,113,140

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

(In millions)

	Three Months Ended		Six Months Ended	
	March 30,	March 31,	March 30,	March 31,
	2019	2018	2019	2018
Net income	\$11,561	\$13,822	\$31,526	\$33,887
Other comprehensive income/(loss):				
Change in foreign currency translation, net of tax	174	263	96	303
Change in unrealized gains/losses on derivative instruments, net of tax:				
Change in fair value of derivatives	(50)	(27)	(384)	61)
Adjustment for net (gains)/losses realized and included in net income	(105)	(207)	(63)	(105)
Total change in unrealized gains/losses on derivative instruments	(155)	(234)	(447)	(44)
Change in unrealized gains/losses on marketable securities, net of tax:				
Change in fair value of marketable securities	2,042	(2,003)	2,152	(2,849)
Adjustment for net (gains)/losses realized and included in net income	28	29	65	(46)
Total change in unrealized gains/losses on marketable securities	2,070	(1,974)	2,217	(2,895)
Total other comprehensive income/(loss)	2,089	(1,945)	1,866	(2,636)
Total comprehensive income	\$13,650	\$11,877	\$33,392	\$31,251
See accompanying Notes to Condensed Consolidated Financial Statements.				

Apple Inc.**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

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

	March 30, 2019	September 29, 2018
ASSETS:		
Current assets:		
Cash and cash equivalents	\$37,988	\$ 25,913
Marketable securities	42,104	40,388
Accounts receivable, net	15,085	23,186
Inventories	4,884	3,956
Vendor non-trade receivables	11,193	25,809
Other current assets	12,092	12,087
Total current assets	123,346	131,339
Non-current assets:		
Marketable securities	145,319	170,799
Property, plant and equipment, net	38,746	41,304
Other non-current assets	34,587	22,283
Total non-current assets	218,652	234,386
Total assets	\$341,998	\$ 365,725
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$30,443	\$ 55,888
Other current liabilities	35,368	33,327
Deferred revenue	5,532	5,966
Commercial paper	11,924	11,964
Term debt	10,505	8,784
Total current liabilities	93,772	115,929
Non-current liabilities:		
Term debt	90,201	93,735
Other non-current liabilities	52,165	48,914
Total non-current liabilities	142,366	142,649
Total liabilities	236,138	258,578
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 12,600,000 shares authorized; 4,607,284 and 4,754,986 shares issued and outstanding, respectively	42,801	40,201
Retained earnings	64,558	70,400
Accumulated other comprehensive income/(loss)	(1,499)	(3,454)
Total shareholders' equity	105,860	107,147
Total liabilities and shareholders' equity	\$341,998	\$ 365,725
See accompanying Notes to Condensed Consolidated Financial Statements.		

Apple Inc.**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)**

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

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Total shareholders' equity, beginning balances	\$ 117,892	\$ 140,199	\$ 107,147	\$ 134,047
Common stock and additional paid-in capital:				
Beginning balances	40,970	36,447	40,201	35,867
Common stock issued	390	327	390	327
Common stock withheld related to net share settlement of equity awards	(105)	(107)	(927)	(845)
Share-based compensation	1,546	1,377	3,137	2,695
Ending balances	42,801	38,044	42,801	38,044
Retained earnings:				
Beginning balances	80,510	104,593	70,400	98,330
Net income	11,561	13,822	31,526	33,887
Dividends and dividend equivalents declared	(3,499)	(3,239)	(7,025)	(6,539)
Common stock withheld related to net share settlement of equity awards	(14)	(56)	(608)	(449)
Common stock repurchased	(24,000)	(23,500)	(32,236)	(33,609)
Cumulative effects of changes in accounting principles	—	278	2,501	278
Ending balances	64,558	91,898	64,558	91,898
Accumulated other comprehensive income/(loss):				
Beginning balances	(3,588)	(841)	(3,454)	(150)
Other comprehensive income/(loss)	2,089	(1,945)	1,866	(2,636)
Cumulative effects of changes in accounting principles	—	(278)	89	(278)
Ending balances	(1,499)	(3,064)	(1,499)	(3,064)
Total shareholders' equity, ending balances	\$ 105,860	\$ 126,878	\$ 105,860	\$ 126,878
Dividends and dividend equivalents declared per share or RSU	\$ 0.73	\$ 0.63	\$ 1.46	\$ 1.26

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions)

	Six Months Ended	
	March 30, 2019	March 31, 2018
Cash, cash equivalents and restricted cash, beginning balances	\$25,913	\$20,289
Operating activities:		
Net income	31,526	33,887
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	6,435	5,484
Share-based compensation expense	3,073	2,644
Deferred income tax benefit	(124)	(34,235)
Other	(215)	(151)
Changes in operating assets and liabilities:		
Accounts receivable, net	8,094	3,523
Inventories	(1,006)	(2,807)
Vendor non-trade receivables	14,616	9,715
Other current and non-current assets	(717)	(1,053)
Accounts payable	(20,024)	(12,004)
Deferred revenue	(540)	394
Other current and non-current liabilities	(3,273)	38,026
Cash generated by operating activities	37,845	43,423
Investing activities:		
Purchases of marketable securities	(13,854)	(48,449)
Proceeds from maturities of marketable securities	16,880	31,884
Proceeds from sales of marketable securities	22,635	38,942
Payments for acquisition of property, plant and equipment	(5,718)	(7,005)
Payments made in connection with business acquisitions, net	(291)	(305)
Purchases of non-marketable securities	(490)	(163)
Other	30	216
Cash generated by investing activities	19,192	15,120
Financing activities:		
Proceeds from issuance of common stock	390	327
Payments for taxes related to net share settlement of equity awards	(1,427)	(1,190)
Payments for dividends and dividend equivalents	(7,011)	(6,529)
Repurchases of common stock	(32,498)	(32,851)
Proceeds from issuance of term debt, net	—	6,969
Repayments of term debt	(2,500)	(500)
Other	(87)	1
Cash used in financing activities	(43,133)	(33,773)
Increase in cash, cash equivalents and restricted cash	13,904	24,770
Cash, cash equivalents and restricted cash, ending balances	\$39,817	\$45,059
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	\$9,497	\$6,340
Cash paid for interest	\$1,762	\$1,356
See accompanying Notes to Condensed Consolidated Financial Statements.		

Apple Inc.**Notes to Condensed Consolidated Financial Statements (Unaudited)****Note 1 – Summary of Significant Accounting Policies****Basis of Presentation and Preparation**

The accompanying condensed consolidated financial statements include the accounts of Apple Inc. and its wholly owned subsidiaries (collectively “Apple” or the “Company”). Intercompany accounts and transactions have been eliminated. In the opinion of the Company’s management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these condensed consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed consolidated financial statements and accompanying notes have been reclassified to conform to the current period’s presentation. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 29, 2018 (the “2018 Form 10-K”).

The Company’s fiscal year is the 52- or 53-week period that ends on the last Saturday of September. A 14th week is included in the first fiscal quarter every five or six years to realign the Company’s fiscal quarters with calendar quarters. The Company’s fiscal years 2019 and 2018 span 52 weeks each. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company’s fiscal years ended in September and the associated quarters, months and periods of those fiscal years.

Recently Adopted Accounting Pronouncements*Revenue Recognition*

In the first quarter of 2019, the Company adopted the Financial Accounting Standards Board’s (the “FASB”) Accounting Standards Update (“ASU”) No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), and additional ASUs issued to clarify the guidance in ASU 2014-09 (collectively the “new revenue standard”), which amends the existing accounting standards for revenue recognition. The Company adopted the new revenue standard utilizing the full retrospective transition method. The Company did not restate total net sales in the prior periods presented, as adoption of the new revenue standard did not have a material impact on previously reported amounts.

Additionally, beginning in the first quarter of 2019, the Company classified the amortization of the deferred value of Maps, Siri® and free iCloud® services, which are bundled in the sales price of iPhone®, Mac®, iPad® and certain other products, in services net sales. Historically, the Company classified the amortization of these amounts in products net sales consistent with its management reporting framework. As a result, products and services net sales information for the second quarter and first six months of 2018 was reclassified to conform to the 2019 presentation.

Financial Instruments

In the first quarter of 2019, the Company adopted FASB ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”), which updates certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The adoption of ASU 2016-01 did not have a material impact on the Company’s condensed consolidated financial statements.

Income Taxes

In the first quarter of 2019, the Company adopted FASB ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company adopted ASU 2016-16 utilizing the modified retrospective transition method. Upon adoption, the Company recorded \$2.7 billion of net deferred tax assets, reduced other non-current assets by \$128 million, and increased retained earnings by \$2.6 billion on its Condensed Consolidated Balance Sheet. The Company will recognize incremental deferred income tax expense as these net deferred tax assets are utilized.

Restricted Cash

In the first quarter of 2019, the Company adopted FASB ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows and requires additional disclosures about restricted cash balances.

Earnings Per Share

The following table shows the computation of basic and diluted earnings per share for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (net income in millions and shares in thousands):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Numerator:				
Net income	\$ 11,561	\$ 13,822	\$ 31,526	\$ 33,887
Denominator:				
Weighted-average basic shares outstanding	4,674,071	5,024,877	4,704,945	5,068,877
Effect of dilutive securities	26,575	43,616	32,004	44,263
Weighted-average diluted shares	4,700,646	5,068,493	4,736,949	5,113,140
Basic earnings per share	\$ 2.47	\$ 2.75	\$ 6.70	\$ 6.69
Diluted earnings per share	\$ 2.46	\$ 2.73	\$ 6.66	\$ 6.63

Potentially dilutive securities representing 31.1 million and 30.0 million shares of common stock were excluded from the computation of diluted earnings per share for the three- and six-month periods ended March 30, 2019, respectively, because their effect would have been antidilutive.

Restricted Cash and Restricted Marketable Securities

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

Note 2 – Revenue Recognition

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

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

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

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

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

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

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

Deferred Revenue

As of March 30, 2019 and September 29, 2018, the Company had total deferred revenue of \$8.2 billion and \$8.8 billion, respectively. As of March 30, 2019, the Company expects 67% of total deferred revenue to be realized in less than a year, 26% within one-to-two years, 6% within two-to-three years and 1% in greater than three years.

Disaggregated Revenue

Net sales disaggregated by significant products and services for the three- and six-month periods ended March 30, 2019 and March 31, 2018 were as follows (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
iPhone ⁽¹⁾	\$31,051	\$37,559	\$83,033	\$98,663
Mac ⁽¹⁾	5,513	5,776	12,929	12,600
iPad ⁽¹⁾	4,872	4,008	11,601	9,763
Wearables, Home and Accessories ⁽¹⁾⁽²⁾	5,129	3,944	12,437	9,425
Services ⁽³⁾	11,450	9,850	22,325	18,979
Total net sales ⁽⁴⁾	\$58,015	\$61,137	\$142,325	\$149,430

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

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

Services net sales include sales from the Company's digital content stores and streaming services, AppleCare®, Apple Pay®, licensing and other services. Services net sales also include amortization of the deferred value of Maps, Siri and free iCloud services, which are bundled in the sales price of certain products.

Includes \$1.9 billion and \$2.2 billion of revenue recognized in the three months ended March 30, 2019 and March 31, 2018, respectively, and

(4) \$3.8 billion and \$3.5 billion of revenue recognized in the six months ended March 30, 2019 and March 31, 2018, respectively, that was included in deferred revenue at the beginning of each respective period.

The Company's proportion of net sales by disaggregated revenue source was generally consistent for each reportable segment in Note 11, "Segment Information and Geographic Data" for the three- and six-month periods ended March 30, 2019 and March 31, 2018.

Note 3 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

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

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

The following tables show the Company's cash and marketable securities by significant investment category as of March 30, 2019 and September 29, 2018 (in millions):

	March 30, 2019				Cash and	Short-Term	Long-Term
	Adjusted	Unrealized	Unrealized	Fair	Cash	Marketable	Marketable
	Cost	Gains	Losses	Value	Equivalents	Securities	Securities
Cash	\$ 11,751	\$ —	\$ —	\$ 11,751	\$ 11,751	\$ —	\$ —
Level 1 ⁽¹⁾ :							
Money market funds	8,719	—	—	8,719	8,719	—	—
Subtotal	8,719	—	—	8,719	8,719	—	—
Level 2 ⁽²⁾ :							
U.S. Treasury securities	48,215	6	(401)	47,820	8,815	6,957	32,048
U.S. agency securities	6,458	—	(19)	6,439	4,354	526	1,559
Non-U.S. government securities	21,572	132	(108)	21,596	243	3,992	17,361
Certificates of deposit and time deposits	3,472	—	—	3,472	1,980	1,372	120
Commercial paper	2,150	—	—	2,150	2,122	28	—
Corporate debt securities	106,837	228	(730)	106,335	4	28,164	78,167
Municipal securities	946	4	(2)	948	—	75	873
Mortgage- and asset-backed securities	16,438	15	(272)	16,181	—	990	15,191
Subtotal	206,088	385	(1,532)	204,941	17,518	42,104	145,319
Total ⁽³⁾	\$ 226,558	\$ 385	\$ (1,532)	\$ 225,411	\$ 37,988	\$ 42,104	\$ 145,319

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	September 29, 2018				Cash and	Short-Term	Long-Term
	Adjusted	Unrealized	Unrealized	Fair	Cash	Marketable	Marketable
	Cost	Gains	Losses	Value	Equivalents	Securities	Securities
Cash	\$ 11,575	\$ —	\$ —	\$ 11,575	\$ 11,575	\$ —	\$ —
Level 1 ⁽¹⁾ :							
Money market funds	8,083	—	—	8,083	8,083	—	—
Mutual funds	799	—	(116)	683	—	683	—
Subtotal	8,882	—	(116)	8,766	8,083	683	—
Level 2 ⁽²⁾ :							
U.S. Treasury securities	47,296	—	(1,202)	46,094	1,613	7,606	36,875
U.S. agency securities	4,127	—	(48)	4,079	1,732	360	1,987
Non-U.S. government securities	21,601	49	(250)	21,400	—	3,355	18,045
Certificates of deposit and time deposits	3,074	—	—	3,074	1,247	1,330	497
Commercial paper	2,573	—	—	2,573	1,663	910	—
Corporate debt securities	123,001	152	(2,038)	121,115	—	25,162	95,953
Municipal securities	946	—	(12)	934	—	178	756
Mortgage- and asset-backed securities	18,105	8	(623)	17,490	—	804	16,686
Subtotal	220,723	209	(4,173)	216,759	6,255	39,705	170,799
Total ⁽³⁾	\$ 241,180	\$ 209	\$ (4,289)	\$ 237,100	\$ 25,913	\$ 40,388	\$ 170,799

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

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

(3) As of March 30, 2019 and September 29, 2018, total cash, cash equivalents and marketable securities included \$19.3 billion and \$20.3 billion, respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes") and other agreements.

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

The following tables show information about the Company's marketable securities that had been in a continuous unrealized loss position for less than 12 months and for 12 months or greater as of March 30, 2019 and September 29, 2018 (in millions):

March 30, 2019

Continuous Unrealized Losses

	Less than 12 Months	12 Months or Greater	Total
Fair value of marketable debt securities	\$ 18,814	\$ 131,393	\$ 150,207
Unrealized losses	\$(87)	\$(1,445)	\$(1,532)

September 29, 2018

Continuous Unrealized Losses

	Less than 12 Months or Greater	Total
Fair value of marketable securities	\$ 126,238	\$ 186,837
Unrealized losses	\$(2,400)	\$(1,889)

The Company typically invests in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer. Fair values were determined for each individual security in the investment portfolio. When evaluating a marketable debt security for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the security before recovery of the security's cost basis. As of March 30, 2019, the Company does not consider any of its marketable debt securities to be other-than-temporarily impaired.

Non-Marketable Securities

The Company holds non-marketable equity securities of certain privately held companies without readily determinable fair values, and has elected to apply the measurement alternative. As such, the Company's non-marketable equity securities are measured at cost, less any impairment, and are adjusted for changes in fair value resulting from observable transactions for identical or similar investments of the same issuer. Gains and losses on non-marketable equity securities are recognized in other income/(expense), net. As of March 30, 2019, the Company's non-marketable equity securities had a carrying value of \$2.3 billion.

The Company holds a non-marketable debt security that is classified and accounted for as held-to-maturity. As of March 30, 2019, the Company's non-marketable debt security had an amortized cost basis and carrying value of \$1.5 billion.

Restricted Cash

A reconciliation of the Company's cash and cash equivalents in the Condensed Consolidated Balance Sheet to cash, cash equivalents and restricted cash in the Condensed Consolidated Statement of Cash Flows as of March 30, 2019 is as follows (in millions):

	March 30, 2019
Cash and cash equivalents	\$ 37,988
Restricted cash included in other current assets	341
Restricted cash included in other non-current assets	1,488
Cash, cash equivalents and restricted cash	\$ 39,817

The Company's restricted cash primarily consisted of cash required to be on deposit under a contractual agreement with a bank to support the Company's iPhone Upgrade Program.

Derivative Financial Instruments

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

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

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

To protect the Company's foreign currency-denominated term debt or marketable securities from fluctuations in foreign currency exchange rates, the Company may enter into forward contracts, cross-currency swaps or other instruments. These instruments may offset a portion of the foreign currency remeasurement gains or losses, or changes in fair value. The Company may designate these instruments as either cash flow or fair value hedges. As of March 30, 2019, the Company's hedged term debt- and marketable securities-related foreign currency transactions are expected to be recognized within 23 years.

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

To protect the Company's foreign currency-denominated term debt or marketable securities from fluctuations in interest rates, the Company may enter into interest rate swaps, options or other instruments. These instruments may offset a portion of the changes in interest income or expense, or changes in fair value. The Company designates these instruments as either cash flow or fair value hedges. As of March 30, 2019, the Company's hedged interest rate transactions are expected to be recognized within 9 years.

Cash Flow Hedges

The effective portions of cash flow hedges are recorded in accumulated other comprehensive income/(loss) ("AOCI") until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized in other income/(expense), net in the same period as the related income or expense is recognized. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognized in other income/(expense), net.

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

Net Investment Hedges

The effective portions of net investment hedges are recorded in OCI as a part of the cumulative translation adjustment. The ineffective portions and amounts excluded from the effectiveness testing of net investment hedges are recognized in other income/(expense), net. For foreign exchange forward contracts designated as net investment hedges, the Company excludes changes in fair value relating to changes in the forward carry component from its assessment of hedge effectiveness. Accordingly, any gains or losses related to this forward carry component are recognized in earnings in the current period.

Fair Value Hedges

Gains and losses related to changes in fair value hedges are recognized in earnings along with a corresponding loss or gain related to the change in value of the underlying hedged item in the same line in the Condensed Consolidated Statements of Operations. For foreign exchange forward contracts designated as fair value hedges, the Company excludes changes in fair value relating to changes in the forward carry component from its assessment of hedge effectiveness. Amounts excluded from the effectiveness testing of fair value hedges were gains of \$206 million and \$474 million for the three- and six-month periods ended March 30, 2019, respectively, and were recognized in other income/(expense), net.

Non-Designated Derivatives

Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates. As a result, during the three- and six-month periods ended March 30, 2019, respectively, the Company recognized a loss of \$30 million and a gain of \$225 million in net sales, a loss of \$107 million and a gain of \$68 million in cost of sales and losses of \$77 million and \$24 million in other income/(expense), net. During the three- and six-month periods ended March 31, 2018, respectively, the Company recognized losses of \$203 million and \$142 million in net sales, losses of \$247 million and \$212 million in cost of sales and losses of \$331 million and \$373 million in other income/(expense), net.

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The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of March 30, 2019 and September 29, 2018 (in millions):

March 30, 2019

	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
--	--	--	-------------------------

Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	\$ 1,364	\$ 216	\$ 1,580
Interest rate contracts	\$ 68	\$ —	\$ 68

Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	\$ 649	\$ 273	\$ 922
Interest rate contracts	\$ 402	\$ —	\$ 402

September 29, 2018

	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
--	--	--	-------------------------

Derivative assets ⁽¹⁾ :			
Foreign exchange contracts	\$ 1,015	\$ 259	\$ 1,274

Derivative liabilities ⁽²⁾ :			
Foreign exchange contracts	\$ 543	\$ 137	\$ 680
Interest rate contracts	\$ 1,456	\$ —	\$ 1,456

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

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

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

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The following table shows the pre-tax gains and losses of the Company's derivative and non-derivative instruments designated as cash flow, net investment and fair value hedges in OCI and the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Gains/(Losses) recognized in OCI – effective portion:				
Cash flow hedges:				
Foreign exchange contracts	\$ (64)	\$ 37	\$ (542)	\$ 190
Interest rate contracts	—	—	—	1
Total	\$ (64)	\$ 37	\$ (542)	\$ 191
Net investment hedges:				
Foreign currency debt	\$ (7)	\$ (33)	\$ (23)	\$ (31)
Gains/(Losses) reclassified from AOCI into net income – effective portion:				
Cash flow hedges:				
Foreign exchange contracts	\$ 134	\$ 287	\$ 16	\$ 163
Interest rate contracts	(2)	2	(3)	3
Total	\$ 132	\$ 289	\$ 13	\$ 166
Gains/(Losses) on derivative instruments:				
Fair value hedges:				
Foreign exchange contracts	\$ 243	\$ —	\$ 645	\$ —
Interest rate contracts	465	(674)	1,122	(948)
Total	\$ 708	\$ (674)	\$ 1,767	\$ (948)
Gains/(Losses) related to hedged items:				
Fair value hedges:				
Marketable securities	\$ (242)	\$ —	\$ (644)	\$ —
Fixed-rate debt	(465)	674	(1,122)	948
Total	\$ (707)	\$ 674	\$ (1,766)	\$ 948

The following table shows the notional amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of March 30, 2019 and September 29, 2018 (in millions):

	March 30, 2019		September 29, 2018	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
Instruments designated as accounting hedges:				
Foreign exchange contracts	\$ 52,660	\$ 1,364	\$ 65,368	\$ 1,015
Interest rate contracts	\$ 33,250	\$ 68	\$ 33,250	\$ —
Instruments not designated as accounting hedges:				
Foreign exchange contracts	\$ 63,477	\$ 216	\$ 63,062	\$ 259

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

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values in its Condensed Consolidated Balance Sheets. As of March 30, 2019, the net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was \$505 million, which was recorded as other current liabilities in the Condensed Consolidated Balance Sheet. As of September 29, 2018, the net cash collateral posted by the Company related to derivative instruments under its collateral security arrangements was \$1.0 billion, which was recorded as other current assets in the Condensed Consolidated Balance Sheet.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. As of March 30, 2019 and September 29, 2018, the potential effects of these rights of set-off associated with the Company's derivative contracts, including the effects of collateral, would be a reduction to both derivative assets and derivative liabilities of \$1.7 billion and \$2.1 billion, respectively, resulting in a net derivative liability of \$181 million and a net derivative asset of \$138 million, respectively.

Accounts Receivable

Trade Receivables

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, resellers, small and mid-sized businesses and education, enterprise and government customers. The Company generally does not require collateral from its customers; however, the Company will require collateral or third-party credit support in certain instances to limit credit risk. In addition, when possible, the Company attempts to limit credit risk on trade receivables with credit insurance for certain customers or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit risk sharing related to any of these arrangements.

As of March 30, 2019, the Company had no customers that individually represented 10% or more of total trade receivables. As of September 29, 2018, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 10%. The Company's cellular network carriers accounted for 45% and 59% of total trade receivables as of March 30, 2019 and September 29, 2018, respectively.

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of March 30, 2019, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 56% and 16%. As of September 29, 2018, the Company had two vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 62% and 12%.

Note 4 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of March 30, 2019 and September 29, 2018 (in millions):

Property, Plant and Equipment, Net

	March 30, 2019	September 29, 2018
Land and buildings	\$16,308	\$ 16,216
Machinery, equipment and internal-use software	68,139	65,982
Leasehold improvements	8,589	8,205
Gross property, plant and equipment	93,036	90,403
Accumulated depreciation and amortization	(54,290)	(49,099)
Total property, plant and equipment, net	\$38,746	\$ 41,304

Other Non-Current Liabilities

	March 30, 2019	September 29, 2018
Long-term taxes payable	\$ 30,986	\$ 33,589
Other non-current liabilities	21,179	15,325
Total other non-current liabilities	\$ 52,165	\$ 48,914

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Interest and dividend income	\$1,358	\$ 1,505	\$2,665	\$ 2,957
Interest expense	(1,010)	(792)	(1,900)	(1,526)
Other income/(expense), net	30	(439)	173	(401)
Total other income/(expense), net	\$378	\$ 274	\$938	\$ 1,030

Note 5 – Income Taxes*Uncertain Tax Positions*

As of March 30, 2019, the total amount of gross unrecognized tax benefits was \$14.9 billion, of which \$7.3 billion, if recognized, would impact the Company's effective tax rate. The Company had accrued \$1.3 billion of gross interest and penalties as of March 30, 2019. Both the unrecognized tax benefits and the associated interest and penalties that are not expected to result in payment or receipt of cash within one year are classified as other non-current liabilities in the Condensed Consolidated Balance Sheet.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The U.S. Internal Revenue Service concluded its review of the years 2013 through 2015 in 2018, and all years prior to 2016 are closed. Tax years subsequent to 2006 in certain major U.S. states and subsequent to 2010 in certain major foreign jurisdictions remain open, and could be subject to examination by the taxing authorities. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although timing of resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease (either by payment, release or a combination of both) in the next 12 months by as much as \$300 million.

European Commission State Aid Decision

On August 30, 2016, the European Commission announced its decision that Ireland granted state aid to the Company by providing tax opinions in 1991 and 2007 concerning the tax allocation of profits of the Irish branches of two subsidiaries of the Company (the "State Aid Decision"). The State Aid Decision ordered Ireland to calculate and recover additional taxes from the Company for the period June 2003 through December 2014. The recovery amount was calculated to be €13.1 billion, plus interest of €1.2 billion. Irish legislative changes, effective as of January 2015, eliminated the application of the tax opinions from that date forward. The Company believes the State Aid Decision to be without merit and appealed to the General Court of the Court of Justice of the European Union. Ireland has also appealed the State Aid Decision. The Company believes that any incremental Irish corporate income taxes potentially due related to the State Aid Decision would be creditable against U.S. taxes, subject to any foreign tax credit limitations in the U.S. Tax Cuts and Jobs Act. As of March 30, 2019, the entire recovery amount plus interest was funded into escrow, where it will remain restricted from general use pending conclusion of all appeals. Refer to Note 3, "Financial Instruments" for more information.

Note 6 – Debt**Commercial Paper**

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of March 30, 2019 and September 29, 2018, the Company had \$11.9 billion and \$12.0 billion of Commercial Paper outstanding, respectively, with maturities generally less than nine months. The weighted-average interest rate of the Company's Commercial Paper was 2.56% as of March 30, 2019 and 2.18% as of September 29, 2018. The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the six months ended March 30, 2019 and March 31, 2018 (in millions):

	Six Months Ended	
	March 30,	March 31,
	2019	2018
Maturities 90 days or less:		
Proceeds from/(Repayments of) commercial paper, net	\$(2,484)	\$ 4,070
Maturities greater than 90 days:		
Proceeds from commercial paper	10,235	5,550
Repayments of commercial paper	(7,787)	(9,619)
Proceeds from/(Repayments of) commercial paper, net	2,448	(4,069)
Total proceeds from/(repayments of) commercial paper, net	\$(36)	\$ 1

Term Debt

As of March 30, 2019, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$101.2 billion (collectively the "Notes"). The Notes are senior unsecured obligations, and interest is payable in arrears, quarterly for the U.S. dollar-denominated and Australian dollar-denominated floating-rate notes, semi-annually for the U.S. dollar-denominated, Australian dollar-denominated, British pound-denominated, Japanese yen-denominated and Canadian dollar-denominated fixed-rate notes and annually for the euro-denominated and Swiss franc-denominated fixed-rate notes.

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The following table provides a summary of the Company's term debt as of March 30, 2019 and September 29, 2018:

	Maturities (calendar year)	March 30, 2019 Amount (in millions)	Effective Interest Rate	September 29, 2018 Amount (in millions)	Effective Interest Rate
2013 debt issuance of \$17.0 billion:					
Fixed-rate 2.400% – 3.850% notes	2023–2043	\$ 8,500	2.44%–3.91%	\$ 8,500	2.44%–3.91%
2014 debt issuance of \$12.0 billion:					
Floating-rate notes	2019	1,000	3.03%	1,000	2.64%
Fixed-rate 2.100% – 4.450% notes	2019–2044	8,500	3.03%–4.48%	8,500	2.64%–4.48%
2015 debt issuances of \$27.3 billion:					
Floating-rate notes	2019–2020	1,497	1.87%–2.99%	1,507	1.87%–2.64%
Fixed-rate 0.350% – 4.375% notes	2019–2045	24,178	0.28%–4.51%	24,410	0.28%–4.51%
2016 debt issuances of \$24.9 billion:					
Floating-rate notes	2019–2021	850	2.88%–3.78%	1,350	2.48%–3.44%
Fixed-rate 1.100% – 4.650% notes	2019–2046	22,038	1.13%–4.78%	23,059	1.13%–4.78%
2017 debt issuances of \$28.7 billion:					
Floating-rate notes	2020–2022	2,750	2.77%–3.20%	3,250	2.41%–2.84%
Fixed-rate 0.875% – 4.300% notes	2019–2047	24,929	1.54%–4.30%	25,617	1.54%–4.30%
2018 debt issuance of \$7.0 billion:					
Fixed-rate 1.800% – 3.750% notes	2019–2047	7,000	1.83%–3.80%	7,000	1.83%–3.80%
Total term debt		101,242		104,193	
Unamortized premium/(discount) and issuance costs, net		(202)		(218)	
Hedge accounting fair value adjustments		(334)		(1,456)	
Less: Current portion of term debt		(10,505)		(8,784)	
Total non-current portion of term debt		\$ 90,201		\$ 93,735	

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

A portion of the Company's Japanese yen–denominated notes is designated as a hedge of the foreign currency exposure of the Company's net investment in a foreign operation. As of March 30, 2019 and September 29, 2018, the carrying value of the debt designated as a net investment hedge was \$1.1 billion and \$811 million, respectively. For further discussion regarding the Company's use of derivative instruments, refer to the Derivative Financial Instruments section of Note 3, "Financial Instruments." The effective interest rates for the Notes include the interest on the Notes, amortization of the discount or premium and, if applicable, adjustments related to hedging. The Company recognized \$828 million and \$1.6 billion of interest expense on its term debt for the three- and six-month periods ended March 30, 2019, respectively. The Company recognized \$742 million and \$1.4 billion of interest expense on its term debt for the three- and six-month periods ended March 31, 2018, respectively.

As of March 30, 2019 and September 29, 2018, the fair value of the Company's Notes, based on Level 2 inputs, was \$103.3 billion and \$103.2 billion, respectively.

Note 7 – Shareholders' Equity

As of March 30, 2019, the Company had an authorized program to repurchase up to \$100 billion of the Company's common stock, of which \$61.3 billion had been utilized. During the six months ended March 30, 2019, the Company repurchased 164.7 million shares of its common stock for \$32.2 billion, including 55.1 million shares initially delivered under a \$12.0 billion accelerated share repurchase arrangement dated February 2019. On April 30, 2019, the Company announced the Board of Directors increased the share repurchase program authorization from \$100 billion to \$175 billion. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Note 8 – Comprehensive Income

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

The following table shows the pre-tax amounts reclassified from AOCI into the Condensed Consolidated Statements of Operations, and the associated financial statement line item, for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (in millions):

Comprehensive Income Components	Financial Statement Line Item	Three Months Ended		Six Months Ended	
		March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Unrealized (gains)/losses on derivative instruments:					
Foreign exchange contracts	Total net sales	\$(97)	\$ 87	\$(34)	\$ 271
	Total cost of sales	(76)	21	(451)	(6)
	Other income/(expense), net	52	(390)	448	(423)
Interest rate contracts	Other income/(expense), net	2	(2)	3	(3)
		(119)	(284)	(34)	(161)
Unrealized (gains)/losses on marketable securities	Other income/(expense), net	36	36	83	(80)
Total amounts reclassified from AOCI		\$(83)	\$ (248)	\$ 49	\$ (241)

The following table shows the changes in AOCI by component for the six months ended March 30, 2019 (in millions):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Securities	Total
Balances as of September 29, 2018	\$ (1,055)	\$ 810	\$ (3,209)	\$(3,454)
Other comprehensive income/(loss) before reclassifications	90	(533)	2,734	2,291
Amounts reclassified from AOCI	—	(34)	83	49
Tax effect	6	120	(600)	(474)
Other comprehensive income/(loss)	96	(447)	2,217	1,866
Cumulative effect of change in accounting principle ⁽¹⁾	—	—	89	89
Balances as of March 30, 2019	\$(959)	\$ 363	\$ (903)	\$(1,499)

⁽¹⁾ Refer to Note 1, "Summary of Significant Accounting Policies" for more information on the Company's adoption of ASU 2016-01 at the beginning of the first quarter of 2019.

Note 9 – Benefit Plans**Stock Plans**

The Company had 235.5 million shares reserved for future issuance under its stock plans as of March 30, 2019. Restricted stock units (“RSUs”) granted under the Company’s stock plans generally vest over four years, based on continued employment, and are settled upon vesting in shares of the Company’s common stock on a one-for-one basis. Each share issued with respect to RSUs granted under the Company’s stock plans reduces the number of shares available for grant under the plans by two shares. RSUs canceled and shares withheld to satisfy tax withholding obligations increase the number of shares available for grant under the plans utilizing a factor of two times the number of RSUs canceled or shares withheld.

Rule 10b5-1 Trading Plans

During the three months ended March 30, 2019, Section 16 officers Angela Ahrendts, Timothy D. Cook, Chris Kondo, Luca Maestri and Jeffrey Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under the Exchange Act. An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company’s stock, including shares acquired pursuant to the Company’s employee and director equity plans.

Restricted Stock Units

A summary of the Company’s RSU activity and related information for the six months ended March 30, 2019 is as follows:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value Per RSU	Aggregate Fair Value (in millions)
Balance as of September 29, 2018	92,155	\$ 134.60	
RSUs granted	32,252	\$ 218.06	
RSUs vested	(20,988)	\$ 125.84	
RSUs canceled	(2,302)	\$ 157.83	
Balance as of March 30, 2019	101,117	\$ 162.51	\$ 19,207

The fair value as of the respective vesting dates of RSUs was \$348 million and \$4.4 billion for the three- and six-month periods ended March 30, 2019, respectively, and was \$457 million and \$3.6 billion for the three- and six-month periods ended March 31, 2018, respectively.

Share-Based Compensation

The following table shows share-based compensation expense and the related income tax benefit included in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Share-based compensation expense	\$1,514	\$1,348	\$3,073	\$2,644
Income tax benefit related to share-based compensation expense	\$(331)	\$(347)	\$(1,081)	\$(978)

As of March 30, 2019, the total unrecognized compensation cost related to outstanding RSUs and stock options was \$12.8 billion, which the Company expects to recognize over a weighted-average period of 2.8 years.

Note 10 – Commitments and Contingencies
Accrued Warranty and Indemnification

The following table shows changes in the Company's accrued warranties and related costs for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Beginning accrued warranty and related costs	\$3,819	\$4,323	\$3,692	\$3,834
Cost of warranty claims	(915)	(933)	(1,911)	(1,915)
Accruals for product warranty	583	640	1,706	2,111
Ending accrued warranty and related costs	\$3,487	\$4,030	\$3,487	\$4,030

Agreements entered into by the Company may include indemnification provisions, which may subject the Company to costs and damages in the event of a claim against an indemnified third party. Except as disclosed under the heading "Contingencies" below, in the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to indemnification of third parties.

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

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 of the Company, 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. While the Company maintains directors and officers liability insurance coverage, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise.

Concentrations in the Available Sources of Supply of Materials and Product

Although most components essential to the Company's business are generally available from multiple sources, certain components are currently obtained from single or limited sources. In addition, the Company competes for various components with other participants in the markets for mobile communication and media devices and personal computers. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant commodity pricing fluctuations that could materially adversely affect the Company's financial condition and operating results.

The Company uses some custom components that are not commonly used by its competitors, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the 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 suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. The Company has entered into agreements for the supply of many components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia, with some Mac computers manufactured in the U.S. and Ireland. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are single-sourced suppliers of components and manufacturers for many of the Company's products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's financial condition and operating results could be materially adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's manufacturing purchase obligations typically cover its requirements for periods up to 150 days.

Other Off-Balance Sheet Commitments

Operating Leases

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. As of March 30, 2019, the Company's total future minimum lease payments under noncancelable operating leases were \$10.4 billion. The Company's retail store and other facility leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options.

Unconditional Purchase Obligations

The Company has entered into certain off-balance sheet commitments that require the future purchase of goods or services ("unconditional purchase obligations"). The Company's unconditional purchase obligations primarily consist of payments for supplier arrangements, internet and telecommunication services, intellectual property licenses and content creation. As of March 30, 2019, the Company's total future payments under noncancelable unconditional purchase obligations having a remaining term in excess of one year were \$7.6 billion.

Contingencies

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and that have not been fully adjudicated, as further discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors." The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims, except for the following matters:

VirnetX

VirnetX, Inc. filed two lawsuits in the U.S. District Court for the Eastern District of Texas (the "Eastern Texas District Court") against the Company alleging that certain Company products infringe four patents (the "VirnetX Patents") relating to network communications technology ("VirnetX I" and "VirnetX II"). On September 30, 2016, a jury returned a verdict in VirnetX I against the Company and awarded damages of \$302 million, which later increased to \$440 million in post-trial proceedings. The Company appealed the VirnetX I verdict to the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit"). On April 11, 2018, a jury returned a verdict in VirnetX II against the Company and awarded damages of \$503 million. VirnetX II is currently on appeal. The Company has challenged the validity of the VirnetX Patents at the U.S. Patent and Trademark Office (the "PTO"). In response, the PTO has declared the VirnetX Patents invalid. VirnetX appealed the invalidity decision of the PTO to the Federal Circuit. The Federal Circuit consolidated the Company's appeal of the Eastern Texas District Court VirnetX I verdict and VirnetX's appeals from the PTO invalidity proceedings. On January 15, 2019, the Federal Circuit affirmed the VirnetX I verdict, which the Company intends to further appeal. The remaining appeals from the PTO proceedings invalidating the VirnetX Patents remain pending. The Company has accrued its best estimate for the ultimate resolution of these matters.

Qualcomm

On January 20, 2017, the Company filed a lawsuit against Qualcomm Incorporated and affiliated parties ("Qualcomm") in the U.S. District Court for the Southern District of California seeking, among other things, to enjoin Qualcomm from requiring the Company to pay royalties at the rate demanded by Qualcomm. No Qualcomm-related royalty payments had been remitted by the Company to its contract manufacturers since the beginning of the second quarter of 2017. Following the Company's lawsuit, Qualcomm filed patent infringement suits against the Company and its affiliates in the U.S. and various international jurisdictions, some of which sought to enjoin the sale of certain of the Company's products in particular countries.

On April 16, 2019, the Company and Qualcomm reached a settlement agreement to dismiss all litigation between the two companies worldwide. The companies also reached a multi-year license agreement and a multi-year supply agreement. Under the terms of the settlement agreement, Apple will make a payment to Qualcomm to, among other things, resolve disputes over the withheld royalty payments.

iOS Performance Management Cases

Various civil litigation matters have been filed in state and federal courts in the U.S. and in various international jurisdictions alleging violation of consumer protection laws, fraud, computer intrusion and other causes of action related to the Company's performance management feature used in its iPhone operating systems, introduced to certain iPhones in iOS updates 10.2.1 and 11.2. The claims seek monetary damages and other non-monetary relief. On April 5, 2018, several U.S. federal actions were consolidated through a Multidistrict Litigation process into a single action in the U.S. District Court for the Northern District of California. In addition to civil litigation, the Company is also responding to governmental investigations and requests for information relating to the performance management feature. The Company believes that its iPhones were not defective, that the performance management feature introduced with iOS updates 10.2.1 and 11.2 was intended to, and did, improve customers' user experience, and that the Company did not make any misleading statements or fail to disclose any material information. The Company has accrued its best estimate for the ultimate resolution of these matters.

Note 11 – Segment Information and Geographic Data

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

The Company manages its business primarily on a geographic basis. The Company's reportable segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. Americas includes both North and South America. Europe includes European countries, as well as India, the Middle East and Africa. Greater China includes China, Hong Kong and Taiwan. Rest of Asia Pacific includes Australia and those Asian countries not included in the Company's other reportable segments. Although the reportable segments provide similar hardware and software products and similar services, each one is managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. The accounting policies of the various segments are the same as those described in Note 1, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2018 Form 10-K. The Company evaluates the performance of its reportable segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers and sales through the Company's retail stores located in those geographic locations. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the reportable segments. Costs excluded from segment operating income include various corporate expenses such as research and development, corporate marketing expenses, certain share-based compensation expenses, income taxes, various nonrecurring charges and other separately managed general and administrative costs. The Company does not include intercompany transfers between segments for management reporting purposes.

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The following table shows information by reportable segment for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Americas:				
Net sales	\$25,596	\$24,841	\$62,536	\$60,034
Operating income	\$7,687	\$7,768	\$18,887	\$19,084
Europe:				
Net sales	\$13,054	\$13,846	\$33,417	\$34,900
Operating income	\$4,026	\$4,259	\$10,684	\$11,152
Greater China:				
Net sales	\$10,218	\$13,024	\$23,387	\$30,980
Operating income	\$3,607	\$4,963	\$8,921	\$11,871
Japan:				
Net sales	\$5,532	\$5,468	\$12,442	\$12,705
Operating income	\$2,390	\$2,346	\$5,404	\$5,428
Rest of Asia Pacific:				
Net sales	\$3,615	\$3,958	\$10,543	\$10,811
Operating income	\$1,096	\$1,278	\$3,656	\$3,853

A reconciliation of the Company's segment operating income to the Condensed Consolidated Statements of Operations for the three- and six-month periods ended March 30, 2019 and March 31, 2018 is as follows (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Segment operating income	\$18,806	\$20,614	\$47,552	\$51,388
Research and development expense	(3,948)	(3,378)	(7,850)	(6,785)
Other corporate expenses, net	(1,443)	(1,342)	(2,941)	(2,435)
Total operating income	\$13,415	\$15,894	\$36,761	\$42,168

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

This section and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms.

Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading "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 29, 2018 (the "2018 Form 10-K") filed with the U.S. Securities and Exchange Commission (the "SEC") and the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "Apple" as used herein refers collectively to Apple Inc. and its wholly owned subsidiaries, unless otherwise stated. The 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 Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the SEC. The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge at investor.apple.com/investor-relations/sec-filings/default.aspx when such reports are available on the SEC's website. 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 www.sec.gov. The Company periodically provides other information for investors on its corporate website, www.apple.com, and its investor relations website, investor.apple.com. This includes press releases and other information about financial performance, information on corporate governance and details related to the Company's annual meeting of shareholders. The information contained on the websites referenced in this Form 10-Q is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

Quarterly Highlights

Business Seasonality and Product Introductions

The Company has historically experienced higher net sales in its first quarter compared to other quarters in its fiscal year due in part to seasonal holiday demand. Additionally, new product and service introductions can significantly impact net sales, cost of sales and operating expenses. The timing of product introductions can also impact the Company's net sales to its indirect distribution channels as these channels are filled with new inventory following a product launch, and channel inventory of an older product often declines as the launch of a newer product approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction. However, neither historical seasonal patterns nor historical patterns of product or service introductions should be considered reliable indicators of the Company's future pattern of product or service introductions, future net sales or financial performance.

Second Quarter Fiscal 2019 Highlights

Total net sales decreased 5% or \$3.1 billion during the second quarter of 2019 compared to the same quarter in 2018, driven by lower iPhone net sales, partially offset by higher Services and Wearables, Home and Accessories net sales. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on net sales during the second quarter of 2019.

During the second quarter of 2019, the Company released the following products:

- An iPad Air® and an updated iPad mini®, featuring Retina® displays and Apple Pencil® compatibility.
- An updated iMac® with improved compute and graphics performance.
- Updated AirPods with hands-free "Hey Siri" and the option of a wireless charging case.

The Company also announced the following new services:

Apple News+, a subscription news and magazine service, available initially in the U.S. and Canada.

Apple Card™, a new kind of credit card designed for the iPhone, expected to be available to qualified customers in the U.S. in summer 2019.

Apple Arcade™, a game subscription service, expected to launch in fall 2019.

New Apple TV app and Apple TV channels, bringing together different ways to access shows, movies, sports and news in one app across devices, and allowing users to subscribe to specific third-party video services, expected to be available starting in May 2019.

Apple TV+, a new subscription service for exclusive original shows, movies and documentaries, expected to be available in fall 2019.

The Company repurchased \$24.0 billion of its common stock and paid dividends and dividend equivalents of \$3.4 billion during the second quarter of 2019.

Products and Services Performance

Beginning in the first quarter of 2019, the Company classified the amortization of the deferred value of Maps, Siri and free iCloud services, which are bundled in the sales price of iPhone, Mac, iPad and certain other products, in services net sales. Historically, the Company classified the amortization of these amounts in products net sales consistent with its management reporting framework. As a result, products and services net sales information for the second quarter and first six months of 2018 was reclassified to conform to the 2019 presentation.

The following table shows net sales by category for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 30, 2019	March 31, 2018	Change	March 30, 2019	March 31, 2018	Change
Net sales by category:						
iPhone ⁽¹⁾	\$31,051	\$37,559	(17)%	\$83,033	\$98,663	(16)%
Mac ⁽¹⁾	5,513	5,776	(5)%	12,929	12,600	3%
iPad ⁽¹⁾	4,872	4,008	22%	11,601	9,763	19%
Wearables, Home and Accessories ⁽¹⁾⁽²⁾	5,129	3,944	30%	12,437	9,425	32%
Services ⁽³⁾	11,450	9,850	16%	22,325	18,979	18%
Total net sales	\$58,015	\$61,137	(5)%	\$142,325	\$149,430	(5)%

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

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

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

iPhone

iPhone net sales decreased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to lower iPhone unit sales in all the reportable geographic segments.

Mac

Mac net sales decreased during the second quarter of 2019 compared to the same quarter in 2018 due primarily to lower net sales of iMac. Year-over-year Mac net sales increased during the first six months of 2019 due primarily to higher net sales of MacBook Air, partially offset by lower net sales of iMac.

iPad

iPad net sales increased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to higher net sales of iPad Pro®.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales increased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to higher net sales of Apple Watch and AirPods.

Services

Services net sales increased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to the App Store, licensing and AppleCare.

Segment Operating Performance

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

The following table shows net sales by reportable segment for the three- and six-month periods ended March 30, 2019 and March 31, 2018 (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 30, 2019	March 31, 2018	Change	March 30, 2019	March 31, 2018	Change
Net sales by reportable segment:						
Americas	\$25,596	\$24,841	3 %	\$62,536	\$60,034	4 %
Europe	13,054	13,846	(6)%	33,417	34,900	(4)%
Greater China	10,218	13,024	(22)%	23,387	30,980	(25)%
Japan	5,532	5,468	1 %	12,442	12,705	(2)%
Rest of Asia Pacific	3,615	3,958	(9)%	10,543	10,811	(2)%
Total net sales	\$58,015	\$61,137	(5)%	\$142,325	\$149,430	(5)%

Americas

Americas net sales increased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to higher Services and Wearables, Home and Accessories net sales, partially offset by lower iPhone net sales. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Americas net sales during the second quarter and first six months of 2019.

Europe

Europe net sales decreased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to lower iPhone net sales, partially offset by higher Wearables, Home and Accessories and Services net sales. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Europe net sales during the second quarter and first six months of 2019.

Greater China

Greater China net sales decreased during the second quarter and first six months of 2019 compared to the same periods in 2018, driven by lower iPhone net sales. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Greater China net sales during the second quarter and first six months of 2019.

Japan

Japan net sales during the second quarter of 2019 were relatively flat compared to the same quarter in 2018, as higher Services and iPad net sales were primarily offset by lower iPhone net sales. Year-over-year Japan net sales decreased during the first six months of 2019 due primarily to lower iPhone net sales, partially offset by higher Services and iPad net sales. The value of the Japanese Yen relative to the U.S. dollar had a favorable impact on Japan net sales during the second quarter of 2019.

Rest of Asia Pacific

Rest of Asia Pacific net sales decreased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to lower iPhone net sales, partially offset by higher Wearables, Home and Accessories and iPad net sales. The weakness in foreign currencies relative to the U.S. dollar had an unfavorable impact on Rest of Asia Pacific net sales during the second quarter and first six months of 2019.

Gross Margin

Products and services gross margin and gross margin percentage for the three- and six-month periods ended March 30, 2019 and March 31, 2018 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Gross margin:				
Products	\$ 14,518	\$ 17,351	\$ 39,715	\$ 45,940
Services	7,303	6,071	14,137	11,394
Total gross margin	\$ 21,821	\$ 23,422	\$ 53,852	\$ 57,334

Gross margin percentage:

Products	31.2	% 33.8	% 33.1	% 35.2	%
Services	63.8	% 61.6	% 63.3	% 60.0	%
Total gross margin percentage	37.6	% 38.3	% 37.8	% 38.4	%

Products Gross Margin

Products gross margin decreased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to lower iPhone unit sales and the weakness in foreign currencies relative to the U.S. dollar. Year-over-year products gross margin percentage decreased during the second quarter and first six months of 2019 due primarily to the impact of lower iPhone unit sales on the Company's products fixed cost structure and the weakness in foreign currencies relative to the U.S. dollar.

Services Gross Margin

Services gross margin increased during the second quarter and first six months of 2019 compared to the same periods in 2018 due primarily to a different services mix. Year-over-year services gross margin percentage increased during the second quarter and first six months of 2019 due primarily to a different services mix and leverage of the Company's services fixed cost structure from higher services net sales, partially offset by the weakness in foreign currencies relative to the U.S. dollar.

The Company anticipates total gross margin percentage during the third quarter of 2019 to be between 37.0% and 38.0%. The foregoing statement regarding the Company's expected total gross margin percentage in the third quarter of 2019 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins will be subject to volatility and remain under downward pressure due to a variety of factors, including: continued industry-wide global product pricing pressures and product pricing actions that the Company may take in response to such pressures; increased competition; the Company's ability to effectively stimulate demand for certain of its products and services; compressed product life cycles; potential increases in the cost of components, outside manufacturing services, and acquiring and delivering content for the Company's services; the Company's ability to manage product quality and warranty costs effectively; shifts in the mix of products and services, or in the geographic, currency or channel mix; fluctuations in exchange rates; and costs associated with the Company's frequent introductions and transitions of products and services.

Operating Expenses

Operating expenses for the three- and six-month periods ended March 30, 2019 and March 31, 2018 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended		
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018	
Research and development	\$3,948	\$3,378	\$7,850	\$6,785	
Percentage of total net sales	7	% 6	% 6	% 5	%
Selling, general and administrative	\$4,458	\$4,150	\$9,241	\$8,381	
Percentage of total net sales	8	% 7	% 6	% 6	%
Total operating expenses	\$8,406	\$7,528	\$17,091	\$15,166	
Percentage of total net sales	14	% 12	% 12	% 10	%

Research and Development

The growth in research and development (“R&D”) expense during the second quarter and first six months of 2019 compared to the same periods in 2018 was driven primarily by increases in headcount-related expenses and infrastructure-related costs. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace, and to the development of new and updated products and services that are central to the Company’s core business strategy.

Selling, General and Administrative

The growth in selling, general and administrative expense during the second quarter of 2019 compared to the same quarter in 2018 was driven primarily by higher spending on marketing and advertising and increases in headcount-related expenses. The year-over-year growth in selling, general and administrative expense during the first six months of 2019 was driven primarily by increases in headcount-related expenses, marketing and advertising spending and infrastructure-related costs.

Other Income/(Expense), Net

Other income/(expense), net for the three- and six-month periods ended March 30, 2019 and March 31, 2018 was as follows (dollars in millions):

	Three Months Ended			Six Months Ended		
	March 30, 2019	March 31, 2018	Change	March 30, 2019	March 31, 2018	Change
Interest and dividend income	\$1,358	\$1,505		\$2,665	\$2,957	
Interest expense	(1,010)	(792))	(1,900)	(1,526))
Other income/(expense), net	30	(439))	173	(401))
Total other income/(expense), net	\$378	\$274	38 %	\$938	\$1,030	(9) %

The increase in other income/(expense), net during the second quarter of 2019 compared to the same quarter in 2018 was due primarily to the impact of foreign exchange–related items, partially offset by higher interest expense and lower interest income. The year-over-year decrease in other income/(expense), net during the first six months of 2019 was due primarily to higher interest expense, lower interest income and lower investment-related gains, partially offset by the impact of foreign exchange–related items. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 2.27% and 2.14% in the second quarter of 2019 and 2018, respectively, and 2.23% and 2.12% in the first six months of 2019 and 2018, respectively.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for the three- and six-month periods ended March 30, 2019 and March 31, 2018 were as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Provision for income taxes	\$2,232	\$2,346	\$6,173	\$9,311
Effective tax rate	16.2 %	14.5 %	16.4 %	21.6 %
Statutory federal income tax rate	21 %	24.5 %	21 %	24.5 %

The Company's effective tax rate for thesecond quarter of 2019 was lower than the statutory federal income tax rate due primarily to the lower tax rate on foreign earnings. The Company's effective tax rate for the firstsix months of 2019 was lower than the statutory federal income tax rate due primarily to the lower tax rate on foreign earnings and tax benefits from share-based compensation.

The Company's effective tax rate for thesecond quarter of 2019 was higher compared to the same quarter in 2018 due primarily to higher taxes on foreign earnings, partially offset by a lower statutory federal income tax rate in 2019. The Company's effective tax rate for the first six months of 2019 was lower compared to the same period in 2018 due primarily to higher taxes in 2018 arising from the remeasurement of deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act (the "Act") and a lower statutory federal income tax rate in 2019, partially offset by higher taxes on foreign earnings in 2019.

Recent Accounting Pronouncements*Hedging*

In August 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). ASU 2017-12 expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. The Company will adopt ASU 2017-12 in its first quarter of 2020 utilizing the modified retrospective transition method. Based on the Company's derivative portfolio and hedging strategies, the adoption of ASU 2017-12 is not expected to have a material impact on its consolidated financial statements.

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which modifies the measurement of expected credit losses on certain financial instruments. The Company will adopt ASU 2016-13 in its first quarter of 2021 utilizing the modified retrospective transition method. Based on the composition of the Company's investment portfolio, current market conditions, and historical credit loss activity, the adoption of ASU 2016-13 is not expected to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Company will adopt ASU 2016-02 utilizing the modified retrospective transition method through a cumulative-effect adjustment at the beginning of its first quarter of 2020. While the Company is currently evaluating the impact of adopting ASU 2016-02, based on the lease portfolio as of March 30, 2019, the Company anticipates recording lease assets and liabilities of approximately \$9 billion on its Condensed Consolidated Balance Sheets, with no material impact to its Condensed Consolidated Statements of Operations. However, the ultimate impact of adopting ASU 2016-02 will depend on the Company's lease portfolio as of the adoption date.

Liquidity and Capital Resources

The following tables present selected financial information and statistics as of March 30, 2019 and September 29, 2018 and for the first six months of 2019 and 2018 (in millions):

	March 30, 2019	September 29, 2018
Cash, cash equivalents and marketable securities ⁽¹⁾	\$225,411	\$ 237,100
Property, plant and equipment, net	\$38,746	\$ 41,304
Commercial paper	\$11,924	\$ 11,964
Total term debt	\$100,706	\$ 102,519
Working capital	\$29,574	\$ 15,410

	Six Months Ended	
	March 30, 2019	March 31, 2018
Cash generated by operating activities	\$37,845	\$43,423
Cash generated by investing activities	\$19,192	\$15,120
Cash used in financing activities	\$(43,133)	\$(33,773)

As of March 30, 2019 and September 29, 2018, total cash, cash equivalents and marketable securities included \$19.3 billion and \$20.3 billion, ⁽¹⁾ respectively, that was restricted from general use, related to the State Aid Decision (refer to Note 5, "Income Taxes" in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q) and other agreements.

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

In connection with the State Aid Decision, as of March 30, 2019, the entire recovery amount of €13.1 billion plus interest of €1.2 billion was funded into escrow, where it will remain restricted from general use pending conclusion of all appeals.

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

During the six months ended March 30, 2019, cash generated by operating activities of \$37.8 billion was a result of \$31.5 billion of net income and non-cash adjustments to net income of \$9.2 billion, partially offset by a decrease in the net change in operating assets and liabilities of \$2.9 billion. Cash generated by investing activities of \$19.2 billion during the six months ended March 30, 2019 consisted primarily of proceeds from sales and maturities of marketable securities, net of purchases, of \$25.7 billion, partially offset by cash used to acquire property, plant and equipment of \$5.7 billion. Cash used in financing activities of \$43.1 billion during the six months ended March 30, 2019 consisted primarily of cash used to repurchase common stock of \$32.5 billion, cash used to pay dividends and dividend equivalents of \$7.0 billion and cash used to repay term debt of \$2.5 billion.

During the six months ended March 31, 2018, cash generated by operating activities of \$43.4 billion was a result of \$33.9 billion of net income and an increase in the net change in operating assets and liabilities of \$35.8 billion, partially offset by non-cash adjustments to net income of \$26.3 billion. Cash generated by investing activities of \$15.1 billion during the six months ended March 31, 2018 consisted primarily of proceeds from sales and maturities of marketable securities, net of purchases, of \$22.4 billion, partially offset by cash used to acquire property, plant and equipment of \$7.0 billion. Cash used in financing activities of \$33.8 billion during the six months ended March 31, 2018 consisted primarily of cash used to repurchase common stock of \$32.9 billion and cash used to pay dividends and dividend equivalents of \$6.5 billion, partially offset by net proceeds from the issuance of term debt of \$7.0 billion.

Capital Assets

The Company's capital expenditures were \$3.3 billion during the first six months of 2019. The Company anticipates utilizing approximately \$12.0 billion for capital expenditures during 2019, which includes product tooling and manufacturing process equipment; data centers; corporate facilities and infrastructure, including information systems hardware, software and enhancements; and retail store facilities.

Debt

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses the net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of March 30, 2019, the Company had \$11.9 billion of Commercial Paper outstanding, with a weighted-average interest rate of 2.56% and maturities generally less than nine months.

As of March 30, 2019, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$101.2 billion (collectively the "Notes"). During the first six months of 2019, the Company repaid \$2.5 billion of its Notes upon maturity. The Company has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on the Notes. In addition, the Company has entered, and in the future may enter, into foreign currency swaps to manage foreign currency risk on the Notes.

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

Capital Return Program

As of March 30, 2019, the Company had an authorized program to repurchase up to \$100 billion of the Company's common stock, of which \$61.3 billion had been utilized. During the six months ended March 30, 2019, the Company repurchased 164.7 million shares of its common stock for \$32.2 billion, including 55.1 million shares initially delivered under a \$12.0 billion accelerated share repurchase arrangement ("ASR") dated February 2019. On April 30, 2019, the Company announced the Board of Directors increased the share repurchase program authorization from \$100 billion to \$175 billion. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

On April 30, 2019, the Company also announced the Board of Directors raised the Company's quarterly cash dividend from \$0.73 to \$0.77 per share, beginning with the dividend to be paid during the third quarter of 2019. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Contractual Obligations

Operating Leases

As of March 30, 2019, the Company's total future minimum lease payments under noncancelable operating leases were \$10.4 billion. The Company's retail store and other facility leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. As of March 30, 2019, the Company expects to pay \$26.2 billion under manufacturing-related supplier arrangements, which are primarily noncancelable.

Other Purchase Obligations

The Company's other purchase obligations consist of noncancelable obligations to acquire capital assets, including product tooling and manufacturing process equipment, and noncancelable obligations related to advertising, licensing, R&D, internet and telecommunications services, content creation and other activities. As of March 30, 2019, the Company had other purchase obligations of \$6.7 billion.

Other Non-Current Liabilities

As of March 30, 2019, a significant portion of the other non-current liabilities in the Company's Condensed Consolidated Balance Sheet consisted of the \$30.9 billion deemed repatriation tax payable imposed by the Act. The Company plans to pay the deemed repatriation tax payable in installments in accordance with the Act. The Company's remaining other non-current liabilities primarily consist of items for which the Company is unable to make a reasonably reliable estimate of the timing of payments.

Indemnification

Agreements entered into by the Company may include indemnification provisions, which may subject the Company to costs and damages in the event of a claim against an indemnified third party. Except as disclosed in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies," in the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to indemnification of third parties.

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

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 of the Company, 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. While the Company maintains directors and officers liability insurance coverage, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise.

Critical Accounting Policies and Estimates

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

Note 1, "Summary of Significant Accounting Policies" in Part I, Item 1 of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2018 Form 10-K, and "Critical Accounting Policies and Estimates" in Part II, Item 7 of the 2018 Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's condensed consolidated financial statements. With the exception of Revenue Recognition and Impairment of Marketable Debt Securities, there have been no material changes to the Company's critical accounting policies and estimates since the 2018 Form 10-K.

Revenue Recognition

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

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

Impairment of Marketable Debt Securities

The Company's investments in marketable debt securities are classified as available-for-sale and reported at fair value. The Company regularly reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require the Company to record an impairment charge in the period any such determination is made. In making this determination, the Company evaluates, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and the Company's intent to sell, or whether it will more likely than not be required to sell, the security before recovery of its amortized cost basis. The Company's assessment of whether an available-for-sale debt security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security, which would have an adverse impact on the Company's financial condition and operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's market risk during the first six months of 2019. For a discussion of the Company's exposure to market risk, refer to the Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the 2018 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of March 30, 2019 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the second quarter of 2019, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is subject to legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. Except as described in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies," in the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims.

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. Refer to the risk factor "*The Company could be impacted by unfavorable results of legal proceedings, such as being found to have infringed on intellectual property rights*" in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors." The Company settled certain matters during the second quarter of 2019 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results.

Item 1A. Risk Factors

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of the 2018 Form 10-K and in Part II, Item 1A of the Form 10-Q for the quarter ended December 29, 2018, in each case under the heading "Risk Factors." The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-Q. The following information should be read in conjunction with the condensed consolidated financial statements and related notes in Part I, Item 1, "Financial Statements" and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q.

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.

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

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

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

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

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

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

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

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

The Company currently holds a significant number of patents, trademarks and copyrights and has registered, and applied to register, numerous patents, trademarks and copyrights. In contrast, many of the Company's competitors seek to compete primarily through aggressive pricing and very low cost structures, and emulating the Company's products and infringing on its intellectual property. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Company's intellectual property, the Company's ability to maintain a competitive advantage could be adversely affected.

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

Additionally, the Company faces significant competition as competitors 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 expects competition to intensify as competitors attempt to imitate the Company's approach to providing components seamlessly within their individual offerings or work collaboratively to offer integrated solutions. Some of the markets in which the Company competes have from time to time experienced little to no growth or contracted. In addition, an increasing number of internet-enabled devices that include software applications and are smaller, simpler and cheaper than traditional personal computers compete with some of the Company's existing products.

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

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

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

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

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

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

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

The Company has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers' stores with Company employees and contractors, and improving product placement displays. These programs could require a substantial investment while providing no assurance of return or incremental sales. The financial condition of these resellers could weaken, these resellers could stop distributing the Company's products, or uncertainty regarding demand for some or all of the Company's products could cause resellers to reduce their ordering and marketing of the Company's products.

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

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

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

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

The Company's new products often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source.

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

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

The Company relies on single-sourced outsourcing partners in the U.S., Asia and Europe to supply and manufacture many components, and on outsourcing partners primarily located in Asia, for final assembly of substantially all of the Company's hardware products. Any failure of these partners to perform may have a negative impact on the Company's cost or supply of components or finished goods. In addition, manufacturing or logistics in these locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions, economic, business, labor, environmental, public health or political issues, or international trade disputes. The Company has invested in manufacturing process equipment, much of which is held at certain of its outsourcing partners, and has made prepayments to certain of its suppliers associated with long-term supply agreements. While these arrangements help ensure the supply of components and finished goods, if these outsourcing partners or suppliers experience severe financial problems or other disruptions in their business, such continued supply could be reduced or terminated and the recoverability of manufacturing process equipment or prepayments could be negatively impacted.

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

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

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

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

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

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

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

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

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

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

The Company sells and delivers third-party applications for its products through the App Store, Mac App Store and TV App Store. The Company retains a commission from sales through these platforms. If developers reduce their use of these platforms to distribute their applications and offer in-app purchases to customers, then the volume of sales, and the commission that the Company earns on those sales, would decrease.

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

Many of the Company's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, the Company believes such licenses generally can be obtained on reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms or at all. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude the Company from selling certain products or services, or otherwise have a material adverse impact on the Company's financial condition and operating results.

The Company could be impacted by unfavorable results of legal proceedings, such as being found to have infringed on intellectual property rights.

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and have not yet been fully resolved, and new claims may arise in the future. In addition, agreements entered into by the Company sometimes include indemnification provisions which may subject the Company to costs and damages in the event of a claim against an indemnified third party.

Claims against the Company based on allegations of patent infringement or other violations of intellectual property rights have generally increased over time and may continue to increase. In particular, the Company has historically faced a significant number of patent claims relating to its cellular-enabled products, and new claims may arise in the future. For example, technology and other patent-holding companies frequently assert their patents and seek royalties and often enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. The Company is vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in various countries. The plaintiffs in these actions frequently seek injunctions and substantial damages.

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

Except as described in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 10, "Commitments and Contingencies" under the heading "Contingencies," in the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims, including matters related to infringement of intellectual property rights.

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company or an indemnified third party in a reporting period for amounts in excess of management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Company that could materially adversely affect its financial condition and operating results.

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

The Company is subject to laws and regulations worldwide, changes to which could increase the Company's costs and individually or in the aggregate adversely affect the Company's business.

The Company is subject to laws and regulations affecting its domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect the Company's activities in areas including, but not limited to, labor, advertising, digital content, availability of third-party software applications and services, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy and data localization requirements, anti-competition, environmental, health and safety.

By way of example, 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 could include, among others, restrictions on the production, manufacture, distribution and use of devices, locking devices to a carrier's network, or mandating the use of devices on more than one carrier's network. These devices are also 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, or could preclude the Company from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make the Company's products and services less attractive to the Company's customers, delay the introduction of new products and services in one or more regions, or cause the Company to change or limit its business practices. The Company has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Company's employees, contractors or agents will not violate such laws and regulations or the Company's policies and procedures.

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

The Company derives a majority of its net sales and earnings from its international operations. Compliance with applicable U.S. and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy and data localization requirements, environmental laws, labor laws and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although the Company has implemented policies and procedures to comply with these laws and regulations, a violation by the Company's employees, contractors or agents could nevertheless occur. In some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. Violations of these laws and regulations could materially adversely affect the Company's brand, international growth efforts and business.

The Company 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 international trade disputes. Gross margins on the Company's products in foreign countries, and on products that include components obtained from foreign suppliers, could be materially adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. The Company is also exposed to credit and collectibility risk on its trade receivables with customers in certain international markets. There can be no assurance the Company can effectively limit its credit risk and avoid losses.

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

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

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

Investment in new business strategies and acquisitions could disrupt the Company's ongoing business 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, greater than expected liabilities and expenses, inadequate return of capital and unidentified issues not discovered in the Company's due diligence. These new ventures are inherently risky and may not be successful.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

International trade disputes could result in tariffs and other protectionist measures that could adversely affect the Company's business. Tariffs could increase the cost of the Company's products and the components and raw materials that go into making them. These increased costs could adversely impact the gross margin that the Company earns on its products. Tariffs could also make the Company's products more expensive for customers, which could make the Company's products less competitive and reduce consumer demand. Countries may also adopt other protectionist measures that could limit the Company's ability to offer its products and services. Political uncertainty surrounding international trade disputes and protectionist measures could also have a negative effect on consumer confidence and spending, which could adversely affect the Company's business.

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

The Company's operations are also subject to the risks of industrial accidents at its suppliers and contract manufacturers. While the Company's suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to the Company's business and harm to the Company's reputation. Should major public health issues, including pandemics, arise, the Company could be adversely 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 suppliers and contract manufacturers.

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

The Company's profit margins vary across its products, services, geographic segments and distribution channels. For example, 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 financial results may be materially adversely impacted as a result of shifts in the mix of products and services that the Company sells; shifts in the geographic, currency or channel mix of the Company's sales; component cost increases; increases in the cost of acquiring and delivering content for the Company's services; price competition; or the introduction of new products or services, including new products or services with higher cost structures.

The Company has historically experienced higher net sales in its first quarter compared to other quarters in its fiscal year due in part to seasonal holiday demand. Additionally, new product and service introductions can significantly impact net sales, cost of sales and operating expenses. Further, the Company generates a majority of its net sales from a single product and a decline in demand for that product could significantly impact quarterly net sales. The Company could also be subject to unexpected developments, such as lower-than-anticipated demand for the Company's products or services, issues with new product or service introductions, information technology system failures or network disruptions, or failure of one of the Company's logistics, components supply, or manufacturing partners.

The Company's stock price is subject to volatility.

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

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

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

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

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

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

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

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

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

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and resellers. The Company also sells its products directly to small and mid-sized businesses and education, enterprise and government customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral, third-party bank support or financing arrangements, or credit insurance. The Company's exposure to credit and collectibility risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. The Company also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Company. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of inventory components. As of March 30, 2019, a significant portion of the Company's trade receivables was concentrated within cellular network carriers, and its vendor non-trade receivables and prepayments related to long-term supply agreements were concentrated among a few individual vendors located primarily in Asia. While the Company has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables, as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

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

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share repurchase activity during the three months ended March 30, 2019 was as follows (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
December 30, 2018 to February 2, 2019:				
Open market and privately negotiated purchases	28,040	\$ 153.57	28,040	
February 3, 2019 to March 2, 2019:				
February 2019 ASR	55,068	(2) (2)	55,068	(2)
Open market and privately negotiated purchases	25,556	\$ 171.96	25,556	
March 3, 2019 to March 30, 2019:				
Open market and privately negotiated purchases	18,058	\$ 182.70	18,058	
Total	126,722			\$ 38,734

As of March 30, 2019, the Company had an authorized program to repurchase up to \$100 billion of the Company's common stock, of which \$61.3 billion had been utilized. The remaining \$38.7 billion in the table represents the amount available to repurchase shares under the (1) authorized repurchase program as of March 30, 2019. On April 30, 2019, the Company announced the Board of Directors had increased the share repurchase program authorization from \$100 billion to \$175 billion. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

In February 2019, the Company entered into a new ASR to purchase up to \$12.0 billion of the Company's common stock. In exchange for up-front payments totaling \$12.0 billion, the financial institutions that are party to the arrangement committed to deliver shares to the Company (2) during the ASR's purchase period, which will end in or before August 2019. The total number of shares ultimately delivered, and therefore the average price paid per share, will be determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's common stock during that period.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits**Incorporated by Reference**

Exhibit Number	Exhibit Description	Form	Exhibit	Filing Date/ Period End Date
31.1*	<u>Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.</u>			
31.2*	<u>Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.</u>			
32.1**	<u>Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.</u>			
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.			

* Filed herewith.
** Furnished herewith.

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.

May 1, 2019 Apple Inc.

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