TORONTO DOMINION BANK
Form SUPPL
July 22, 2011

Table of Contents

Filed Pursuant to General Instruction II.K of Form-9
File No. 333-167637

Pricing Supplement to the Prospectus Supplement dated June 22, 2011 and the Short Form Base Shelf Prospectus dated July 7, 2010

The Toronto-Dominion Bank

US$2,500,000,000

Floating Rate Senior Medium-Term Notes, Series A, Due 2013

We will pay interest on the Floating Rate Senior Medium-Term Notes, Series A, due 2013, which we refer to in this pricing supplement as the Notes, quarterly on January 26, April 26, July 26 and October 26 of each year. We will make the first interest payment on October 26, 2011. The interest rate on the Notes for each period will be equal to three-month LIBOR plus a spread of 18 basis points. The Notes will mature on July 26, 2013. The Notes will be our unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. We will issue the Notes in minimum denominations of US$2,000 and integral multiples of US$1,000.

Other than as set forth under Terms of the Notes Redemption for Tax Reasons, we may not redeem the Notes prior to their maturity. There is no sinking fund for the Notes.

The Notes will not be listed on any securities exchange.

Investing in the Notes involves a number of risks. See Risk Factors beginning on page S-6 of the prospectus supplement dated June 22, 2011.

The Notes are unsecured and are not savings accounts or insured deposits of a bank. The Notes are not insured or guaranteed by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other governmental agency or instrumentality of Canada or the United States.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Price to the public(1)	100.00%	US$ 2,500,000,000
Underwriting commissions	0.20%	US$ 5,000,000
Proceeds to The Toronto-Dominion Bank	99.80%	US$ 2,495,000,000

(1) The price to the public also will include interest accrued on the Notes after July 27, 2011, if any.

This pricing supplement may be used by certain of our affiliates in connection with offers and sales of the Notes in market-making transactions.

We will deliver the Notes in book-entry only form through the facilities of The Depository Trust Company (including through its indirect participants Euroclear and Clearstream, Luxembourg) on or about July 27, 2011, against payment in immediately available funds.

Joint Book-Runners

TD Securities **Goldman, Sachs & Co.**

TD Securities (USA) LLC is our affiliate. See Underwriting (Conflicts of Interest) in this pricing supplement.

Pricing Supplement dated July 20, 2011

Table of Contents

WHERE YOU CAN YOU FIND MORE INFORMATION

You should read this pricing supplement together with the prospectus supplement dated June 22, 2011 and the short form base shelf prospectus dated July 7, 2010. You should carefully consider, among other things, the matters set forth in Risk Factors in the prospectus supplement. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus Supplement dated June 22, 2011:
http://www.sec.gov/Archives/edgar/data/947263/000095012311060995/y91677lsuppl.htm

Short Form Base Shelf Prospectus dated July 7, 2010 (forming part of Amendment No. 2 to the Registration Statement on Form F-9 (File No. 333-167637)):
http://www.sec.gov/Archives/edgar/data/947263/000095012311059119/y91677fv9za.htm

Our Central Index Key, or CIK, on the SEC website is 947263.

Table of Contents

TERMS OF THE NOTES

We describe the basic features of the Notes in the sections of the short form base shelf prospectus dated July 7, 2010 called Description of the Debt Securities and prospectus supplement dated June 22, 2011 called Description of the Notes We May Offer, subject to and as modified by the provisions described below. References in this pricing supplement to we, us, our or the Bank are to The Toronto-Dominion Bank.

Issuer:	The Toronto-Dominion Bank
Title of Series:	Senior Medium-Term Notes, Series A
Issue:	Floating Rate Senior Medium-Term Notes, Series A, due 2013
Ranking:	Senior
Aggregate Principal Amount Initially Being Issued:	US$2,500,000,000
Currency:	U.S. Dollars
Minimum Denominations:	US$2,000 and minimum denominations of US$1,000 in excess of US$2,000
Pricing Date:	July 20, 2011
Issue Date:	July 27, 2011
Maturity Date:	July 26, 2013
CUSIP/ISIN:	89114QAD0/US89114QAD07
Day Count Fraction:	Actual/360
Base Rate:	LIBOR
Index Maturity:	Three months
Spread:	+18 basis points
Interest Payment Dates:	Quarterly, on January 26, April 26, July 26 and October 26 of each year, beginning October 26, 2011.
Interest Determination Date:	The second London business day preceding the applicable Interest Reset Date.
Record Dates for Interest Payments:	The fifteenth calendar day prior to the applicable Interest Payment Date.
Redemption at Our Option:	

	Not applicable, other than as set forth under Redemption for Tax Reasons.
Optional Redemption by Holders of Notes:	Not applicable.
Optional Redemption by Us for Tax Reasons:	In certain circumstances where we have or will become obligated to pay additional amounts, we may redeem, at our option, the Notes in whole but not in part, at any time before maturity, after giving not less than 15 nor more than 45 calendar days notice to the trustee under the indenture and to the holders of the Notes, at a redemption price equal to 100% of their principal amount together with accrued interest, if any, to, but excluding, the redemption date. See Redemption for Tax Reasons.

Table of Contents

Listing:	The Notes will not be listed on any securities exchange.
Clearance and Settlement:	DTC global (including through its indirect participants Euroclear and Clearstream, Luxembourg as described under Description of the Debt Securities Book-Entry Procedures and Settlement in the prospectus dated July 7, 2010).
Terms Incorporated in the Master Note:	All of the terms appearing above the item captioned Listing on page PS-3 of this pricing supplement and under Additional Amounts and Redemption for Tax Reasons.
Conflicts of Interest:	TD Securities (USA) LLC is our affiliate. The agents are members of the Financial Industry Regulatory Authority, Inc., or FINRA. Accordingly, the offering of the Notes will conform to the requirements of FINRA Rule 5121. TD Securities (USA) LLC is not permitted to sell the Notes to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Table of Contents

Additional Amounts

All payments of principal and interest in respect of the Notes by us will be made without us making any withholding of or deduction for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (Taxes) imposed or levied by or on behalf of Canada or any political subdivision or taxing authority thereof or therein having the power to tax (each a Taxing Jurisdiction), unless the withholding or deduction of such Taxes is required or authorized by law or the administration thereof. In that event, we will, subject to certain exceptions and limitations set forth below, pay such additional amounts (Additional Amounts) to the beneficial owner of any Note as may be necessary in order that every net payment of the principal of and interest on such Note and any other amounts payable on such Note, after any such withholding or deduction, will not be less than the amount provided for in such Note to be then due and payable. We will not, however, be required to make any payment of Additional Amounts to any holder or beneficial owner for or on account of:

any Taxes that would not have been so imposed but for a present or former connection (including, without limitation, carrying on business in Canada or a province or territory of Canada or having a permanent establishment or fixed base in Canada or a province or territory of Canada) between such holder or beneficial owner of a Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, such holder or beneficial owner, if such holder or beneficial owner is an estate, trust, partnership, limited liability company or corporation) and Canada or a political subdivision or taxing authority of or in Canada, other than merely holding such Note or receiving payments with respect to such Note;

any estate, inheritance, gift, sales, transfer or personal property Tax or any similar Tax with respect to a Note;

any Tax imposed by reason that such holder or beneficial owner of a Note does not deal at arm s length within the meaning of the *Income Tax Act* (Canada) with us;

any Tax that is levied or collected otherwise than by withholding from payments on or in respect of any Note;

any Tax required to be withheld by any paying agent from any payment of principal of, or interest on, any Note, if such payment can be made without such withholding by at least one other paying agent;

any Tax that would not have been imposed but for the failure of a holder or beneficial owner of a Note to comply with certification, information or other reporting requirements, if such compliance is required by Canada or any political subdivision or taxing authority of or in Canada as a precondition to relief or exemption from such Tax;

any Tax which would not have been imposed but for the presentation of a Note (where presentation is required) for payment on a date more than 30 days after (i) the date on which such payment became due and payable or (ii) the date on which payment thereof is duly provided for, whichever occurs later; or

any combination of the items listed above;

nor will Additional Amounts be paid with respect to any payment on a Note to a holder or beneficial owner who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner held its interest in the Note directly.

Table of Contents

Redemption for Tax Reasons

We may redeem the Notes, in whole but not in part, at our option at any time prior to maturity, upon the giving of a notice of redemption as described below if (i) we have or will become obligated to pay Additional Amounts, as described above under Additional Amounts , as a result of any change in or amendment (including any announced prospective change) to the laws or treaties of the relevant Taxing Jurisdiction or any rules or regulations or administrative pronouncements thereunder or any change in position regarding the application, administration or interpretation of such laws, treaties, rules, regulations or administrative pronouncements (including a holding, judgment or order by a court of competent jurisdiction), which change or amendment was announced or became effective on or after the date of this pricing supplement, and (ii) we have determined that the obligation to pay such Additional Amounts cannot be avoided by taking reasonable measures available to us. For the avoidance of doubt reasonable measures do not include a change in the terms of the Notes or a substitution of the debtor.

Any Notes redeemed for tax reasons will be redeemed at 100% of their principal amount together with interest accrued up to, but excluding, the redemption date.

Prior to the giving of any notice of redemption pursuant to this paragraph, we will deliver to the trustee:

- a certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred; and

- an opinion of independent counsel or written advice of a qualified tax expert, such counsel or expert being reasonably acceptable to the trustee, to such effect based on such statements of facts;

provided that no such notice of redemption shall be given earlier than 45 days prior to the earliest date on which we would be obligated to pay such Additional Amounts if a payment in respect of a Note were then due. Notice of redemption will be given to the trustee under the indenture and to the holders of the Notes not less than 15 nor more than 45 days prior to the date fixed for redemption, which date and the applicable redemption price will be specified in the notice.

Table of Contents

U.S. FEDERAL INCOME TAX CONSIDERATIONS

For a discussion of certain material U.S. federal income tax consequences of owning the Notes, please see the section Tax Consequences United States Taxation in the accompanying prospectus supplement.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

For a discussion of certain material Canadian federal income tax consequences of owning the Notes, please see the section Tax Consequences Canadian Taxation in the accompanying prospectus supplement.

Table of Contents

UNDERWRITING (CONFLICT OF INTERESTS)

On July 20, 2011, we entered into a terms agreement with the agents pursuant to the Distribution Agreement, dated June 22, 2011, among us and the agent party thereto for the purchase and sale of the Notes. We have agreed to sell to each of the agents, and each of the agents have agreed to purchase from us, as principal, the principal amount of the Notes shown opposite its name at the public offering price set forth above.

Agent		**Principal Amount of Notes**
TD Securities (USA) LLC	US$	1,875,000,000
Goldman, Sachs & Co.	US$	625,000,000
Total	US$	2,500,000,000

We estimate that the total offering expenses for the Notes, excluding underwriting commissions, will be approximately US$550,000.

We have agreed to indemnify the several agents against certain liabilities, including liabilities under the Securities Act of 1933.

We expect that delivery of the Notes will be made against payment for the Notes on or about July 27, 2011, which is the fifth (5th) business day following the pricing date (this settlement cycle being referred to as T+5). Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, generally requires that securities trades in the secondary market settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the pricing date or the next succeeding business day will be required, by virtue of the fact that the Notes will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Such purchasers should also consult their own advisors in this regard. See Supplemental Plan of Distribution (Conflicts of Interest) in the prospectus supplement dated June 22, 2011.

The agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the agents and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The agents and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Conflicts of Interest

TD Securities (USA) LLC is our affiliate. The agents are members of FINRA. Accordingly, the offering of the Notes will conform to the requirements of FINRA Rule 5121. TD Securities (USA) LLC is not permitted to sell the Notes to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Table of Contents

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus supplement, together with the short form base shelf prospectus dated July 7, 2010 to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference in the short form base shelf prospectus, as amended or supplemented, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Prospectus Supplement to Short Form Base Shelf Prospectus Dated July 7, 2010

The Toronto-Dominion Bank
Up to US$15,000,000,000

Senior Medium-Term Notes, Series A
Terms of Sale

The Toronto-Dominion Bank may from time to time offer and sell notes with various terms (the notes), including the following:

- stated maturity of 9 months or longer
- fixed interest rate, including zero-coupon, or floating interest rate, or a combination of both; a floating interest rate may be based on:
  - commercial paper rate
  - U.S. prime rate
  - LIBOR
  - EURIBOR
  - Treasury rate
  - CMT rate
  - CD rate
  - CMS rate
  - federal funds rate
- ranked as senior indebtedness of The Toronto-Dominion Bank
- book-entry form only through The Depository Trust Company
- redemption at the option of The Toronto-Dominion Bank or the option of the holder
- interest on notes paid monthly, quarterly, semi-annually or annually
- unless otherwise set forth in the applicable pricing supplement, minimum denominations of US$2,000 and integral multiples of US$1,000 in excess thereof
- denominated in U.S. dollars, a currency other than U.S. dollars or in a composite currency
- settlement in immediately available funds
- may be issued with original issue discount

The final terms of each note will be included in a pricing supplement. For information regarding the agent s commissions, see Supplemental Plan of Distribution (Conflicts of Interest). The aggregate initial offering price of the notes is subject to reduction as a result of the sale by The Toronto-Dominion Bank of other debt securities pursuant to another prospectus supplement to the accompanying prospectus.

See Risk Factors beginning on page S-6 to read about factors you should consider before investing in any notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

The notes will not constitute deposits insured under the Canada Deposit Insurance Corporation Act or by the United States Federal Deposit Insurance Corporation or any other Canadian or United States governmental agency or instrumentality.

The Toronto-Dominion Bank may sell the notes directly or through one or more agents or dealers, including the agents referred to in Supplemental Plan of Distribution. The agents are not required to sell any particular amount of the notes.

The Toronto-Dominion Bank may use this prospectus supplement in the initial sale of any notes. In addition, this prospectus supplement may be used by certain of our affiliates in connection with offers and sales of the notes in market-making transactions. In a market-making transaction, our affiliates may resell a note it acquires from other holders, after the original offering and sale of the note. Resales of this kind may occur in the open market or may be privately negotiated, at prevailing market prices at the time of the resale or at related or negotiated prices. In these transactions, our affiliates may act as principal or as agent, including as agent for the counterparty in a transaction in which our affiliates act as principal. Our affiliates may receive compensation in the form of discounts and commissions including from both counterparties in some cases.

No underwriter, as defined under Canadian securities legislation, has been involved in the preparation of, or has performed any review of, the contents of this prospectus supplement or the accompanying prospectus.

Arranger
TD Securities

The date of this prospectus supplement is June 22, 2011.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus provide you with a general description of the notes we may offer. Each time we sell notes we will provide a pricing supplement containing specific information about the terms of the notes being offered. Each pricing supplement may include a discussion of any risk factors or other special considerations that apply to those notes. The pricing supplement may also add, update or change the information in this prospectus supplement. If there is any inconsistency between the information in this prospectus supplement or any pricing supplement, you should rely on the information in that pricing supplement.

THE TORONTO-DOMINION BANK

The Toronto-Dominion Bank, which we refer to as TD, we or us, is the sixth largest bank in North America by branches and serves more than 19 million customers in four key businesses operating in a number of locations in key financial centres around the globe: Canadian Personal and Commercial Banking, including TD Canada Trust and TD Insurance; Wealth Management, including TD Waterhouse and an investment in TD Ameritrade; U.S. Personal and Commercial Banking, including TD Bank, America s Most Convenient Bank; and Wholesale Banking, including TD Securities. TD also ranks among the world s leading online financial services firms, with approximately 7 million online customers. TD Group had CDN$630 billion in assets on April 30, 2011. The Toronto-Dominion Bank trades under the symbol TD on the Toronto and New York Stock Exchanges. To find out how to obtain more information about us, see Available Information on page I-6 of the accompanying prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

This prospectus supplement is deemed to be incorporated by reference into the accompanying prospectus solely for the purpose of the notes to be issued hereunder. Other documents are also incorporated or deemed to be incorporated by reference into the accompanying prospectus and reference should be made to the accompanying prospectus for full particulars thereof.

The following documents with respect to TD filed with the securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this prospectus supplement:

(a) the Second Quarter Report to Shareholders for the three and six months ended April 30, 2011, which includes comparative consolidated interim financial statements (unaudited) and Management s Discussion & Analysis (MD&A);

(b) the Management Proxy Circular dated as of January 27, 2011;

(c) the Annual Information Form dated December 1, 2010; and

(d) the consolidated audited financial statements for the fiscal year ended October 31, 2010 with comparative consolidated financial statements for the fiscal year ended October 31, 2009, together with the auditors report thereon and MD&A as contained in the Annual Report to Shareholders for the year ended October 31, 2010.

Any management proxy circular, annual information form, consolidated audited financial statements, interim unaudited financial statements, material change reports (excluding confidential material change reports) or business acquisition reports, all as filed by TD with the various securities commissions or similar authorities in Canada pursuant to the requirements of applicable securities legislation after the date of this prospectus supplement and prior to the termination of the offering of notes hereunder will be deemed to be incorporated by reference into this prospectus supplement.

A pricing supplement describing the specific terms of an offering of notes and containing such other information that TD may elect to include will be delivered to purchasers of the notes together with this prospectus supplement and the accompanying prospectus and will be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus as of the date of the applicable pricing supplement solely for the purpose of the notes issued thereunder.

Table of Contents

Updated earnings coverage ratios, as necessary, will be filed quarterly with the various securities commissions and similar authorities in Canada, either as prospectus supplements to the accompanying prospectus or as exhibits to TD s unaudited interim and audited annual consolidated financial statements, and will be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus for the issuance of notes thereunder.

Any statement contained in the accompanying prospectus, in this prospectus supplement or in any other document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this prospectus supplement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

TRADING PRICE AND VOLUME OF TD S SECURITIES

The following chart sets out the trading price in Canadian dollars and volume of TD s securities on the Toronto Stock Exchange during the 12 months preceding the date of this prospectus supplement:

une 010	July 2010	August 2010	Sept. 2010	October 2010	Nov. 2010	Dec. 2010	January 2011	Feb. 2011	March 2011	April 2011	M 20
					COMMON SHARES						
74.26	74.95	74.49	76.50	76.14	75.47	75.87	76.72	81.69	86.82	86.75	8
68.17	67.63	68.25	71.95	72.41	72.05	70.48	73.50	75.11	79.52	80.39	8
0,356	41,746	44,280	54,628	40,170	41,468	64,303	46,787	40,173	55,842	36,108	32
					CLASS A FIRST PREFERRED SHARES						
26.40	26.35	26.45	26.85	26.19	25.90	25.93	26.00	25.72	25.83	25.95	2
25.74	25.67	26.05	25.91	25.80	25.77	25.75	25.56	25.55	25.52	25.53	2
126	139	159	71	267	820	400	963	256	262	83	
26.25	26.10	26.20	26.60	26.20	26.00	25.94	27.75	25.75	25.80	27.70	2
25.70	25.85	25.98	25.80	25.67	25.72	25.75	25.56	25.50	25.65	25.61	2
41	28	40	37	77	49	27	433	88	66	295	
21.38	21.87	22.70	23.91	23.96	24.74	24.45	24.70	24.59	25.05	25.31	2
20.22	20.94	21.68	22.52	23.26	23.82	23.00	23.49	24.09	24.35	24.27	2
639	498	576	711	501	579	425	342	338	497	488	

23.16	23.50	24.38	24.90	25.19	25.25	25.54	25.49	25.39	26.00	25.96
21.90	22.75	23.25	24.15	24.46	24.66	24.75	24.69	24.77	25.10	25.05
145	96	140	384	360	417	127	165	299	269	113
24.63	24.94	25.25	25.84	25.99	26.08	25.93	26.00	25.88	26.16	26.19
23.21	24.23	24.65	25.24	25.32	25.50	25.40	25.50	25.60	25.66	25.39
117	91	105	112	172	371	224	433	149	247	134
24.50	24.96	25.25	25.84	25.87	26.31	25.83	25.94	25.87	26.13	26.17
23.22	24.19	24.55	25.02	25.13	25.15	25.11	25.24	25.52	25.65	25.45
268	327	328	290	285	356	159	212	202	247	246

Table of Contents

June 2010	July 2010	August 2010	Sept. 2010	October 2010	Nov. 2010	Dec. 2010	January 2011	Feb. 2011	March 2011	April 2011	May 2011
26.10	26.29	27.00	27.40	26.95	26.83	26.41	26.59	26.10	26.29	26.43	26.2
25.66	25.75	26.07	26.49	26.16	26.14	25.82	25.88	25.61	25.87	25.70	25.9
529	410	185	160	173	540	114	72	232	288	111	6
26.32	26.29	26.70	27.35	26.86	26.98	26.50	26.64	26.35	26.46	26.58	26.3
25.77	25.75	26.17	26.53	26.26	26.09	25.83	26.12	25.90	26.07	25.87	26.0
54	275	44	189	110	425	97	157	190	120	62	19
26.28	26.42	26.84	27.17	26.85	26.90	26.72	26.74	26.62	26.43	26.55	26.5
25.82	25.80	26.15	26.63	26.25	26.14	26.08	26.00	25.81	25.92	25.96	26.0
107	312	94	111	274	168	128	250	133	200	120	13
26.90	27.05	27.50	27.73	27.37	27.38	27.22	27.22	26.90	27.02	27.09	26.8
26.23	26.50	26.88	27.15	26.70	26.92	26.50	26.44	26.17	26.46	26.35	26.4
327	289	92	223	215	222	391	236	156	84	142	11
27.75	27.75	28.20	28.38	28.02	28.11	27.94	27.78	27.50	27.69	27.67	27.6
26.92	27.20	27.35	27.96	27.47	27.65	27.20	27.10	26.95	27.33	26.99	27.1
275	256	156	441	435	317	168	220	348	204	171	12
27.96	27.90	28.05	28.49	28.10	28.00	27.90	27.72	27.44	27.62	27.60	27.5
26.94	27.25	27.38	27.87	27.48	27.62	27.31	27.10	26.78	27.25	26.95	27.1
352	323	289	681	647	334	208	294	309	523	221	61

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

The Company utilizes a variety of direct and indirect distribution channels. The Company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware, software, and peripheral integration, demonstrate the unique digital lifestyle solutions that are available only on Mac computers, and demonstrate the compatibility of the Mac with the Windows platform and networks. The Company further believes providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers. To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to expand and improve its distribution capabilities by opening its own retail stores in the U.S. and internationally. The Company had 247 stores open as of September 27, 2008.

The Company has also invested in programs to enhance reseller sales, including the Apple Sales Consultant Program, which places Apple employees and contractors at selected third-party reseller locations. The Company believes providing direct contact with its targeted customers is an efficient way to demonstrate the advantages of its Mac computers and other products over those of its competitors. The Company also sells to customers directly through its online stores around the world and through its direct sales force.

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

iPhone is distributed through the Company, its cellular network carriers distribution channels, and certain third-party resellers. The Company has signed multi-year agreements with various cellular network carriers authorizing them to distribute and provide cellular network services for iPhone 3G in over 70 countries. These agreements are generally not exclusive with a specific carrier, except in the U.S., U.K., France, Germany, Spain, Ireland, and certain other countries. The Company expects to ship iPhone 3G in over 70 countries by the end of calendar year 2008.

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 in its Consolidated Financial Statements and accompanying notes. Note 1 Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company s Consolidated Financial Statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

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

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, music products, digital content, peripherals, and service and support contracts. The Company recognizes revenue for software products (operating system software and applications software), or any product that is considered to be software-related, in accordance with the guidance in Emerging Issues Task Force (EITF) No. 03-5, *Applicability of AICPA Statement of Position 97-2 to Non-software Deliverables in an Arrangement Containing More-Than-Incidental Software*, (e.g., Mac computers, iPod portable digital music players and iPhone) pursuant to American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended. For products that are not software or software-related, (e.g., digital content sold on the iTunes Store and certain Mac, iPod and iPhone supplies and accessories), the Company recognizes revenue pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition.*

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. If at the outset of an arrangement the Company determines the arrangement fee is not, or is presumed not to be, fixed or determinable, revenue is deferred and subsequently recognized as amounts become due and payable and all other criteria for revenue recognition have been met.

For both Apple TV and iPhone, the Company has indicated that from time-to-time it may provide future unspecified features and additional software products free of charge to customers. Therefore, sales of Apple TV and iPhone handsets are recognized under subscription accounting in accordance with SOP No. 97-2. The Company recognizes the associated revenue and cost of goods sold on a straight-line basis over the currently estimated 24-month economic lives of these products, with any loss recognized at the time of sale. Costs incurred by the Company for engineering, sales, marketing, and warranty are expensed as incurred.

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

Allowance for Doubtful Accounts

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

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

Inventory Valuation and Inventory Purchase Commitments

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

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

Table of Contents

Warranty Costs

The Company provides for the estimated cost for hardware and software warranties at the time the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company s typical experience. Each quarter, the Company reevaluates its estimates to assess the adequacy of its recorded warranty liabilities considering the size of the installed base of products subject to warranty protection and adjusts the amounts as necessary. For products accounted for under subscription accounting pursuant to SOP No. 97-2, the Company recognizes warranty expense as incurred. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liability would be required and could negatively affect the Company s results of operations.

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

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*. Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award s fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense ratably on a straight-line basis over the requisite service period. The BSM option-pricing model requires various judgmental assumptions including expected volatility, forfeiture rates, and expected option life. Significant changes in any of these assumptions could materially affect the fair value of stock-based awards granted in the future.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized. Effective at the beginning of 2008, the Company adopted Financial Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. Further information may be found in Note 5, Income Taxes in the Notes to Consolidated Financial Statements of this Form 10-K.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of FIN 48 and other complex tax laws. Resolution of these uncertainties in a manner inconsistent with management s expectations could have a material impact on the Company s financial condition and operating results.

Legal and Other Contingencies

As discussed in Part I, Item 3 of this Form 10-K under the heading Legal Proceedings and in Note 8 Commitments and Contingencies in Notes to Consolidated Financial Statements, the Company is subject to

Table of Contents

various legal proceedings and claims that arise in the ordinary course of business. In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management s opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate have a material adverse effect on its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

Net Sales

Fiscal years 2008 and 2007 spanned 52 weeks while fiscal year 2006 spanned 53 weeks. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters.

The following table summarizes net sales and Mac unit sales by operating segment and net sales and unit sales by product during the three fiscal years ended September 27, 2008 (in millions, except unit sales in thousands and per unit amounts):

	2008	Change	2007	Change	2006
Net Sales by Operating Segment:					
Americas net sales	$ 14,573	26%	$ 11,596	23%	$ 9,415
Europe net sales	7,622	40%	5,460	33%	4,096
Japan net sales	1,509	39%	1,082	(11)%	1,211
Retail net sales	6,315	53%	4,115	27%	3,246
Other Segments net sales (a)	2,460	40%	1,753	30%	1,347
Total net sales	$ 32,479	35%	$ 24,006	24%	$ 19,315
Unit Sales by Operating Segment:					
Americas Mac unit sales	3,980	32%	3,019	24%	2,432
Europe Mac unit sales	2,519	39%	1,816	35%	1,346
Japan Mac unit sales	389	29%	302	(1)%	304
Retail Mac unit sales	2,034	47%	1,386	56%	886
Other Segments Mac unit sales (a)	793	50%	528	58%	335
Total Mac unit sales	9,715	38%	7,051	33%	5,303
Net Sales by Product:					
Desktops (b)	$ 5,603	39%	$ 4,020	21%	$ 3,319
Portables (c)	8,673	38%	6,294	55%	4,056
Total Mac net sales	14,276	38%	10,314	40%	7,375
iPod	9,153	10%	8,305	8%	7,676
Other music related products and services (d)	3,340	34%	2,496	32%	1,885
iPhone and related products and services (e)	1,844	NM	123	NM	
Peripherals and other hardware (f)	1,659	32%	1,260	15%	1,100
Software, service, and other sales (g)	2,207	46%	1,508	18%	1,279
Total net sales	$ 32,479	35%	$ 24,006	24%	$ 19,315
Unit Sales by Product:					
Desktops (b)	3,712	37%	2,714	12%	2,434
Portables (c)	6,003	38%	4,337	51%	2,869
Total Mac unit sales	9,715	38%	7,051	33%	5,303
Net sales per Mac unit sold (h)	$ 1,469	%	$ 1,463	5%	$ 1,391

iPod unit sales	54,828	6%	51,630	31%	39,409
Net sales per iPod unit sold (i)	$ 167	4%	$ 161	(17)%	$ 195
iPhone unit sales	11,627	NM	1,389	NM	

41

Table of Contents

(a) Other Segments include Asia Pacific and FileMaker.
(b) Includes iMac, Mac mini, Mac Pro, Power Mac, and Xserve product lines.
(c) Includes MacBook, iBook, MacBook Air, MacBook Pro, and PowerBook product lines.
(d) Consists of iTunes Store sales, iPod services, and Apple-branded and third-party iPod accessories.
(e) Derived from handset sales, carrier agreements, and Apple-branded and third-party iPhone accessories.
(f) Includes sales of Apple-branded and third-party displays, wireless connectivity and networking solutions, and other hardware accessories.
(g) Includes sales of Apple-branded operating system and application software, third-party software, AppleCare, and Internet services.
(h) Derived by dividing total Mac net sales by total Mac unit sales.
(i) Derived by dividing total iPod net sales by total iPod unit sales.
NM = Not Meaningful

Fiscal Year 2008 versus 2007

Net sales during 2008 increased 35% or $8.5 billion from 2007. Several factors contributed to these increases including the following:

Mac net sales increased $4.0 billion or 38% during 2008 compared to 2007, while Mac unit sales increased by 2.7 million units or 38%. Net sales related to the Company s Mac shipments accounted for 44% of the Company s total net revenue. Higher Mac unit sales, which contributed to the increases in net sales, were driven by higher sales of all of the Company s portable products as well as the popularity of the iMac, which experienced strong growth in net sales and unit sales in all of the Company s reportable segments. Unit sales of the Company s portable products accounted for 62% of the Company s personal computer shipments in both 2008 and 2007. Net sales and unit sales of the Company s portable products both increased by 38% during 2008 compared to 2007. This growth was attributable to strong demand for all the portable products, particularly the MacBook, which had double-digit growth in all of the Company s operating segments, and the addition of the MacBook Air, which was introduced to the Company s portable product line in January 2008. Growth of the Company s desktop systems was also strong, with increased net sales and unit sales of 39% and 37%, respectively, during 2008 due primarily to strong sales of the iMac in all of the Company s operating segments.

Net sales of iPods increased $848 million or 10% during 2008 compared to 2007 whereas unit sales of iPods increased 6% compared to 2007. The iPod unit growth was due to strong demand for the iPod touch, and to a lesser extent, higher unit sales of the iPod shuffle due to a price reduction in February 2008. iPod net sales grew faster than iPod unit sales due to higher average selling prices caused by a shift in overall iPod product mix to the higher priced iPod touch.

Net sales of iPhone and related products and services were $1.8 billion for 2008, with iPhone handset unit sales totaling 11.6 million. During 2008, sales of iPhone expanded beyond the U.S. and the Company expects to be shipping iPhones in over 70 countries by the end of December 2008. Net sales of iPhone and related products and services were $123 million in 2007, which represented sales for one fiscal quarter. iPhone net sales include the portion of handset revenue recognized in accordance with subscription accounting over the product s 24-month estimated economic life, as well as revenue from sales of iPhone accessories and from carrier agreements.

Net sales of other music related products and services increased $844 million or 34% during the 2008 compared to 2007, due primarily to significantly increased net sales from the iTunes Store in each of the Company s geographic segments. The Company believes this success is the result of heightened consumer interest in downloading third-party digital content, the expansion of third-party audio and video content available for sale and rent via the iTunes Store, and the launch of the iTunes App Store. The Company continues to expand its iTunes content offerings around the world.

Net sales of peripherals and other hardware increased $399 million or 32% compared to 2007 due to an increase in wireless networking products and other hardware accessories, including printers and scanners, which was partially offset by a decrease in net sales of displays.

42

Table of Contents

Net sales of software, service, and other sales rose $699 million or 46% during 2008 compared to 2007. This growth was due in large part to increased sales of Apple-branded and third-party developers software products and increased net sales of AppleCare Protection Plan (APP) extended service and support contracts.

Fiscal Year 2007 versus 2006

Net sales during 2007 increased 24% or $4.7 billion from 2006 even though fiscal year 2007 spanned 52 weeks while fiscal year 2006 spanned 53 weeks. Several factors contributed to these increases including the following:

Mac net sales increased $3 billion or 40% during 2007 compared to 2006, while Mac unit sales increased by 1.75 million units or 33%. The 33% Mac unit sales growth rate is significantly greater than the estimated growth rate of the overall personal computer industry during that timeframe. Unit sales of the Company s portable products accounted for 62% of the Company s personal computer shipments in 2007, up from 54% in 2006. Net sales and unit sales of the Company s portable products increased 55% and 51%, respectively, during 2007 compared to 2006. This growth was due to strong demand for the MacBook, which increased in each of the Company s operating segments, as well as the MacBook Pro, which increased in each operating segment except Japan. Mac desktop net sales and unit sales increased by 21% and 12%, respectively, during 2007 due to stronger sales of the iMac in each of the Company s operating segments. The Mac desktop net sales growth was greater than the unit sales growth due primarily to a shift in desktop product mix away from the lower-price Mac Mini and discontinued eMac and toward the iMac.

Net sales of iPods increased $629 million or 8% during 2007 compared to 2006. Unit sales of iPods increased 31% compared to 2006. The iPod growth was driven primarily by increased sales of the iPod shuffle and iPod nano particularly in international markets. iPod unit sales growth was significantly greater than iPod net sales due to a shift in overall iPod product mix, as well as due to lower selling prices for the iPod classic, iPod nano and iPod shuffle in 2007 compared to 2006.

Net sales of iPhone and related products and services were $123 million in 2007. iPhone net sales include the portion of iPhone handset revenue recognized in accordance with subscription accounting over the product s 24-month estimated economic life, as well as sales of iPhone accessory products and revenue from carrier agreements. iPhone unit sales were 1.39 million in 2007.

Net sales of other music related products and services increased $611 million or 32% during 2007 compared to 2006 due to increased net sales from the iTunes Store. The Company believes this growth was the result of heightened consumer interest in downloading digital content and the expansion of third-party audio and video content available for sale via the iTunes Store.

Net sales of peripherals and other hardware increased $160 million or 15% compared to 2006 due to an increase in wireless networking products and other hardware accessories, including printers and scanners, which was partially offset by a decrease in net sales of displays.

Net sales of software, service, and other sales rose $229 million or 18% during 2007 compared to 2006. This growth was attributable primarily to increased net sales of APP extended service and support contracts and increased sales of Apple branded and third-party developers software products.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company s reportable operating segments consist of the Americas, Europe, Japan, and Retail. The Americas, Europe, and Japan reportable segments do not include activities related to the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries as well as the Middle East and Africa. The Retail segment operates Apple-owned retail stores in the U.S. and in international markets. Each reportable geographic operating segment and the Retail operating segment provide similar hardware and software products and similar services. Further information regarding the Company s operating segments may be found in Note 9, Segment Information and Geographic Data in Notes to Consolidated Financial Statements of this Form 10-K.

Table of Contents

Americas

During 2008, net sales in the Americas segment increased $3.0 billion or 26% compared to 2007. The primary drivers of this growth were the significant year-over-year increase in sales of the iPod touch, Mac portable systems, content from the iTunes Store, and iPhone. The Company began shipping iPhone in June 2007 and the growth in iPhone sales in 2008 resulted from a full year of iPhone shipments. The increase in Mac net sales of $1.3 billion or 30% and Mac unit sales of 961 million or 32% is attributable to growth in all of the Mac portable systems, particularly the MacBook, and higher sales of the iMac. Net sales of iPods increased due to a shift in product mix toward higher priced iPods, particularly the iPod touch, which was upgraded in June 2008. In 2008, the Americas segment represented 45% of the Company s total net sales as compared to 48% in the same period of 2007. During 2008, U.S. education channel net sales and Mac unit sales increased by 14% and 19%, respectively, compared to 2007. Net sales from the higher education market grew 15% during 2008 compared to 2007, while net sales in the K-12 market grew 12% during the same period.

During 2007, net sales in the Americas segment increased $2.2 billion, or 23%, compared to 2006. The main sources of this growth were Mac portable products, iMacs, iPods, and the sales of third-party content from the iTunes Store. Sales of Mac portable products increased due to the popularity of the MacBook, introduced in May 2006 and updated in May 2007, as well as the MacBook Pro, introduced in January 2006 and updated in June 2007. Sales of iMacs grew due to a shift in desktop product mix away from the Mac mini and discontinued eMac as well as the strong reception of the new iMac introduced in August 2007. Sales of iPods grew due to increased demand for the iPod nano and iPod shuffle and the introduction of the iPod touch in September 2007. During 2007, the Americas segment represented 48% of the Company s total net sales as compared to 49% in the same period of 2006. During 2007, U.S. education channel net sales and Mac unit sales increased by 14% and 18%, respectively, compared to 2006. Net sales from the higher education market grew 17% during 2007 compared to 2006, while net sales in the K-12 market grew 10% during the same period.

Europe

For 2008, net sales and unit sales in Europe increased 40% and 39%, respectively, compared to the same period in 2007. The main drivers of this growth were strong sales of Mac portable systems and iMac, increased sales from the iTunes Store, and iPhone. Also contributing to the increase in net sales were higher iPod net sales due primarily to the iPod touch, which was upgraded in June 2008. Sales of Mac portable products increased due to the MacBook Pro and the MacBook, both updated in February 2008, as well as the MacBook Air, introduced in January 2008. Mac desktop sales also increased due primarily to the popularity of the iMac, which was updated in April 2008. Sales from the iTunes Store grew substantially by 79% from 2007 as a result of heightened consumer interest in downloading digital content and the expansion of third-party audio and video content available for sale via the iTunes Store. The Europe segment represented 23% of total net sales in 2008, consistent with 2007.

Europe segment net sales increased $1.4 billion or 33% during 2007 compared to 2006. Consistent with the Americas segment, the primary drivers of this growth were Mac portable products, iMacs, iPods, and the sales of third-party content from the iTunes Store. Sales of Mac portable products increased due to the popularity of both the MacBook and MacBook Pro. Sales of iMacs grew due to a shift in desktop product mix away from the Mac mini and discontinued eMac as well as the strong reception of the new iMac introduced in August 2007. Sales of iPods grew due primarily to increased demand for the iPod nano and iPod shuffle. The Company believes that the growth in iTunes Store sales was the result of heightened consumer interest in downloading digital content and the expansion of third-party audio and video content available for sale via the iTunes Store.

Japan

Japan net sales increased $427 million or 39% in 2008 compared to 2007. The primary contributors to the growth in net sales were increases in sales of iPods, iMac, Mac portable systems, and strong sales from the iTunes Store. Net sales, unit sales and the average selling price of iPods increased during 2008 compared to 2007, driven by strong demand for iPod touch and iPod nano. Additionally, Mac net sales and unit sales grew 42% and 29%, respectively, in 2008 compared to 2007 due to increase in sales of the iMac and Mac portable systems, particularly MacBook, as well as the introduction of MacBook Air in January 2008.

44

Table of Contents

Japan s net sales declined by $129 million or 11% in 2007 compared to 2006. Total Mac unit sales in Japan declined 1% during 2007. The decrease in the Japan segment s overall net sales was attributable primarily to decreases in iPod and Mac desktop sales, partially offset by an increase in revenue from MacBooks and sales of third-party content from the iTunes Store. The decline in net sales and Mac unit sales is partially attributable to Japan s declining consumer PC market, and the iPod sales decline is due primarily to lower average selling prices. The Company is continuing to evaluate ways to improve the future results of its Japan segment.

Retail

Retail net sales grew by 53% during 2008 compared to 2007, due in large part to increased sales of Mac portable and desktop products, strong demand for the iPhone and iPod touch, and new store openings. The Company opened 50 new retail stores during 2008, including a total of 19 international stores, bringing the total number of open stores to 247 as of September 27, 2008. This compares to 197 open stores as of September 29, 2007 and 165 open stores as of September 30, 2006. With an average of 211 stores and 178 stores opened during 2008 and 2007, respectively, average revenue per store increased to $29.9 million for 2008, compared to $23.1 million in 2007.

Retail Mac net sales and Mac unit sales grew by 42% and 47%, respectively, during 2008 compared to the 2007, due primarily to strong demand for MacBook, iMac, and MacBook Air, introduced in January 2008. Net sales of iPods increased due to the popularity of the iPod touch, which was upgraded in June 2008, and a higher average selling price compared to 2007. The higher iPod average selling price was due to strong demand for the iPod touch.

The Retail segment s net sales increased by 27% to $4.1 billion during 2007 compared to 2006. Retail segment Mac unit sales increased 56% during 2007 as compared to 2006. With an average of 178 stores open during 2007, average revenue per store was $23.1 million, compared to $22.9 million in 2006. The increase in Retail segment net sales during 2007 compared to 2006 was due primarily to stronger sales of Mac portable products, iMacs, accessories and services. The increase was partially offset primarily by lower net sales of iPods and other music related products due to the expanded availability of those products through third-party resellers.

As measured by the Company s operating segment reporting, the Retail segment reported operating income of $1.3 billion during 2008 as compared to operating income of $875 million and $600 million during 2007 and 2006, respectively. This improvement in 2008 was attributable primarily to the significant Retail net sales growth of 53% as compared to 2007.

Expansion of the Retail segment has required and will continue to require a substantial investment in fixed assets and related infrastructure, operating lease commitments, personnel, and other operating expenses. Capital asset purchases associated with the Retail segment were $389 million in 2008, bringing the total capital asset purchases since inception of the Retail segment to $1.4 billion. As of September 27, 2008, the Retail segment had approximately 15,900 full-time equivalent employees and had outstanding operating lease commitments associated with retail store space and related facilities of $1.4 billion. The Company would incur substantial costs if it were to close multiple retail stores. Such costs could adversely affect the Company s financial condition and operating results.

Other Segments

The Company s Other Segments, which consist of its Asia Pacific and FileMaker operations, experienced an increase in net sales of $707 million, or 40% during 2008 as compared to 2007. These increases are related primarily to strong growth in sales of all Mac portable systems, iPods, the iMac, and content from the iTunes Store in the Company s Asia Pacific region. Sales from the iTunes Store in the Company s Asia Pacific region grew significantly by 109% over 2007. Mac net sales and unit sales grew by 52% and 50%, respectively, due to increased sales of the iMac and all Mac portables.

The Company s Other Segments experienced an increase in net sales of $406 million, or 30% during 2007 compared to 2006. This increase related primarily to a 58% increase in sales of Mac portable products and strong iPod sales in the Company s Asia Pacific region.

Table of Contents

Gross Margin

Gross margin for the three fiscal years ended September 27, 2008, are as follows (in millions, except gross margin percentages):

	2008	2007	2006
Net sales	$ 32,479	$ 24,006	$ 19,315
Cost of sales	21,334	15,852	13,717
Gross margin	$ 11,145	$ 8,154	$ 5,598
Gross margin percentage	34.3%	34.0%	29.0%

Gross margin percentage was relatively flat in 2008 as compared to 2007. Gross margin percentage of 34.0% in 2007 increased significantly from 29.0% in 2006. The primary drivers of this increase were more favorable costs on certain commodity components, including NAND flash memory and DRAM memory, higher overall revenue that provided for more leverage on fixed production costs and a higher percentage of revenue from the Company s direct sales channels.

The Company expects its gross margin percentage to decrease in future periods compared to levels achieved during 2008 and 2007, and anticipates gross margin levels of about 30% in 2009. This expected decline is due largely to the anticipated impact of product transitions, flat or reduced pricing on new and innovative products that have higher cost structures, both expected and potential future cost increases for key components, a stronger U.S. dollar, and higher logistical costs.

The foregoing statements regarding the Company s expected gross margin percentage are forward-looking and could differ from anticipated levels because of several factors, including but not limited to certain of those set forth below in Part I, Item 1A, Risk Factors under the subheading *Future operating results depend upon the Company s ability to obtain key components including, but not limited to microprocessors, NAND flash memory, DRAM and LCDs at favorable prices and in sufficient quantities*, which is incorporated herein by reference. There can be no assurance that targeted gross margin percentage levels will be achieved. In general, gross margins and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions and expected increases in the cost of key components including, but not limited to microprocessors, NAND flash memory, dynamic random access memory (DRAM) and liquid crystal displays (LCDs), as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company s sales mix towards products with lower gross margins. In response to these competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company s ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company s significant international operations, financial results can be significantly affected in the short-term by fluctuations in exchange rates.

Operating Expenses

Operating expenses for the three fiscal years ended September 27, 2008, are as follows (in millions, except for percentages):

	2008	2007	2006
Research and development	$ 1,109	$ 782	$ 712
Percentage of net sales	3.4%	3.3%	3.7%
Selling, general, and administrative	$ 3,761	$ 2,963	$ 2,433
Percentage of net sales	11.6%	12.3%	12.6%

Research and Development (R&D)

Expenditures for R&D increased 42% or $327 million to $1.1 billion in 2008 compared to 2007. These increases were due primarily to an increase in R&D headcount in the current year to support expanded R&D activities and higher stock-based compensation expenses. In 2008, $11 million of software development costs were capitalized

46

related to Mac OS X Version 10.6 Snow Leopard and excluded from R&D expense, while R&D expense for 2007 excluded $75 million of capitalized software development costs related to Mac OS X Leopard and iPhone. Although total R&D expense increased 42% during 2008, it remained relatively flat as a percentage of net sales given the 35% increase in revenue during 2008. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company s core business strategy. As such, the Company expects to increase spending in R&D to remain competitive.

Expenditures for R&D increased 10% or $70 million to $782 million in 2007 compared to 2006. The increases in R&D expense were due primarily to an increase in R&D headcount in 2007 to support expanded R&D activities, partially offset by one less week of expenses in the first quarter of 2007 and the capitalized software development costs mentioned above.

Selling, General, and Administrative Expense (SG&A)

Expenditures for SG&A increased $798 million or 27% to $3.8 billion in 2008 compared to 2007. These increases are due primarily to higher stock-based compensation expenses, higher variable selling expenses resulting from the significant year-over-year increase in total net sales and the Company s continued expansion of its Retail segment in both domestic and international markets. In addition, the Company incurred higher spending on marketing and advertising during 2008 compared to 2007.

Expenditures for SG&A increased $530 million or 22% during 2007 compared to 2006. The increase was due primarily to higher direct and indirect channel variable selling expenses resulting from the significant year-over-year increase in total net sales in 2007, the Company s continued expansion of its Retail segment in both domestic and international markets, and higher spending on marketing and advertising, partially offset by one less week of expenses in the first quarter of 2007.

Other Income and Expense

Other income and expense for the three fiscal years ended September 27, 2008, are as follows (in millions):

	2008	2007	2006
Interest income	$ 653	$ 647	$ 394
Other income (expense), net	(33)	(48)	(29)
Total other income and expense	$ 620	$ 599	$ 365

Total other income and expense increased $21 million to $620 million during 2008 as compared to $599 million and $365 million in 2007 and 2006, respectively. While the Company s cash, cash equivalents and short-term investment balances increased by 59% in 2008, other income and expense increased only 4% due to the decline in the weighted average interest rate earned of 3.44%. The overall increase in other income and expense is attributable to the Company s higher cash and short-term investment balances, which more than offset the decline in interest rates during 2008 as compared to 2007. The weighted average interest rate earned by the Company on its cash, cash equivalents, and short-term investments was 5.27% and 4.58% during 2007 and 2006, respectively. During 2008, 2007 and 2006, the Company had no debt outstanding and accordingly did not incur any related interest expense.

Provision for Income Taxes

The Company s effective tax rates were 30% for the years ended September 27, 2008 and September 29, 2007, and 29% for the year ended September 30, 2006. The Company s effective rates differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S. taxes are provided because such earnings are intended to be indefinitely reinvested outside the U.S.

As of September 27, 2008, the Company had deferred tax assets arising from deductible temporary differences, tax losses, and tax credits of $2.1 billion before being offset against certain deferred liabilities for presentation on the Company s balance sheet. Management believes it is more likely than not that forecasted income, including

47

Table of Contents

income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. The Company released a valuation allowance of $5 million since it has been determined that it is more likely than not the associated deferred tax assets will be realized. The Company will continue to evaluate the realizability of deferred tax assets quarterly by assessing the need for and amount of the valuation allowance.

The Internal Revenue Service (the IRS) has completed its field audit of the Company s federal income tax returns for the years 2002 through 2003 and proposed certain adjustments. The Company has contested certain of these adjustments through the IRS Appeals Office. All IRS audit issues for years prior to 2002 have been resolved. In addition, the Company is subject to audits by state, local, and foreign tax authorities. Management believes that adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements,* which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FSP No. FAS 157-2*, Effective Date of FASB Statement No. 157*. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) and will be adopted by the Company beginning in the first quarter of fiscal 2010. In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, to clarify the application of SFAS 157 in inactive markets for financial assets. FSP 157-3 became effective upon issuance and SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and will be adopted by the Company beginning in the first quarter of fiscal 2009. Although the Company will continue to evaluate the application of SFAS No. 157, management does not currently believe adoption will have a material impact on the Company s financial condition or operating results.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115.* SFAS No. 159 allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. SFAS No. 159 requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and will be adopted by the Company beginning in the first quarter of fiscal 2009. Although the Company will continue to evaluate the application of SFAS No. 159, management does not currently believe adoption will have a material impact on the Company s financial condition or operating results.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree in a business combination. SFAS No. 141R also establishes principles around how goodwill acquired in a business combination or a gain from a bargain purchase should be recognized and measured, as well as provides guidelines on the disclosure requirements on the nature and financial impact of the business combination. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008 and will be adopted by the Company beginning in the first quarter of fiscal 2010. Although the Company will continue to evaluate the application of SFAS No. 141R, management does not currently believe adoption will have a material impact on the Company s financial condition or operating results.

Table of Contents

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133,* which requires companies to provide additional disclosures about its objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related interpretations, and how the derivative instruments and related hedged items affect the Company s financial statements. SFAS No. 161 also requires companies to disclose information about credit risk-related contingent features in their hedged positions. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and is required to be adopted by the Company beginning in the second quarter of fiscal 2009. Although the Company will continue to evaluate the application of SFAS No. 161, management does not currently believe adoption will have a material impact on the Company s financial condition or operating results.

Liquidity and Capital Resources

The following table presents selected financial information and statistics as of and for the three fiscal years ended September 27, 2008 (in millions):

	2008	2007	2006
Cash, cash equivalents, and short-term investments	$ 24,490	$ 15,386	$ 10,110
Accounts receivable, net	$ 2,422	$ 1,637	$ 1,252
Inventory	$ 509	$ 346	$ 270
Working capital	$ 20,598	$ 12,676	$ 8,066
Annual operating cash flow	$ 9,596	$ 5,470	$ 2,220

As of September 27, 2008, the Company had $24.5 billion in cash, cash equivalents, and short-term investments, an increase of $9.1 billion from September 29, 2007. The principal components of this net increase were cash generated by operating activities of $9.6 billion, proceeds from the issuance of common stock under stock plans of $483 million and excess tax benefits from stock-based compensation of $757 million. These increases were partially offset by payments for acquisitions of property, plant, and equipment of $1.1 billion, payments made in connection with business acquisitions, net of cash acquired, of $220 million and payments for acquisitions of intangible assets of $108 million. The Company s cash generated by operating activities significantly exceeded its net income due primarily to the large increase in deferred revenue, net of deferred costs, associated with subscription accounting for iPhone.

The Company s short-term investment portfolio is invested primarily in highly rated securities with a minimum rating of single-A. As of September 27, 2008 and September 29, 2007, $11.3 billion and $6.5 billion, respectively, of the Company s cash, cash equivalents, and short-term investments were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. The Company had $117 million in net unrealized losses on its investment portfolio, primarily related to investments with stated maturities ranging from one to five years, as of September 27, 2008, and net unrealized losses of approximately $11 million on its investment portfolio, primarily related to investments with stated maturities from one to five years, as of September 29, 2007. The Company has the intent and ability to hold such investments for a sufficient period of time to allow for recovery of the principal amounts invested. Accordingly, none of these declines in fair value were recognized in the Company s Statement of Operations.

The Company believes its existing balances of cash, cash equivalents, and short-term investments will be sufficient to satisfy its working capital needs, capital expenditures, outstanding commitments, and other liquidity requirements associated with its existing operations over the next 12 months.

Capital Assets

The Company s cash payments for capital asset purchases were $1.1 billion during 2008, consisting of $389 million for retail store facilities and $702 million for real estate acquisitions and corporate infrastructure including information systems enhancements. The Company anticipates utilizing approximately $1.5 billion for capital asset purchases during 2009, including approximately $400 million for Retail facilities and approximately $1.1 billion for corporate facilities and infrastructure.

Table of Contents

Off-Balance Sheet Arrangements and Contractual Obligations

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

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of September 27, 2008 and excludes amounts already recorded on the Company s balance sheet as current liabilities (in millions):

	Total	Payments Due in Less Than 1 Year	Payments Due in 1-3 Years	Payments Due in 4-5 Years	Payments Due in More Than 5 Years
Operating leases	$ 1,760	$ 195	$ 409	$ 368	$ 788
Purchase obligations	5,378	5,378			
Asset retirement obligations	28		8	7	13
Other obligations	471	242	124	105	
Total	$ 7,637	$ 5,815	$ 541	$ 480	$ 801

Lease Commitments

As of September 27, 2008, the Company had total outstanding commitments on noncancelable operating leases of $1.8 billion, $1.4 billion of which related to the lease of retail space and related facilities. The Company s major facility leases are generally for terms of 3 to 20 years and generally provide renewal options for terms of 1 to 5 additional years. Leases for retail space are for terms of 5 to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options.

Purchase Commitments with Contract Manufacturers and Component Suppliers

The Company utilizes several contract manufacturers to manufacture sub-assemblies for the Company s products and to perform final assembly and test of finished products. These contract manufacturers acquire components and build product based on demand information supplied by the Company, which typically covers periods ranging from 30 to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. Such purchase commitments typically cover the Company s forecasted component and manufacturing requirements for periods ranging from 30 to 150 days. In addition, the Company has an off-balance sheet warranty obligation for products accounted for under subscription accounting pursuant to SOP No. 97-2 whereby the Company recognizes warranty expense as incurred. As of September 27, 2008, the Company had outstanding off-balance sheet third-party manufacturing commitments, component purchase commitments, and estimated warranty commitments of $5.4 billion.

During 2006, the Company entered into long-term supply agreements with Hynix Semiconductor, Inc., Intel Corporation, Micron Technology, Inc., Samsung Electronics Co., Ltd., and Toshiba Corporation to secure supply of NAND flash memory through calendar year 2010. As part of these agreements, the Company prepaid $1.25 billion for flash memory components during 2006, which will be applied to certain inventory purchases made over the life of each respective agreement. The Company utilized $567 million of the prepayment as of September 27, 2008.

Asset Retirement Obligations

The Company s asset retirement obligations are associated with commitments to return property subject to operating leases to original condition upon lease termination. As of September 27, 2008, the Company estimated that gross expected future cash flows of $28 million would be required to fulfill these obligations.

Table of Contents

Other Obligations

Other outstanding obligations were $471 million as of September 27, 2008, which related to advertising, research and development, Internet and telecommunications services, and other obligations.

During the first quarter of 2008, the Company adopted the provisions of FIN 48. The Company had historically classified interest and penalties and unrecognized tax benefits as current liabilities, but beginning with the adoption of FIN 48 the Company has reclassified gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities within the Consolidated Balance Sheet. As of September 27, 2008, the Company recorded gross unrecognized tax benefits of $506 million and gross interest and penalties of $219 million, both of which are classified as non-current liabilities in the Consolidated Balance Sheet. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the above contractual obligation table.

Indemnifications

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a liability related to unresolved infringement claims subject to indemnification that would have a material adverse effect on its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs as of either September 27, 2008 or September 29, 2007.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Foreign Currency Risk Management

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

Interest Rate Risk

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

The Company s short-term investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A portion of the Company s cash is managed by external managers within the guidelines of the Company s investment policy and to an objective market benchmark. The Company s internal portfolio is benchmarked against external manager performance, allowing for differences in liquidity needs.

The Company s exposure to market risk for changes in interest rates relates primarily to the Company s investment portfolio. The Company typically invests in highly rated securities and its policy generally limits the amount of credit exposure to any one issuer. The Company s investment policy requires investments to be rated single-A or better with the objective of minimizing the potential risk of principal loss. All highly liquid investments with initial maturities of three months or less at the date of purchase are classified as cash equivalents, while highly liquid investments with initial maturities greater than three months at the date of purchase are classified as short-term investments. As of September 27, 2008 and September 29, 2007, approximately $2.4 billion and $1.9 billion, respectively, of the Company s short-term investments had underlying maturities ranging from one to five years. The remainder all had underlying maturities of less than 12 months. The Company may sell its investments prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. The Company recognized no material net gains or losses during 2008, 2007 and 2006 related to such sales.

To provide a meaningful assessment of the interest rate risk associated with the Company s investment portfolio, the Company performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of September 27, 2008, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $46 million incremental decline in the fair market value of the portfolio. As of September 29, 2007, a similar 100 basis point shift in the yield curve would have resulted in a $16 million incremental decline in the fair market value of the portfolio. Such losses would only be realized if the Company sold the investments prior to maturity.

Foreign Currency Risk

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

The Company may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows, and net investments in foreign subsidiaries. Generally, the Company s practice is to hedge a majority of its material foreign exchange exposures, typically for three to six months. However, the Company may choose not to hedge certain foreign exchange exposures due to immateriality, prohibitive economic cost of hedging particular exposures, and limited availability of appropriate hedging instruments.

To provide a meaningful assessment of the foreign currency risk associated with certain of the Company s foreign currency derivative positions, the Company performed a sensitivity analysis using a value-at-risk (VAR) model to assess the potential impact of fluctuations in exchange rates. The VAR model consisted of using a Monte Carlo simulation to generate 3,000 random market price paths. The VAR is the maximum expected loss in fair value, for a given confidence interval, to the Company s foreign exchange portfolio due to adverse movements in rates. The VAR model is not intended to represent actual losses but is used as a risk estimation and management tool. The model assumes normal market conditions. Forecasted transactions, firm commitments, and assets and liabilities denominated in foreign currencies were excluded from the model. Based on the results of the model, the Company estimates with 95% confidence a maximum one-day loss in fair value of $60 million as of September 27, 2008 compared to a maximum one-day loss in fair value of $13 million as of September 29, 2007. Because the Company uses foreign currency instruments for hedging purposes, losses incurred on those instruments are generally offset by increases in the fair value of the underlying exposures.

Actual future gains and losses associated with the Company s investment portfolio and derivative positions may differ materially from the sensitivity analyses performed as of September 27, 2008 due to the inherent limitations associated with predicting the changes in the timing and amount of interest rates, foreign currency exchanges rates, and the Company s actual exposures and positions.

Table of Contents

Item 8. Financial Statements and Supplementary Data

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and Notes thereto.

53

Table of Contents

CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)

	September 27, 2008	September 29, 2007
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 11,875	$ 9,352
Short-term investments	12,615	6,034
Accounts receivable, less allowances of $47 in each period	2,422	1,637
Inventories	509	346
Deferred tax assets	1,447	782
Other current assets	5,822	3,805
Total current assets	34,690	21,956
Property, plant, and equipment, net	2,455	1,832
Goodwill	207	38
Acquired intangible assets, net	285	299
Other assets	1,935	1,222
Total assets	$ 39,572	$ 25,347
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current liabilities:		
Accounts payable	$ 5,520	$ 4,970
Accrued expenses	8,572	4,310
Total current liabilities	14,092	9,280
Non-current liabilities	4,450	1,535
Total liabilities	18,542	10,815
Commitments and contingencies		
Shareholders equity:		
Common stock, no par value; 1,800,000,000 shares authorized; 888,325,973 and 872,328,972 shares issued and outstanding, respectively	7,177	5,368
Retained earnings	13,845	9,101
Accumulated other comprehensive income	8	63
Total shareholders equity	21,030	14,532
Total liabilities and shareholders equity	$ 39,572	$ 25,347

See accompanying Notes to Consolidated Financial Statements.

54

Table of Contents

CONSOLIDATED STATEMENTS OF OPERATIONS

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

Three fiscal years ended September 27, 2008	**2008**	**2007**	**2006**
Net sales	$ 32,479	$ 24,006	$ 19,315
Cost of sales (1)	21,334	15,852	13,717
Gross margin	11,145	8,154	5,598
Operating expenses:			
Research and development (1)	1,109	782	712
Selling, general, and administrative (1)	3,761	2,963	2,433
Total operating expenses	4,870	3,745	3,145
Operating income	6,275	4,409	2,453
Other income and expense	620	599	365
Income before provision for income taxes	6,895	5,008	2,818
Provision for income taxes	2,061	1,512	829
Net income	$ 4,834	$ 3,496	$ 1,989
Earnings per common share:			
Basic	$ 5.48	$ 4.04	$ 2.36
Diluted	$ 5.36	$ 3.93	$ 2.27
Shares used in computing earnings per share:			
Basic	881,592	864,595	844,058
Diluted	902,139	889,292	877,526

(1) Includes stock-based compensation expense as follows:

Cost of sales	$ 80	$ 35	$ 21
Research and development	$ 185	$ 77	$ 53
Selling, general, and administrative	$ 251	$ 130	$ 89

See accompanying Notes to Consolidated Financial Statements.

55

Table of Contents

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In millions, except share amounts which are reflected in thousands)

	Common Stock Shares	Common Stock Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
Balances as of September 24, 2005	835,019	$ 3,564	$ (61)	$ 3,925	$	$ 7,428
Components of comprehensive income:						
Net income				1,989		1,989
Change in foreign currency translation					19	19
Change in unrealized gain on available-for-sale securities, net of tax					4	4
Change in unrealized gain on derivative instruments, net of tax					(1)	(1)
Total comprehensive income						2,011
Common stock repurchased	(4,574)	(48)		(307)		(355)
Stock-based compensation		163				163
Deferred compensation		(61)	61			
Common stock issued under stock plans	24,818	318				318
Tax benefit from employee stock plan awards		419				419
Balances as of September 30, 2006	855,263	4,355		5,607	22	9,984
Components of comprehensive income:						
Net income				3,496		3,496
Change in foreign currency translation					51	51
Change in unrealized loss on available-for-sale securities, net of tax					(7)	(7)
Change in unrealized gain on derivative instruments, net of tax					(3)	(3)
Total comprehensive income						3,537
Stock-based compensation		251				251
Common stock issued under stock plans, net of shares withheld for employee taxes	17,066	364		(2)		362
Tax benefit from employee stock plan awards		398				398
Balances as of September 29, 2007	872,329	5,368		9,101	63	14,532
Cumulative effect of change in accounting principle		45		11		56
Components of comprehensive income:						
Net income				4,834		4,834
Change in foreign currency translation					(11)	(11)
Change in unrealized loss on available-for-sale securities, net of tax					(63)	(63)
Change in unrealized gain on derivative instruments, net of tax					19	19
Total comprehensive income						4,779
Stock-based compensation		513				513

Common stock issued under stock plans, net of shares withheld for employee taxes	15,888	460		(101)		359
Issuance of common stock in connection with an asset acquisition	109	21				21
Tax benefit from employee stock plan awards		770				770
Balances as of September 27, 2008	888,326	$ 7,177	$	$ 13,845	$ 8	$ 21,030

See accompanying Notes to Consolidated Financial Statements.

56

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

Three fiscal years ended September 27, 2008	**2008**	**2007**	**2006**
Cash and cash equivalents, beginning of the year	$ 9,352	$ 6,392	$ 3,491
Operating Activities:			
Net income	4,834	3,496	1,989
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation, amortization and accretion	473	317	225
Stock-based compensation expense	516	242	163
Provision for deferred income taxes	(368)	78	53
Loss on disposition of property, plant, and equipment	22	12	15
Changes in operating assets and liabilities:			
Accounts receivable, net	(785)	(385)	(357)
Inventories	(163)	(76)	(105)
Other current assets	(1,958)	(1,540)	(1,626)
Other assets	(492)	81	(1,040)
Accounts payable	596	1,494	1,611
Deferred revenue	5,642	1,139	319
Other liabilities	1,279	612	973
Cash generated by operating activities	9,596	5,470	2,220
Investing Activities:			
Purchases of short-term investments	(22,965)	(11,719)	(7,255)
Proceeds from maturities of short-term investments	11,804	6,483	7,226
Proceeds from sales of short-term investments	4,439	2,941	1,086
Purchases of long-term investments	(38)	(17)	(25)
Payments made in connection with business acquisitions, net of cash acquired	(220)		
Payment for acquisition of property, plant, and equipment	(1,091)	(735)	(657)
Payment for acquisition of intangible assets	(108)	(251)	(28)
Other	(10)	49	10
Cash (used in)/generated by investing activities	(8,189)	(3,249)	357
Financing Activities:			
Proceeds from issuance of common stock	483	365	318
Excess tax benefits from stock-based compensation	757	377	361
Cash used to net share settle equity awards	(124)	(3)	(355)
Cash generated by financing activities	1,116	739	324
Increase in cash and cash equivalents	2,523	2,960	2,901
Cash and cash equivalents, end of the year	$ 11,875	$ 9,352	$ 6,392
Supplemental cash flow disclosures:			
Cash paid for income taxes, net	$ 1,267	$ 863	$ 194

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively Apple or the Company) design, manufacture, and market personal computers, portable digital music players, and mobile communication devices and sell a variety of related software, services, peripherals, and networking solutions. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, and third-party wholesalers, resellers, and value-added resellers. In addition, the Company sells a variety of third-party Mac, iPod and iPhone compatible products including application software, printers, storage devices, speakers, headphones, and various other accessories and supplies through its online and retail stores. The Company sells to consumer, small and mid-sized business (SMB), education, enterprise, government, and creative customers.

Basis of Presentation and Preparation

The accompanying Consolidated Financial Statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior year amounts in the Consolidated Financial Statements and notes thereto have been reclassified to conform to the current year presentation.

The Company s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company s first quarter of fiscal years 2008 and 2007 contained 13 weeks and the first quarter of fiscal year 2006 contained 14 weeks. The Company s fiscal years 2008 and 2007 ended on September 27, 2008 and September 29, 2007, respectively, included 52 weeks, while fiscal year 2006 ended on September 30, 2006 included 53 weeks. Unless otherwise stated, references to particular years or quarters refer to the Company s fiscal years ended in September and the associated quarters of those fiscal years.

Financial Instruments

Cash Equivalents and Short-term Investments

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Highly liquid investments with maturities greater than three months at the date of purchase are classified as short-term investments. The Company s debt and marketable equity securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of shareholders equity. The cost of securities sold is based upon the specific identification method.

Derivative Financial Instruments

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivatives that are not defined as hedges in Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, must be adjusted to fair value through earnings.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in shareholders equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in current earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. For derivative instruments that hedge the exposure to changes in the fair value of an asset or a liability and that are designated as fair value hedges, the net

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings in the current period. The net gain or loss on the effective portion of a derivative instrument that is designated as an economic hedge of the foreign currency translation exposure of the net investment in a foreign operation is reported in the same manner as a foreign currency translation adjustment. For forward contracts designated as net investment hedges, the Company excludes changes in fair value relating to changes in the forward carry component from its definition of effectiveness. Accordingly, any gains or losses related to this component are recognized in current earnings.

Inventories

Inventories are stated at the lower of cost, computed using the first-in, first-out method, or market. If the cost of the inventories exceeds their market value, provisions are made currently for the difference between the cost and the market value. The Company s inventories consist primarily of finished goods for all periods presented.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, which for buildings is the lesser of 30 years or the remaining life of the underlying building, up to 5 years for equipment, and the shorter of lease terms or 10 years for leasehold improvements. The Company capitalizes eligible costs to acquire or develop internal-use software that are incurred subsequent to the preliminary project stage. Capitalized costs related to internal-use software are amortized using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years. Depreciation and amortization expense on property and equipment was $363 million, $249 million, and $180 million during 2008, 2007, and 2006 respectively.

Asset Retirement Obligations

The Company records obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*. The Company reviews legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. If it is determined that a legal obligation exists, the fair value of the liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The difference between the gross expected future cash flow and its present value is accreted over the life of the related lease as an operating expense. All of the Company s existing asset retirement obligations are associated with commitments to return property subject to operating leases to original condition upon lease termination. The Company s asset retirement liability was $21 million and $18 million as of September 27, 2008 and September 29, 2007, respectively.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

The Company reviews property, plant, and equipment and certain identifiable intangibles, excluding goodwill, for impairment in accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amount to future undiscounted cash flows the assets are expected to generate. If property, plant, and equipment and certain identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair market value. The Company did not record any material impairments during 2008, 2007, and 2006.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

SFAS No. 142, *Goodwill and Other Intangible Assets* requires that goodwill and intangible assets with indefinite useful lives should not be amortized but rather be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired. The Company performs its goodwill impairment tests on or about August 31 of each year. The Company did not recognize any goodwill or intangible asset impairment charges in 2008, 2007, or 2006. The Company established reporting units based on its current reporting structure. For purposes of testing goodwill for impairment, goodwill has been allocated to these reporting units to the extent it relates to each reporting unit.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from 1 to 10 years.

Foreign Currency Translation

The Company translates the assets and liabilities of its international non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are credited or charged to foreign currency translation included in accumulated other comprehensive income in shareholders equity. The Company s foreign manufacturing subsidiaries and certain other international subsidiaries that use the U.S. dollar as their functional currency remeasure monetary assets and liabilities at exchange rates in effect at the end of each period, and inventories, property, and nonmonetary assets and liabilities at historical rates. Gains and losses from these translations were insignificant and have been included in the Company s results of operations.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, music products, digital content, peripherals, and service and support contracts. For any product within these groups that either is software, or is considered software-related in accordance with the guidance in Emerging Issues Task Force (EITF) No. 03-5, *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software* (e.g., Mac computers, iPod portable digital music players and iPhones), the Company accounts for such products in accordance with the revenue recognition provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended. The Company applies Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition,* for products that are not software or software-related, such as digital content sold on the iTunes Store and certain Mac, iPod and iPhone supplies and accessories.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company legally retains a portion of the risk of loss on these sales during transit. If at the outset of an arrangement the Company determines the arrangement fee is not, or is presumed not to be, fixed or determinable, revenue is deferred and subsequently recognized as amounts become due and payable and all other criteria for revenue recognition have been met.

Revenue from service and support contracts is deferred and recognized ratably over the service coverage periods. These contracts typically include extended phone support, repair services, web-based support resources, diagnostic tools, and extend the service coverage offered under the Company s one-year limited warranty.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

The Company sells software and peripheral products obtained from other companies. The Company generally establishes its own pricing and retains related inventory risk, is the primary obligor in sales transactions with its customers, and assumes the credit risk for amounts billed to its customers. Accordingly, the Company generally recognizes revenue for the sale of products obtained from other companies based on the gross amount billed.

The Company accounts for multiple element arrangements that consist only of software or software-related products in accordance with SOP No. 97-2. If a multiple-element arrangement includes deliverables that are neither software nor software-related, the Company applies EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables,* to determine if those deliverables constitute separate units of accounting from the SOP No. 97-2 deliverables. If the Company can separate the deliverables, the Company applies SOP No. 97-2 to the software and software-related deliverables and applies other appropriate guidance (e.g., SAB No. 104) to the deliverables outside the scope of SOP No. 97-2. Revenue on arrangements that include multiple elements such as hardware, software, and services is allocated to each element based on the relative fair value of each element. Each element s allocated revenue is recognized when the revenue recognition criteria for that element have been met. Fair value is generally determined by vendor specific objective evidence (VSOE), which is based on the price charged when each element is sold separately. If the Company cannot objectively determine the fair value of any undelivered element included in a multiple-element arrangement, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, the Company uses the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

The Company records reductions to revenue for estimated commitments related to price protection and for customer incentive programs, including reseller and end-user rebates, and other sales programs and volume-based incentives. The estimated cost of these programs is accrued as a reduction to revenue in the period the Company has sold the product and committed to a plan. The Company also records reductions to revenue for expected future product returns based on the Company s historical experience. Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Generally, the Company does not offer specified or unspecified upgrade rights to its customers in connection with software sales or the sale of extended warranty and support contracts. When the Company does offer specified upgrade rights, the Company defers revenue for the fair value of the specified upgrade right until the future obligation is fulfilled or when the right to the specified upgrade expires. Additionally, a limited number of the Company s software products are available with maintenance agreements that grant customers rights to unspecified future upgrades over the maintenance term on a when and if available basis. Revenue associated with such maintenance is recognized ratably over the maintenance term.

In 2007, the Company began shipping Apple TV and iPhone. For Apple TV and iPhone, the Company indicated it may from time-to-time provide future unspecified features and additional software products free of charge to customers. Accordingly, Apple TV and iPhone handsets sales are accounted for under subscription accounting in accordance with SOP No. 97-2. As such, the Company s policy is to defer the associated revenue and cost of goods sold at the time of sale, and recognize both on a straight-line basis over the currently estimated 24-month economic life of these products, with any loss recognized at the time of sale. Costs incurred by the Company for engineering, sales, marketing and warranty are expensed as incurred.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company s customers, current economic conditions, and other factors that may affect customers ability to pay.

Shipping Costs

For all periods presented, amounts billed to customers related to shipping and handling are classified as revenue, and the Company s shipping and handling costs are included in cost of sales.

Warranty Expense

The Company generally provides for the estimated cost of hardware and software warranties at the time the related revenue is recognized. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates. For products accounted for under subscription accounting pursuant to SOP No. 97-2, the Company recognizes warranty expense as incurred.

Software Development Costs

Research and development costs are expensed as incurred. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product s technological feasibility has been established and ending when a product is available for general release to customers pursuant to SFAS No. 86, *Computer Software to be Sold, Leased, or Otherwise Marketed*. In most instances, the Company s products are released soon after technological feasibility has been established. Therefore, costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally most software development costs have been expensed.

During 2008, the Company capitalized $11 million of costs associated with the development of Mac OS X Version 10.6 Snow Leopard. In 2007, the Company determined that both Mac OS X Version 10.5 Leopard (Mac OS X Leopard) and iPhone achieved technological feasibility. During 2007, the Company capitalized $75 million of costs associated with the development of Leopard and iPhone. In accordance with SFAS No. 86, the capitalized costs related to Mac OS X Leopard and iPhone are amortized to cost of sales commencing when each respective product begins shipping and are recognized on a straight-line basis over a 3 year estimated useful life of the underlying technology.

Total amortization related to capitalized software development costs was $27 million, $13 million, and $18 million in 2008, 2007, and 2006, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $486 million, $467 million, and $338 million for 2008, 2007, and 2006, respectively.

Stock-Based Compensation

The Company applies SFAS No. 123 (revised 2004), *Share-Based Payment*, for stock-based payment transactions in which the Company receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. The Company uses the Black-Scholes-Merton (BSM) option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R.

SFAS No. 123R prohibits recognition of a deferred tax asset for an excess tax benefit that has not been realized. The Company will recognize a benefit from stock-based compensation in equity if an incremental tax benefit is

62

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

realized by following the ordering provisions of the tax law. In addition, the Company accounts for the indirect effects of stock-based compensation on the research tax credit, the foreign tax credit, and the domestic manufacturing deduction through the income statement.

Further information regarding stock-based compensation can be found in Note 6, Shareholders Equity, and Note 7, Stock-Based Compensation.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

During 2008, the Company adopted the Financial Accounting Standards Board s (FASB) Financial Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 changes the accounting for uncertainty in income taxes by creating a new framework for how companies should recognize, measure, present, and disclose uncertain tax positions in their financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. FIN 48 also provides guidance on the reversal of previously recognized tax positions, balance sheet classifications, accounting for interest and penalties associated with tax positions, and income tax disclosures. See Note 5, Income Taxes for additional information, including the effects of adoption on the Company s Consolidated Financial Statements.

Earnings Per Common Share

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

The following table sets forth the computation of basic and diluted earnings per share for the three fiscal years ended September 27, 2008 (in thousands, except net income in millions and per share amounts):

	2008	2007	2006
Numerator:			
Net income	$ 4,834	$ 3,496	$ 1,989
Denominator:			
Weighted-average shares outstanding	881,592	864,595	844,058
Effect of dilutive securities	20,547	24,697	33,468
Denominator for diluted earnings per share	902,139	889,292	877,526
Basic earnings per share	$ 5.48	$ 4.04	$ 2.36
Diluted earnings per share	$ 5.36	$ 3.93	$ 2.27

Potentially dilutive securities representing 10.3 million, 13.7 million, and 3.9 million shares of common stock for the years ended September 27, 2008, September 29, 2007, and September 30, 2006, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been antidilutive.

Comprehensive Income

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

Segment Information

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. Information about the Company s products, major customers, and geographic areas on a company-wide basis is also disclosed.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Financial Instruments

Cash, Cash Equivalents and Short-Term Investments

The following table summarizes the fair value of the Company s cash and available-for-sale securities held in its short-term investment portfolio, recorded as cash and cash equivalents or short-term investments as of September 27, 2008 and September 29, 2007 (in millions):

	2008	2007
Cash	$ 368	$ 256
U.S. Treasury and Agency Securities	2,916	670
U.S. Corporate Securities	4,975	5,597
Foreign Securities	3,616	2,829
Total cash equivalents	11,507	9,096
U.S. Treasury and Agency Securities	7,018	358
U.S. Corporate Securities	4,305	4,718
Foreign Securities	1,292	958
Total short-term investments	12,615	6,034
Total cash, cash equivalents, and short-term investments	$ 24,490	$ 15,386

The Company s U.S. Corporate Securities consist primarily of commercial paper, certificates of deposit, time deposits, and corporate debt securities. Foreign Securities consist primarily of foreign commercial paper issued by foreign companies, and certificates of deposit and time deposits with foreign institutions, most of which are denominated in U.S. dollars. As of September 27, 2008 and September 29, 2007, approximately $2.4 billion and $1.9 billion, respectively, of the Company s short-term investments had underlying maturities ranging from one to five years. The remaining short-term investments had maturities less than 12 months. The Company had $117 million in net unrealized losses on its investment portfolio, primarily related to investments with stated maturities ranging from one to five years, as of September 27, 2008, and net unrealized losses of approximately $11 million on its investment portfolio, primarily related to investments with stated maturities from one to five years, as of September 29, 2007. The Company may sell its investments prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. The Company recognized no material net gains or losses during 2008, 2007 and 2006 related to such sales.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Financial Instruments (Continued)

In accordance with FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* the following table shows the gross unrealized losses and fair value for those investments that were in an unrealized loss position as of September 27, 2008 and September 29, 2007, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in millions):

	2008					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury and Agency Securities	$ 6,850	$ (13)	$	$	$ 6,850	$ (13)
U.S. Corporate Securities	2,536	(31)	1,030	(72)	3,566	(103)
Foreign Securities	321		118	(5)	439	(5)
Total	$ 9,707	$ (44)	$ 1,148	$ (77)	$ 10,855	$ (121)

	2007					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury and Agency Securities	$ 338	$	$	$	$ 338	$
U.S. Corporate Securities	2,521	(12)	32		2,553	(12)
Foreign Securities	474	(1)	8		482	(1)
Total	$ 3,333	$ (13)	$ 40	$	$ 3,373	$ (13)

The unrealized losses on the Company s investments in U.S. Treasury and Agency Securities, U.S. Corporate Securities, and Foreign Securities were caused primarily by changes in interest rates, specifically, widening credit spreads. The Company s investment policy requires investments to be rated single-A or better with the objective of minimizing the potential risk of principal loss. Therefore, the Company considers the declines to be temporary in nature. Fair values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and the Company s ability and intent to hold the investment for a period of time, which may be sufficient for anticipated recovery in market value. During 2008, the Company did not record any material impairment charges on its outstanding securities. As of September 27, 2008, the Company does not consider any of its investments to be other-than-temporarily impaired.

Accounts Receivable

Trade Receivables

The Company distributes its products through third-party distributors and resellers and directly to certain education, consumer, and commercial customers. The Company generally does not require collateral from its customers. In addition, when possible, the Company attempts to limit credit risk on trade receivables with credit insurance for certain customers in Latin America, Europe, Asia, and Australia and by arranging with third-party financing companies to provide flooring arrangements and other loan and lease programs to the Company s direct customers. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit risk sharing related to any of these arrangements. However, considerable trade receivables not covered by collateral, third-party flooring arrangements, or credit insurance are outstanding with the Company s distribution and retail channel partners. Trade receivables from two of the Company s customers accounted for 15% and 10% of trade receivables as of September 27, 2008, while one customer accounted for approximately 11% of trade receivables as of September 29, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Financial Instruments (Continued)

The following table summarizes the activity in the allowance for doubtful accounts for the three fiscal years ended September 27, 2008 (in millions):

	2008	2007	2006
Beginning allowance balance	$ 47	$ 52	$ 46
Charged to costs and expenses	3	12	17
Deductions	(3)	(17)	(11)
Ending allowance balance	$ 47	$ 47	$ 52

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of raw material components to these manufacturing vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these raw material components directly from suppliers. These non-trade receivables, which are included in the Consolidated Balance Sheets in other current assets, totaled $2.3 billion and $2.4 billion as of September 27, 2008 and September 29, 2007, respectively. The Company does not reflect the sale of these components in net sales and does not recognize any profits on these sales until the related products are sold by the Company, at which time the profit is recognized as a reduction of cost of sales.

Derivative Financial Instruments

The Company uses derivatives to partially offset its business exposure to foreign exchange risk. Foreign currency forward and option contracts are used to offset the foreign exchange risk on certain existing assets and liabilities and to hedge the foreign exchange risk on expected future cash flows on certain forecasted revenue and cost of sales. The Company s accounting policies for these instruments are based on whether the instruments are designated as hedge or non-hedge instruments. The Company records all derivatives on the balance sheet at fair value.

The following table shows the notional principal, net fair value, and credit risk amounts of the Company s foreign currency instruments as of September 27, 2008 and September 29, 2007 (in millions):

	2008			2007		
	Notional Principal	Fair Value	Credit Risk Amounts	Notional Principal	Fair Value	Credit Risk Amounts
Foreign exchange instruments qualifying as accounting hedges:						
Spot/Forward contracts	$ 2,782	$ (2)	$ 43	$ 570	$ (8)	$
Purchased options	$ 3,120	$ 64	$ 64	$ 2,564	$ 10	$ 10
Sold options	$ 2,668	$ (23)	$	$ 1,498	$ (2)	$
Foreign exchange instruments other than accounting hedges:						
Spot/Forward contracts	$ 2,633	$ 3	$ 5	$ 1,768	$ (2)	$
Purchased options	$ 235	$ 3	$ 3	$ 161	$ 1	$ 1

The notional principal amounts for derivative instruments provide one measure of the transaction volume outstanding as of year-end, and do not represent the amount of the Company s exposure to credit or market loss. The credit risk amounts shown in the table above represents the Company s gross exposure to potential accounting loss on these transactions if all counterparties failed to perform according to the terms of the contract, based on then-current currency exchange rates at each respective date. The Company s exposure to credit loss and market risk will vary over time as a function of currency exchange rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Financial Instruments (Continued)

The estimates of fair value are based on applicable and commonly used pricing models and prevailing financial market information as of September 27, 2008 and September 29, 2007. Although the table above reflects the notional principal, fair value, and credit risk amounts of the Company s foreign exchange instruments, it does not reflect the gains or losses associated with the exposures and transactions that the foreign exchange instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Foreign Exchange Risk Management

The Company may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risk associated with existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows, and net investments in foreign subsidiaries. Generally, the Company s practice is to hedge some portion of its material foreign exchange exposures. However, the Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to, immateriality, prohibitive economic cost of hedging particular exposures, or limited availability of appropriate hedging instruments.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company s U.S. dollar functional subsidiaries hedge a portion of forecasted foreign currency revenue, and the Company s non-U.S. dollar functional subsidiaries selling in local currencies hedge a portion of forecasted inventory purchases not denominated in the subsidiaries functional currency. Other comprehensive income associated with hedges of foreign currency revenue is recognized as a component of net sales in the same period as the related sales are recognized, and other comprehensive income related to inventory purchases is recognized as a component of cost of sales in the same period as the related costs are recognized. Typically, the Company hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases for three to six months.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent 2 month time period. Deferred gains and losses in other comprehensive income associated with such derivative instruments are immediately reclassified into earnings in other income and expense. Any subsequent changes in fair value of such derivative instruments are also reflected in current earnings unless they are re-designated as hedges of other transactions. The Company has not recognized any material net gains during 2008, 2007 and 2006, related to the loss of a hedge designation on discontinued cash flow hedges. As of September 27, 2008, the Company had a net deferred gain associated with cash flow hedges of approximately $19 million, net of taxes, substantially all of which is expected to be reclassified to earnings by the end of the second quarter of fiscal 2009.

The net gain or loss on the effective portion of a derivative instrument designated as a net investment hedge is included in the cumulative translation adjustment account of accumulated other comprehensive income within shareholders equity. For the years ended September 27, 2008 and September 29, 2007, the Company had a net loss on net investment hedges of $12.2 million and $2.6 million, respectively, included in the cumulative translation adjustment.

The Company may also enter into foreign currency forward and option contracts to offset the foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives are recognized in current earnings in other income and expense as offsets to the changes in the fair value of the related assets or liabilities. Due to currency market movements, changes in option time value can lead to increased volatility in other income and expense.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Consolidated Financial Statement Details

The following tables show the Company s Consolidated Financial Statement details as of September 27, 2008 and September 29, 2007 (in millions):

Other Current Assets

	2008	2007
Vendor non-trade receivables	$ 2,282	$ 2,392
Deferred costs under subscription accounting current	1,931	247
NAND flash memory prepayments	475	417
Other current assets	1,134	749
Total other current assets	$ 5,822	$ 3,805

Property, Plant, and Equipment

	2008	2007
Land and buildings	$ 810	$ 762
Machinery, equipment, and internal-use software	1,491	954
Office furniture and equipment	122	106
Leasehold improvements	1,324	1,019
	3,747	2,841
Accumulated depreciation and amortization	(1,292)	(1,009)
Net property, plant, and equipment	$ 2,455	$ 1,832

Other Assets

	2008	2007
Deferred costs under subscription accounting non-current	$ 1,089	$ 214
Long-term NAND flash memory prepayments	208	625
Deferred tax assets non-current	138	88
Capitalized software development costs, net	67	83
Other assets	433	212
Total other assets	$ 1,935	$ 1,222

Accrued Expenses

	2008	2007
Deferred revenue current	$ 4,853	$ 1,391
Deferred margin on component sales	681	545
Accrued marketing and distribution	329	288
Accrued compensation and employee benefits	320	254
Accrued warranty and related costs	267	230
Other accrued tax liabilities	100	488
Other current liabilities	2,022	1,114
Total accrued expenses	$ 8,572	$ 4,310

69

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Consolidated Financial Statement Details (Continued)

Non-Current Liabilities

	2008	2007
Deferred revenue non-current	$ 3,029	$ 849
Deferred tax liabilities	675	619
Other non-current liabilities	746	67
Total non-current liabilities	$ 4,450	$ 1,535

Note 4 Goodwill and Other Intangible Assets

The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from 1 to 10 years. The following table summarizes the components of gross and net intangible asset balances as of September 27, 2008 and September 29, 2007 (in millions):

	2008			2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite lived and amortizable acquired technology	$ 308	$ (123)	$ 185	$ 276	$ (77)	$ 199
Indefinite lived and unamortizable trademarks	100		100	100		100
Total acquired intangible assets	$ 408	$ (123)	$ 285	$ 376	$ (77)	$ 299
Goodwill	$ 207	$	$ 207	$ 38	$	$ 38

In June 2008, the Company completed an acquisition of a business for total cash consideration, net of cash acquired, of $220 million, of which $169 million has been allocated to goodwill, $51 million to deferred tax assets and $7 million to acquired intangible assets.

The Company s goodwill is allocated primarily to the America s reportable operating segment. Amortization expense related to acquired intangible assets was $46 million, $35 million, and $12 million in 2008, 2007, and 2006, respectively. As of September 27, 2008, and September 29, 2007, the remaining weighted-average amortization period for acquired technology was 7.0 years and 7.1 years, respectively.

Expected annual amortization expense related to acquired technology as of September 27, 2008, is as follows (in millions):

Fiscal Years	
2009	$ 50
2010	35
2011	32
2012	26
2013	13
Thereafter	29

Total	$ 185

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Income Taxes

The provision for income taxes for the three fiscal years ended September 27, 2008, consisted of the following (in millions):

	2008	2007	2006
Federal:			
Current	$ 1,942	$ 1,219	$ 619
Deferred	(155)	85	56
	1,787	1,304	675
State:			
Current	210	112	56
Deferred	(82)	9	14
	128	121	70
Foreign:			
Current	277	103	101
Deferred	(131)	(16)	(17)
	146	87	84
Provision for income taxes	$ 2,061	$ 1,512	$ 829

The foreign provision for income taxes is based on foreign pretax earnings of $3.5 billion, $2.2 billion, and $1.5 billion in 2008, 2007, and 2006, respectively. As of September 27, 2008 and September 29, 2007, $11.3 billion and $6.5 billion, respectively, of the Company s cash, cash equivalents, and short-term investments were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The Company s consolidated financial statements provide for any related tax liability on amounts that may be repatriated, aside from undistributed earnings of certain of the Company s foreign subsidiaries that are intended to be indefinitely reinvested in operations outside the U.S. U.S. income taxes have not been provided on a cumulative total of $3.8 billion of such earnings. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Income Taxes (Continued)

As of September 27, 2008 and September 29, 2007, the significant components of the Company s deferred tax assets and liabilities were (in millions):

	2008	2007
Deferred tax assets:		
Accrued liabilities and other reserves	$ 1,295	$ 679
Basis of capital assets and investments	173	146
Accounts receivable and inventory reserves	126	64
Tax losses and credits	47	8
Other	503	161
Total deferred tax assets	2,144	1,058
Less valuation allowance		5
Net deferred tax assets	2,144	1,053
Deferred tax liabilities Unremitted earnings of subsidiaries:	1,234	803
Net deferred tax asset	$ 910	$ 250

As of September 27, 2008, the Company has tax loss and credit carryforwards in the tax effected amount of $47 million. The Company released a valuation allowance of $5 million recorded against the deferred tax asset for the benefit of state operating losses. Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (35% in 2008, 2007, and 2006) to income before provision for income taxes for the three fiscal years ended September 27, 2008, is as follows (in millions):

	2008	2007	2006
Computed expected tax	$ 2,414	$ 1,753	$ 987
State taxes, net of federal effect	159	140	86
Indefinitely invested earnings of foreign subsidiaries	(492)	(297)	(224)
Nondeductible executive compensation	6	6	11
Research and development credit, net	(21)	(54)	(12)
Other items	(5)	(36)	(19)
Provision for income taxes	$ 2,061	$ 1,512	$ 829
Effective tax rate	30%	30%	29%

The Company s income taxes payable have been reduced by the tax benefits from employee stock options and employee stock purchase plan. The Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of the exercise and the option price, tax effected. The net tax benefits from employee stock option transactions were $770 million, $398 million, and $419 million in 2008, 2007, and 2006, respectively, and were reflected as an increase to common stock in the Consolidated Statements of Shareholders Equity.

On October 3, 2008, the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 was signed into law. This bill, among other things, retroactively extended the expired research and development tax credit. As a result, the Company expects to record a tax benefit of approximately $42 million in the first quarter of fiscal year 2009 to account for the retroactive effects of the research credit extension.

72

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Income Taxes (Continued)

FIN 48

In the first quarter of 2008, the Company adopted FIN 48. Upon adoption of FIN 48, the Company s cumulative effect of a change in accounting principle resulted in an increase to retained earnings of $11 million. The Company had historically classified interest and penalties and unrecognized tax benefits as current liabilities. Beginning with the adoption of FIN 48, the Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheet. The total amount of gross unrecognized tax benefits as of the date of adoption of FIN 48 was $475 million, of which $209 million, if recognized, would affect the Company s effective tax rate. As of September 27, 2008, the total amount of gross unrecognized tax benefits was $506 million, of which $253 million, if recognized, would affect the Company s effective tax rate. The Company s total gross unrecognized tax benefits are classified as non-current liabilities in the Consolidated Balance Sheet.

The aggregate changes in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for the fiscal year ended September 27, 2008, is as follows (in millions):

Balance as of September 30, 2007	$ 475
Increases related to tax positions taken during a prior period	27
Decreases related to tax positions taken during a prior period	(70)
Increases related to tax positions taken during the current period	85
Decreases related to settlements with taxing authorities	
Decreases related to expiration of statute of limitations	(11)
Balance as of September 27, 2008	$ 506

The Company s policy to include interest and penalties related to unrecognized tax benefits within the provision for income taxes did not change as a result of adopting FIN 48. As of the date of adoption, the Company had accrued $203 million for the gross interest and penalties relating to unrecognized tax benefits. As of September 27, 2008, the total amount of gross interest and penalties accrued was $219 million, which is classified as non-current liabilities in the Consolidated Balance Sheet. In 2008, the Company recognized interest expense in connection with tax matters of $16 million.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. For U.S. federal income tax purposes, all years prior to 2002 are closed. The years 2002-2003 have been examined by the Internal Revenue Service (the IRS) and disputed issues have been taken to administrative appeals. The IRS is currently examining the 2004-2006 years. In addition, the Company is also subject to audits by state, local, and foreign tax authorities. In major states and major foreign jurisdictions, the years subsequent to 1988 and 2000, respectively, generally remain open and could be subject to examination by the taxing authorities.

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Shareholders Equity

Preferred Stock

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

CEO Restricted Stock Award

On March 19, 2003, the Company s Board of Directors granted 10 million shares of restricted stock to the Company s CEO that vested on March 19, 2006. The amount of the restricted stock award expensed by the Company was based on the closing market price of the Company s common stock on the date of grant and was amortized ratably on a straight-line basis over the three-year requisite service period. Upon vesting during 2006, the 10 million shares of restricted stock had a fair value of $646.6 million and had grant-date fair value of $7.48 per share. The restricted stock award was net-share settled such that the Company withheld shares with value equivalent to the CEO s minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld of 4.6 million were based on the value of the restricted stock award on the vesting date as determined by the Company s closing stock price of $64.66. The remaining shares net of those withheld were delivered to the Company s CEO. Total payments for the CEO s tax obligations to the taxing authorities was $296 million in 2006 and are reflected as a financing activity within the Consolidated Statements of Cash Flows. The net-share settlement had the effect of share repurchases by the Company as it reduced and retired the number of shares outstanding and did not represent an expense to the Company. The Company s CEO has no remaining shares of restricted stock. For the year ended September 30, 2006, compensation expense related to restricted stock was $4.6 million.

Comprehensive Income

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

The following table summarizes the components of accumulated other comprehensive income, net of taxes, as of the three fiscal years ended September 27, 2008 (in millions):

	2008	2007	2006
Unrealized losses on available-for-sale securities	$ (70)	$ (7)	$
Unrealized gains on derivative instruments	19		3
Cumulative foreign currency translation	59	70	19
Accumulated other comprehensive income	$ 8	$ 63	$ 22

The change in fair value of available-for-sale securities included in other comprehensive income was $(63) million, $(7) million, and $4 million, net of taxes in 2008, 2007, and 2006, respectively. The tax effect related to the change in unrealized gain/loss on available-for-sale securities was $42 million, $4 million, and $(2) million for 2008, 2007, and 2006, respectively.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Shareholders Equity (Continued)

The following table summarizes activity in other comprehensive income related to derivatives, net of taxes, held by the Company during the three fiscal years ended September 27, 2008 (in millions):

	2008	2007	2006
Changes in fair value of derivatives	$ 7	$ (1)	$ 11
Adjustment for net gains/(losses) realized and included in net income	12	(2)	(12)
Change in unrealized gains on derivative instruments	$ 19	$ (3)	$ (1)

The tax effect related to the changes in fair value of derivatives was $(5) million, $1 million, and $(8) million for 2008, 2007, and 2006, respectively. The tax effect related to derivative gains/losses reclassified from other comprehensive income to net income was $(9) million, $2 million, and $8 million for 2008, 2007, and 2006, respectively.

Employee Benefit Plans

2003 Employee Stock Plan

The 2003 Employee Stock Plan (the 2003 Plan) is a shareholder approved plan that provides for broad-based grants to employees, including executive officers. Based on the terms of individual option grants, options granted under the 2003 Plan generally expire 7 to 10 years after the grant date and generally become exercisable over a period of four years, based on continued employment, with either annual or quarterly vesting. The 2003 Plan permits the granting of incentive stock options, nonstatutory stock options, RSUs, stock appreciation rights, stock purchase rights and performance-based awards. As of September 27, 2008, approximately 50.3 million shares were reserved for future issuance under the 2003 Plan.

1997 Employee Stock Option Plan

In August 1997, the Company s Board of Directors approved the 1997 Employee Stock Option Plan (the 1997 Plan), a non-shareholder approved plan for grants of stock options to employees who are not officers of the Company. Based on the terms of individual option grants, options granted under the 1997 Plan generally expire 7 to 10 years after the grant date and generally become exercisable over a period of four years, based on continued employment, with either annual or quarterly vesting. In October 2003, the Company terminated the 1997 Plan and no new options can be granted from this plan.

1997 Director Stock Option Plan

In August 1997, the Company s Board of Directors adopted a Director Stock Option Plan (the Director Plan) for non-employee directors of the Company, which was approved by shareholders in 1998. Pursuant to the Director Plan, the Company s non-employee directors are granted an option to acquire 30,000 shares of common stock upon their initial election to the Board (Initial Options). The Initial Options vest and become exercisable in three equal annual installments on each of the first through third anniversaries of the grant date. On the fourth anniversary of a non-employee director s initial election to the Board and on each subsequent anniversary thereafter, the director will be entitled to receive an option to acquire 10,000 shares of common stock (Annual Options). Annual Options are fully vested and immediately exercisable on their date of grant. Options granted under the Director Plan expire 10 years after the grant date. As of September 27, 2008, approximately 290,000 shares were reserved for future issuance under the Director Plan.

Rule 10b5-1 Trading Plans

The following executive officers, Timothy D. Cook, Peter Oppenheimer, Philip W. Schiller, and Bertrand Serlet, have entered into trading plans pursuant to Rule 10b5-1(c)(1) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as of November 1, 2008. A trading plan is a written document that

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Shareholders Equity (Continued)

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 the exercise and sale of employee stock options and shares acquired pursuant to the Company s employee stock purchase plan and upon vesting of RSUs.

Employee Stock Purchase Plan

The Company has a shareholder approved employee stock purchase plan (the Purchase Plan), under which substantially all employees may purchase common stock through payroll deductions at a price equal to 85% of the lower of the fair market values as of the beginning and end of six-month offering periods. Stock purchases under the Purchase Plan are limited to 10% of an employee s compensation, up to a maximum of $25,000 in any calendar year. The number of shares authorized to be purchased in any calendar year is limited to a total of 3 million shares. As of September 27, 2008, approximately 6.2 million shares were reserved for future issuance under the Purchase Plan.

Employee Savings Plan

The Company has an employee savings plan (the Savings Plan) qualifying as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limit ($15,500 for calendar year 2008). The Company matches 50% to 100% of each employee s contributions, depending on length of service, up to a maximum 6% of the employee s eligible earnings. The Company s matching contributions to the Savings Plan were $50 million, $39 million, and $33 million in 2008, 2007, and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Shareholders Equity (Continued)

Stock Option Activity

A summary of the Company s stock option activity and related information for the three fiscal years ended September 27, 2008, is as follows (in thousands, except per share amounts and contractual term in years):

		Outstanding Options			
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at September 24, 2005	58,957	73,221	$ 17.79		
Restricted stock units granted	(2,950)				
Options granted	(3,881)	3,881	$ 65.28		
Options cancelled	2,325	(2,325)	$ 29.32		
Restricted stock units cancelled	625				
Options exercised		(21,795)	$ 11.78		
Plan shares expired	(82)				
Balance at September 30, 2006	54,994	52,982	$ 23.23		
Additional shares authorized	28,000				
Restricted stock units granted	(2,640)				
Options granted	(14,010)	14,010	$ 94.52		
Options cancelled	1,471	(1,471)	$ 55.38		
Restricted stock units cancelled	20				
Options exercised		(15,770)	$ 18.32		
Plan shares expired	(8)				
Balance at September 29, 2007	67,827	49,751	$ 43.91		
Restricted stock units granted	(9,834)				
Options granted	(9,359)	9,359	$ 171.36		
Options cancelled	1,236	(1,236)	$ 98.40		
Restricted stock units cancelled	714				
Options exercised		(13,728)	$ 27.88		
Plan shares expired	(12)				
Balance at September 27, 2008	50,572	44,146	$ 74.39	4.29	$ 2,377,262
Exercisable at September 27, 2008		24,751	$ 40.93	3.42	$ 2,161,010
Expected to Vest after September 27, 2008		18,701	$ 117.09	5.40	$ 208,517

Aggregate intrinsic value represents the value of the Company s closing stock price on the last trading day of the fiscal period in excess of the exercise price multiplied by the number of options outstanding or exercisable. Total intrinsic value of options at time of exercise was $2.0 billion, $1.3 billion, and $1.2 billion for 2008, 2007, and 2006, respectively.

Shares of RSUs granted after April 2005 have been deducted from the shares available for grant under the Company s stock option plans utilizing a factor of two times the number of RSUs granted. Similarly shares of RSUs granted after April 2005, that are subsequently cancelled have been added back to the shares available for grant under the Company s stock option plans utilizing a factor of two times the number of RSUs cancelled.

77

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Shareholders Equity (Continued)

Restricted Stock Units

The Company s Board of Directors has granted RSUs to members of the Company s executive management team, excluding its Chief Executive Officer (CEO), as well as various employees within the Company. Outstanding RSU balances were not included in the outstanding options balances in the preceding table. A summary of the Company s RSU activity and related information for the three fiscal years ended September 27, 2008, is as follows (in thousands, except per share amounts):

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Balance at September 24, 2005	5,030	$ 14.21	
Restricted stock units granted	1,475	$ 70.92	
Restricted stock units vested	(2,470)	$ 13.37	
Restricted stock units cancelled	(625)	$ 12.75	
Balance at September 30, 2006	3,410	$ 39.62	
Restricted stock units granted	1,320	$ 88.51	
Restricted stock units vested	(45)	$ 46.57	
Restricted stock units cancelled	(10)	$ 86.14	
Balance at September 29, 2007	4,675	$ 52.98	
Restricted stock units granted	4,917	$ 162.61	
Restricted stock units vested	(2,195)	$ 25.63	
Restricted stock units cancelled	(357)	$ 119.12	
Balance at September 27, 2008	7,040	$ 134.91	$ 902,749

Upon vesting, the RSUs are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The majority of RSUs vested in 2008, 2007 and 2006, were net-share settled such that the Company withheld shares with value equivalent to the employees minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were approximately 857,000, 20,000, and 986,000 for 2008, 2007, and 2006, respectively, which was based on the value of the RSUs on their vesting date as determined by the Company s closing stock price. Total payments for the employees tax obligations to the taxing authorities were $124 million, $3 million, and $59 million in 2008, 2007, and 2006, respectively, and are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

The Company recognized $516 million, $242 million and $163 million of stock-based compensation expense in 2008, 2007 and 2006, respectively. Stock-based compensation expense capitalized as software development costs was not significant as of September 27, 2008 or September 29, 2007. The income tax benefit related to stock-based compensation expense was $169 million, $81 million, and $39 million for the years ended September 27, 2008, September 29, 2007, and September 30, 2006, respectively. The total unrecognized compensation cost related to stock options and RSUs expected to vest was $1.4 billion and $631 million as of September 27, 2008 and September 29, 2007, respectively. The total unrecognized compensation cost as of September 27, 2008, is expected to be recognized over a weighted-average period of 2.92 years.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Stock-Based Compensation

SFAS No. 123R requires the use of a valuation model to calculate the fair value of stock-based awards. The Company uses the BSM option-pricing model to calculate the fair value of stock-based awards. The BSM option-pricing model incorporates various assumptions including expected volatility, expected life, and interest rates. The expected volatility is based on the historical volatility of the Company s common stock over the most recent period commensurate with the estimated expected life of the Company s stock options and other relevant factors including implied volatility in market traded options on the Company s common stock. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock awards it grants to employees. Stock-based compensation cost is estimated at the grant date based on the award s fair-value as calculated by the BSM option-pricing model and is recognized as expense ratably on a straight-line basis over the requisite service period.

The compensation expense incurred by the Company for RSUs is based on the closing market price of the Company s common stock on the date of grant and is amortized ratably on a straight-line basis over the requisite service period.

The weighted-average assumptions used for the three fiscal years ended September 27, 2008, and the resulting estimates of weighted-average fair value per share of options granted and of employee stock purchase plan rights during those periods are as follows:

	2008	2007	2006
Expected life of stock options	3.41 years	3.46 years	3.56 years
Expected life of stock purchase rights	6 months	6 months	6 months
Interest rate stock options	3.40%	4.61%	4.60%
Interest rate stock purchase rights	3.48%	5.13%	4.29%
Volatility stock options	45.64%	38.13%	40.34%
Volatility stock purchase rights	38.51%	39.22%	39.56%
Dividend yields			
Weighted-average fair value of stock options granted during the year	$ 62.73	$ 31.86	$ 23.16
Weighted-average fair value of employee stock purchase plan rights during the year	$ 42.27	$ 20.90	$ 14.06

Note 8 Commitments and Contingencies

Lease Commitments

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are generally for terms of 3 to 20 years and generally provide renewal options for terms of 1 to 5 additional years. Leases for retail space are for terms of 5 to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of September 27, 2008, the Company s total future minimum lease payments under noncancelable operating leases were $1.8 billion, of which $1.4 billion related to leases for retail space.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Commitments and Contingencies (Continued)

Rent expense under all operating leases, including both cancelable and noncancelable leases, was $207 million, $151 million, and $138 million in 2008, 2007, and 2006, respectively. Future minimum lease payments under noncancelable operating leases having remaining terms in excess of one year as of September 27, 2008, are as follows (in millions):

Fiscal Years	
2009	$ 195
2010	209
2011	200
2012	191
2013	177
Thereafter	788
Total minimum lease payments	$ 1,760

Accrued Warranty and Indemnifications

The Company offers a basic limited parts and labor warranty on its hardware products. The basic warranty period for hardware products is typically one year from the date of purchase by the end-user. The Company also offers a 90-day basic warranty for its service parts used to repair the Company s hardware products. The Company provides currently for the estimated cost that may be incurred under its basic limited product warranties at the time related revenue is recognized. Factors considered in determining appropriate accruals for product warranty obligations include the size of the installed base of products subject to warranty protection, historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company s typical experience. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates. For products accounted for under subscription accounting pursuant to SOP No. 97-2, the Company recognizes warranty expense as incurred.

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

The following table reconciles changes in the Company s accrued warranties and related costs for the three fiscal years ended September 27, 2008 (in millions):

	2008	**2007**	**2006**
Beginning accrued warranty and related costs	$ 230	$ 284	$ 188
Cost of warranty claims	(319)	(281)	(267)
Accruals for product warranties	356	227	363
Ending accrued warranty and related costs	$ 267	$ 230	$ 284

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Commitments and Contingencies (Continued)

However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a potential liability related to unresolved infringement claims subject to indemnification that would have a material adverse effect on its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs as of either September 27, 2008 or September 29, 2007.

Concentrations in the Available Sources of Supply of Materials and Product

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

The Company and other participants in the personal computer, consumer electronics and mobile communication industries also compete for various components with other industries that have experienced increased demand for

their products. In addition, the Company uses some custom components that are not common to the rest of the personal computer, consumer electronics and mobile communication industries, and new products introduced by the Company often utilize custom components available from only one source until the Company has evaluated whether there is a need for, and subsequently qualifies, additional suppliers. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers yields have matured. If the Company s supply of a key single-sourced component for a new or existing product were delayed or constrained, if such components were available only at significantly higher prices, or if a key manufacturing vendor delayed shipments of completed products to the Company, the Company s financial condition and operating results could be materially adversely affected. The Company s business and financial performance could also be adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet the Company s requirements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Commitments and Contingencies (Continued)

Long-Term Supply Agreements

During 2006, the Company entered into long-term supply agreements with Hynix Semiconductor, Inc., Intel Corporation, Micron Technology, Inc., Samsung Electronics Co., Ltd., and Toshiba Corporation to secure supply of NAND flash memory through calendar year 2010. As part of these agreements, the Company prepaid $1.25 billion for flash memory components during 2006, which will be applied to certain inventory purchases made over the life of each respective agreement. The Company utilized $567 million of the prepayment as of September 27, 2008.

Contingencies

The Company is subject to certain other legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated. In the opinion of management, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate have a material adverse effect on its financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. If the Company failed to prevail in any of these legal matters or if several of these legal matters were resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

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

Note 9 Segment Information and Geographic Data

In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company s reportable segments.

The Company manages its business primarily on a geographic basis. Accordingly, the Company determined its operating segments, which are generally based on the nature and location of its customers, to be the Americas, Europe, Japan, Asia-Pacific, Retail, and FileMaker operations. The Company s reportable operating segments consist of Americas, Europe, Japan, and Retail operations. Other operating segments include Asia Pacific, which encompasses Australia and Asia except for Japan, and the Company s FileMaker, Inc. subsidiary. The Americas, Europe, Japan, and Asia Pacific segments exclude activities related to the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Retail segment operates Apple-owned retail stores in the U.S. and in international markets. Each reportable operating segment provides similar hardware and software products and similar services to the same types of customers. The accounting policies of the various segments are the same as those described in Note 1, Summary of Significant Accounting Policies.

The Company evaluates the performance of its operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers, while Retail segment net sales are based on sales from the Company s retail stores. Operating income for each segment includes net sales to third parties, related cost of sales, and operating expenses directly attributable to the segment. Advertising

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Segment Information and Geographic Data (Continued)

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 operating segments. Costs excluded from segment operating income include various corporate expenses, such as manufacturing costs and variances not included in standard costs, research and development, corporate marketing expenses, stock-based compensation expense, income taxes, various nonrecurring charges, and other separately managed general and administrative costs. The Company does not include intercompany transfers between segments for management reporting purposes. Segment assets exclude corporate assets, such as cash, short-term and long-term investments, manufacturing and corporate facilities, miscellaneous corporate infrastructure, goodwill and other acquired intangible assets. Except for the Retail segment, capital asset purchases for long-lived assets are not reported to management by segment. Cash payments for capital asset purchases by the Retail segment were $389 million, $294 million, and $200 million for 2008, 2007, and 2006 respectively.

The Company has certain retail stores that have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company s more typical retail stores. The Company allocates certain operating expenses associated with its high-profile stores to corporate marketing expense to reflect the estimated Company-wide benefit. The allocation of these operating costs to corporate expense is based on the amount incurred for a high-profile store in excess of that incurred by a more typical Company retail location. The Company had opened a total of 11 high-profile stores as of September 27, 2008. Expenses allocated to corporate marketing resulting from the operations of high-profile stores were $53 million, $39 million, and $33 million for the years ended September 27, 2008, September 29, 2007, and September 30, 2006 respectively.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Segment Information and Geographic Data (Continued)

Summary information by operating segment for the three fiscal years ended September 27, 2008 is as follows (in millions):

	2008	2007	2006
Americas:			
Net sales	$ 14,573	$ 11,596	$ 9,415
Operating income	$ 4,051	$ 2,949	$ 1,899
Depreciation, amortization, and accretion	$ 9	$ 9	$ 6
Segment assets (a)	$ 3,039	$ 1,497	$ 896
Europe:			
Net sales	$ 7,622	$ 5,460	$ 4,096
Operating income	$ 2,313	$ 1,348	$ 627
Depreciation, amortization, and accretion	$ 6	$ 6	$ 4
Segment assets	$ 1,775	$ 595	$ 471
Japan:			
Net sales	$ 1,509	$ 1,082	$ 1,211
Operating income	$ 440	$ 232	$ 208
Depreciation, amortization, and accretion	$ 2	$ 3	$ 3
Segment assets	$ 302	$ 159	$ 181
Retail:			
Net sales	$ 6,315	$ 4,115	$ 3,246
Operating income	$ 1,337	$ 875	$ 600
Depreciation, amortization, and accretion (b)	$ 108	$ 88	$ 59
Segment assets (b)	$ 1,869	$ 1,085	$ 651
Other Segments (c):			
Net sales	$ 2,460	$ 1,753	$ 1,347
Operating income	$ 615	$ 388	$ 235
Depreciation, amortization, and accretion	$ 4	$ 3	$ 3
Segment assets	$ 534	$ 252	$ 180

(a) The Americas asset figures do not include fixed assets held in the U.S. Such fixed assets are not allocated specifically to the Americas segment and are included in the corporate assets figures below.

(b) Retail segment depreciation and asset figures reflect the cost and related depreciation of its retail stores and related infrastructure.

(c) Other Segments include Asia-Pacific and FileMaker.

84

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Segment Information and Geographic Data (Continued)

A reconciliation of the Company s segment operating income and assets to the Consolidated Financial Statements for the three fiscal years ended September 27, 2008 is as follows (in millions):

	2008	2007	2006
Segment operating income	$ 8,756	$ 5,792	$ 3,569
Other corporate expenses, net (a)	(1,965)	(1,141)	(953)
Stock-based compensation expense	(516)	(242)	(163)
Total operating income	$ 6,275	$ 4,409	$ 2,453
Segment assets	$ 7,519	$ 3,588	$ 2,379
Corporate assets	32,053	21,759	14,826
Consolidated assets	$ 39,572	$ 25,347	$ 17,205
Segment depreciation, amortization, and accretion	$ 129	$ 109	$ 75
Corporate depreciation, amortization, and accretion	344	208	150
Consolidated depreciation, amortization, and accretion	$ 473	$ 317	$ 225

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

No single customer or single country outside of the U.S. accounted for more than 10% of net sales in 2008, 2007, or 2006. Net sales and long-lived assets related to the U.S. and international operations for the three fiscal years ended September 27, 2008, are as follows (in millions):

	2008	2007	2006
Net sales:			
U.S.	$ 18,469	$ 14,128	$ 11,486
International	14,010	9,878	7,829
Total net sales	$ 32,479	$ 24,006	$ 19,315
Long-lived assets:			
U.S.	$ 2,269	$ 1,752	$ 1,150
International	410	260	218
Total long-lived assets	$ 2,679	$ 2,012	$ 1,368

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Segment Information and Geographic Data (Continued)

Information regarding net sales by product for the three fiscal years ended September 27, 2008, is as follows (in millions):

	2008	2007	2006
Net sales:			
Desktops (a)	$ 5,603	$ 4,020	$ 3,319
Portables (b)	8,673	6,294	4,056
Total Mac net sales	14,276	10,314	7,375
iPod	9,153	8,305	7,676
Other music related products and services (c)	3,340	2,496	1,885
iPhone and related products and services (d)	1,844	123	
Peripherals and other hardware (e)	1,659	1,260	1,100
Software, service, and other net sales (f)	2,207	1,508	1,279
Total net sales	$ 32,479	$ 24,006	$ 19,315

(a) Includes iMac, Mac mini, Mac Pro, Power Mac, and Xserve product lines.
(b) Includes MacBook, iBook, MacBook Air, MacBook Pro, and PowerBook product lines.
(c) Consists of iTunes Store sales and iPod services, and Apple-branded and third-party iPod accessories.
(d) Derived from handset sales, carrier agreements, and Apple-branded and third-party iPhone accessories.
(e) Includes sales of Apple-branded and third-party displays, wireless connectivity and networking solutions, and other hardware accessories.
(f) Includes sales of Apple-branded operating system and application software, third-party software, AppleCare, and Internet services.

Note 10 Related Party Transactions and Certain Other Transactions

The Company entered into a Reimbursement Agreement with its CEO, Steve Jobs, for the reimbursement of expenses incurred by Mr. Jobs in the operation of his private plane when used for Apple business. The Company recognized a total of approximately $871,000, $776,000, and $202,000 in expenses pursuant to the Reimbursement Agreement during 2008, 2007, and 2006, respectively. All expenses recognized pursuant to the Reimbursement Agreement have been included in selling, general, and administrative expenses in the Consolidated Statements of Operations.

In 2006, the Company entered into an agreement with Pixar to sell certain of Pixar s short films on the iTunes Store. Mr. Jobs was the CEO, Chairman, and a large shareholder of Pixar. On May 5, 2006, The Walt Disney Company (Disney) acquired Pixar, which resulted in Pixar becoming a wholly-owned subsidiary of Disney. Upon Disney s acquisition of Pixar, Mr. Jobs shares of Pixar common stock were exchanged for Disney s common stock and he was elected to the Disney Board of Directors. Royalty expense recognized by the Company under the arrangement with Pixar from September 25, 2005 through May 5, 2006 was less than $1 million.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Selected Quarterly Financial Information (Unaudited)

The following tables set forth a summary of the Company s quarterly financial information for each of the four quarters ended September 27, 2008 and September 29, 2007 (in millions, except per share amounts):

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2008				
Net sales	$ 7,895	$ 7,464	$ 7,512	$ 9,608
Gross margin	$ 2,739	$ 2,600	$ 2,474	$ 3,332
Net income	$ 1,136	$ 1,072	$ 1,045	$ 1,581
Earnings per common share:				
Basic	$ 1.28	$ 1.21	$ 1.19	$ 1.81
Diluted	$ 1.26	$ 1.19	$ 1.16	$ 1.76
2007				
Net sales	$ 6,217	$ 5,410	$ 5,264	$ 7,115
Gross margin	$ 2,090	$ 1,995	$ 1,849	$ 2,220
Net income	$ 904	$ 818	$ 770	$ 1,004
Earnings per common share:				
Basic	$ 1.04	$ 0.94	$ 0.89	$ 1.17
Diluted	$ 1.01	$ 0.92	$ 0.87	$ 1.14

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Apple Inc.:

We have audited the accompanying consolidated balance sheets of Apple Inc. and subsidiaries (the Company) as of September 27, 2008 and September 29, 2007, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the years in the three-year period ended September 27, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apple Inc. and subsidiaries as of September 27, 2008 and September 29, 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended September 27, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the Consolidated Financial Statements, effective September 30, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Apple Inc. s internal control over financial reporting as of September 27, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 4, 2008 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Mountain View, California

November 4, 2008

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Apple Inc.:

We have audited Apple Inc. s internal control over financial reporting as of September 27, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Apple s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Apple Inc. maintained, in all material respects, effective internal control over financial reporting as of September 27, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Apple Inc. and subsidiaries as of September 27, 2008 and September 29, 2007, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the years in the three-year period ended September 27, 2008, and our report dated November 4, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, California

November 4, 2008

Table of Contents

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company s management, the Company s principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) were effective as of September 27, 2008 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

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

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company s assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company s receipts and expenditures are being made only in accordance with authorizations of the Company s management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

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

Management s Annual Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting based on the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has concluded that the Company s internal control over financial reporting was effective as of September 27, 2008. The Company s independent registered public accounting firm, KPMG LLP, has issued an audit report on the Company s internal control over financial reporting. The report on the audit of internal control over financial reporting appears on page 89 of this Form 10-K.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the fourth quarter of fiscal 2008, which were identified in connection with management s evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

On November 3, 2008, Tony Fadell, Senior Vice President, iPod Division of the Company became Special Advisor to the Company s Chief Executive Officer. In this new position, Mr. Fadell no longer will be an executive officer of the Company. In connection therewith, Mr. Fadell and the Company have entered into a Transition Agreement and a Settlement Agreement and Release (the Transition Agreement and the Settlement Agreement, respectively), under which Mr. Fadell will receive a salary of three hundred thousand dollars annually, and will be entitled to bonus and other health and welfare benefits generally available to other senior managers for the duration of the Transition Agreement, which remains in effect until March 24, 2010. The Transition Agreement also provides for the cancellation of outstanding and unvested 155,000 restricted stock units held by Mr. Fadell. Upon approval by the Compensation Committee of the Company s Board of Directors, Mr. Fadell will be granted 77,500 restricted stock units that will vest in full on March 24, 2010, subject to his continued employment with the Company through the vesting date and further subject to accelerated vesting if the Company terminates his employment without cause. The restricted stock units are payable upon vesting in shares of the Company s common stock on a one-for-one basis. The Settlement Agreement includes Mr. Fadell s release of claims against the Company and agreement not to solicit the Company s employees for one year following the termination of his employment.

91

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item under the heading Directors is incorporated herein by reference from the information to be contained in the Company s 2009 Proxy Statement to be filed with the U.S. Securities and Exchange Commission in connection with the solicitation of proxies for the Company s Annual Meeting of Shareholders to be held on February 25, 2009 (2009 Proxy Statement). The information under the heading Executive Officers of the Registrant in Part I, Item 1 of this Form 10-K is also incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item under the headings Executive Compensation and Compensation Discussion and Analysis is incorporated herein by reference from the information to be contained in the Company s 2009 Proxy Statement.

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

The information required by this Item under the headings Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information are incorporated herein by reference from the information to be contained in the Company s 2009 Proxy Statement.

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

The information required by this Item under the heading Review, Approval or Ratification of Transactions with Related Persons is incorporated herein by reference from the information to be contained in the Company s 2009 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this Item under the heading Fees Paid to Auditors is incorporated herein by reference from the information to be contained in the Company s 2009 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

(1) All financial statements

(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and Notes thereto.

(b) Exhibits required by Item 601 of Regulation S-K

The information required by this Item is set forth on the exhibit index that follows the signature page of this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 4th day of November 2008.

APPLE INC.

By: /s/ PETER OPPENHEIMER
Peter Oppenheimer
Senior Vice President and
Chief Financial Officer

Power of Attorney

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

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

Name	Title	Date
/s/ STEVEN P. JOBS STEVEN P. JOBS	Chief Executive Officer and Director (Principal Executive Officer)	November 4, 2008
/s/ PETER OPPENHEIMER PETER OPPENHEIMER	Senior Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	November 4, 2008
/s/ WILLIAM V. CAMPBELL WILLIAM V. CAMPBELL	Director	November 4, 2008
/s/ MILLARD S. DREXLER MILLARD S. DREXLER	Director	November 4, 2008
/s/ ALBERT GORE, JR. ALBERT GORE, JR.	Director	November 4, 2008
/s/ ANDREA JUNG ANDREA JUNG	Director	November 4, 2008
/s/ ARTHUR D. LEVINSON	Director	November 4, 2008

ARTHUR D. LEVINSON

/s/ ERIC E. SCHMIDT ERIC E. SCHMIDT	Director	November 4, 2008
/s/ JEROME B. YORK JEROME B. YORK	Director	November 4, 2008

94

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
3.1	Restated Articles of Incorporation, filed with the Secretary of State of the State of California on January 27, 1988.	S-3	7/27/88
3.2	Certificate of Amendment to Restated Articles of Incorporation, filed with the Secretary of State of the State of California on May 4, 2000.	10-Q	5/11/00
3.3	Certificate of Amendment to Restated Articles of Incorporation, as amended, filed with the Secretary of State of the State of California on February 25, 2005.	10-Q	3/26/05
3.4	Certificate of Determination of Preferences of Series A Non-Voting Convertible Preferred Stock of the Registrant.	10-K	9/26/97
3.5	By-Laws of the Registrant, as amended through August 20, 2008.	8-K	8/25/08
4.1	Form of Stock Certificate of the Registrant.	10-Q	12/30/06
10.1*	Employee Stock Purchase Plan, as amended through May 10, 2007.	8-K	5/16/07
10.2*	Form of Indemnification Agreement between the Registrant and each officer of the Registrant.	10-K	9/26/97
10.3*	1997 Employee Stock Option Plan, as amended through October 19, 2001.	10-K	9/28/02
10.4*	1997 Director Stock Option Plan, as amended through May 10, 2007.	8-K	5/16/07
10.5*	2003 Employee Stock Plan, as amended through May 10, 2007.	8-K	5/16/07
10.6*	Reimbursement Agreement dated as of May 25, 2001 by and between the Registrant and Steven P. Jobs.	10-Q	6/29/02
10.7*	Performance Bonus Plan dated April 21, 2005.	10-Q	3/26/05
10.8*	Form of Option Agreements.	10-K	9/24/05
10.9*	Form of Restricted Stock Unit Award Agreement effective as of August 28, 2007.	10-K	9/29/07
14.1	Business Conduct Policy of the Registrant dated January 2008.	10-Q	12/29/07
21**	Subsidiaries of the Registrant.		
23.1**	Consent of Independent Registered Public Accounting Firm.		
24.1**	Power of Attorney (included on the Signature Page of this Annual Report on Form 10-K).		
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.		
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.		
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.		

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.