

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended	
	December 27, 2008	December 29, 2007
Net sales .....	\$ 10,167	\$ 9,608
Cost of sales <sup>(1)</sup> .....	<u>6,635</u>	<u>6,276</u>
Gross margin .....	<u>3,532</u>	<u>3,332</u>
Operating expenses:		
Research and development <sup>(1)</sup> .....	315	246
Selling, general, and administrative <sup>(1)</sup> .....	<u>1,091</u>	<u>960</u>
Total operating expenses.....	<u>1,406</u>	<u>1,206</u>
Operating income .....	2,126	2,126
Other income and expense .....	<u>158</u>	<u>200</u>
Income before provision for income taxes.....	2,284	2,326
Provision for income taxes .....	<u>679</u>	<u>745</u>
Net income .....	\$ <u>1,605</u>	\$ <u>1,581</u>
Earnings per common share:		
Basic .....	\$ 1.81	\$ 1.81
Diluted .....	\$ 1.78	\$ 1.76
Shares used in computing earnings per share:		
Basic .....	889,142	875,860
Diluted .....	901,494	900,054
<sup>(1)</sup> Includes stock-based compensation expense as follows:		
Cost of sales .....	\$ 28	\$ 18
Research and development .....	\$ 60	\$ 39
Selling, general, and administrative .....	\$ 82	\$ 53

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)

	December 27, 2008	September 27, 2008
ASSETS:		
Current assets:		
Cash and cash equivalents .....	\$ 7,236	\$ 11,875
Short-term marketable securities .....	18,411	10,236
Accounts receivable, less allowances of \$54 and \$47, respectively .....	2,196	2,422
Inventories .....	396	509
Deferred tax assets .....	1,613	1,447
Other current assets .....	<u>5,311</u>	<u>5,822</u>
Total current assets .....	35,163	32,311
Long-term marketable securities .....	2,498	2,379
Property, plant and equipment, net .....	2,580	2,455
Goodwill .....	207	207
Acquired intangible assets, net .....	277	285
Other assets .....	<u>2,062</u>	<u>1,935</u>
Total assets .....	\$ <u>42,787</u>	\$ <u>39,572</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable .....	\$ 4,715	\$ 5,520
Accrued expenses .....	3,807	3,719
Deferred revenue .....	<u>6,235</u>	<u>4,853</u>
Total current liabilities .....	14,757	14,092
Deferred revenue – non-current .....	3,440	3,029
Other non-current liabilities .....	<u>1,681</u>	<u>1,421</u>
Total liabilities .....	<u>19,878</u>	<u>18,542</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 1,800,000,000 shares authorized; 890,414,924 and 888,325,973 shares issued and outstanding, respectively .....	7,392	7,177
Retained earnings .....	15,448	13,845
Accumulated other comprehensive income .....	<u>69</u>	<u>8</u>
Total shareholders' equity .....	<u>22,909</u>	<u>21,030</u>
Total liabilities and shareholders' equity .....	\$ <u>42,787</u>	\$ <u>39,572</u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Three Months Ended	
	December 27, 2008	December 29, 2007
Cash and cash equivalents, beginning of the period .....	\$ <u>11,875</u>	\$ <u>9,352</u>
Operating Activities:		
Net income .....	1,605	1,581
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation, amortization, and accretion.....	158	106
Stock-based compensation expense .....	170	110
Provision for deferred income taxes .....	(27)	22
Loss on disposition of property, plant, and equipment .....	7	14
Changes in operating assets and liabilities:		
Accounts receivable, net.....	226	(302)
Inventories .....	113	(113)
Other current assets .....	660	(550)
Other assets .....	(116)	(253)
Accounts payable.....	(767)	484
Deferred revenue .....	1,793	1,048
Other liabilities.....	<u>116</u>	<u>640</u>
Cash generated by operating activities .....	<u>3,938</u>	<u>2,787</u>
Investing Activities:		
Purchases of marketable securities .....	(13,082)	(6,127)
Proceeds from maturities of marketable securities .....	2,226	2,129
Proceeds from sales of marketable securities.....	2,668	758
Purchases of other long-term investments .....	(38)	(9)
Payment for acquisition of property, plant, and equipment.....	(339)	(224)
Payment for acquisition of intangible assets.....	(14)	(8)
Other .....	<u>(60)</u>	<u>19</u>
Cash used in investing activities .....	<u>(8,639)</u>	<u>(3,462)</u>
Financing Activities:		
Proceeds from issuance of common stock.....	77	179
Excess tax benefits from stock-based compensation .....	19	315
Cash used to net share settle equity awards .....	<u>(34)</u>	<u>(9)</u>
Cash generated by financing activities .....	<u>62</u>	<u>485</u>
Decrease in cash and cash equivalents.....	<u>(4,639)</u>	<u>(190)</u>
Cash and cash equivalents, end of the period.....	\$ <u>7,236</u>	\$ <u>9,162</u>
Supplemental cash flow disclosure:		
Cash paid for income taxes, net.....	\$ 550	\$ 251

**UNAUDITED CONSOLIDATED SCHEDULE OF DEFERRED REVENUE**  
(In millions)

	December 27, 2008	September 27, 2008
Deferred revenue-current:		
iPhone and Apple TV .....	\$ 4,666	\$ 3,518
AppleCare .....	602	599
Other .....	<u>967</u>	<u>736</u>
Total deferred revenue-current.....	<u>6,235</u>	<u>4,853</u>
Deferred revenue-non-current:		
iPhone and Apple TV .....	2,627	2,262
AppleCare .....	683	651
Other .....	<u>130</u>	<u>116</u>
Total deferred revenue-non-current..	<u>3,440</u>	<u>3,029</u>
Total deferred revenue.....	\$ <u>9,675</u>	\$ <u>7,882</u>

## UNAUDITED RECONCILIATION OF NON-GAAP TO GAAP RESULTS OF OPERATIONS

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

Three Months Ended December 27, 2008

	<u>As Reported</u>	<u>Non-GAAP Adjustments</u>		<u>Non-GAAP</u>
Net sales.....	\$ 10,167	\$ 1,632 (a)	\$	11,799
Cost of sales .....	<u>6,635</u>	<u>637</u> (b)		<u>7,272</u>
Gross margin.....	3,532	995 (c)		4,527
Operating expenses.....	<u>1,406</u>	-		<u>1,406</u>
Operating income .....	2,126	995 (c)		3,121
Other income and expense .....	<u>158</u>	-		<u>158</u>
Income before provision for income taxes.....	2,284	995 (c)		3,279
Provision for income taxes.....	<u>679</u>	<u>296</u> (d)		<u>975</u>
Net income .....	\$ <u>1,605</u>	\$ <u>699</u> (e)	\$	<u>2,304</u>
Earnings per diluted common share.....	\$ 1.78	\$ .78 (f)	\$	2.56
Shares used in computing diluted earnings per share .....	901,494			901,494

### Footnotes:

- (a) Non-GAAP adjustment to net sales reflect (i) the reversal of the current period's amortization of deferred revenue derived from iPhone handsets and Apple TV units shipped in current and prior periods and (ii) the inclusion of amounts generally due to Apple at the time of sale related to iPhone handsets and Apple TV units shipped in the current period.
- (b) Non-GAAP adjustment to cost of sales reflect (i) the reversal of the current period's amortization of deferred cost related to iPhone handsets and Apple TV units shipped in current and prior periods and (ii) the inclusion of the total cost of iPhone handsets and Apple TV units shipped in the current period. In addition, the non-GAAP adjustment to cost of sales reflects the estimate of the warranty expense in the period when the related product is sold, rather than when the expense is incurred. The non-GAAP adjustment to cost of sales does not reflect the cost of providing unspecified additional software products and upgrades.
- (c) Non-GAAP adjustments to gross margin, operating income and income before provision for income taxes are the difference between non-GAAP adjustments to net sales and non-GAAP adjustments to cost of sales [(a) - (b)].

- (d) Represents the application of the period's effective tax rate to the non-GAAP adjustments to income before provision for income taxes.
- (e) Represents the after-tax effect of the non-GAAP adjustments to gross margin, operating income and income before provision for income taxes.
- (f) Represents the per share impact of the non-GAAP adjustments to net income.