APPLE INC
Form 10-Q
July 24, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 29, 2013

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission File Number: 000-10030

APPLE INC.

(Exact name of registrant as specified in its charter)

California	**94-2404110**
(State or other jurisdiction	**(I.R.S. Employer Identification No.)**
of incorporation or organization)	
1 Infinite Loop	
Cupertino, California	**95014**
(Address of principal executive offices)	**(Zip Code)**

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

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

Yes x No ¨

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

Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Yes ¨ No x

908,497,000 shares of common stock issued and outstanding as of July 12, 2013

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

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

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	$ 35,323	$ 35,023	$ 133,438	$ 120,542
Cost of sales	22,299	20,029	83,005	66,281
Gross margin	13,024	14,994	50,433	54,261
Operating expenses:				
Research and development	1,178	876	3,307	2,475
Selling, general and administrative	2,645	2,545	8,157	7,489
Total operating expenses	3,823	3,421	11,464	9,964
Operating income	9,201	11,573	38,969	44,297
Other income/(expense), net	234	288	1,043	573
Income before provision for income taxes	9,435	11,861	40,012	44,870
Provision for income taxes	2,535	3,037	10,487	11,360
Net income	$ 6,900	$ 8,824	$ 29,525	$ 33,510
Earnings per share:				
Basic	$ 7.51	$ 9.42	$ 31.67	$ 35.89
Diluted	$ 7.47	$ 9.32	$ 31.44	$ 35.48
Shares used in computing earnings per share:				
Basic	918,618	936,596	932,388	933,672
Diluted	924,265	947,059	939,172	944,440
Cash dividends declared per common share	$ 3.05	$ 0	$ 8.35	$ 0

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In millions)

	Three Months Ended		Nine Months Ended	
	June 29, 2013	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Net income	$ 6,900	$ 8,824	$ 29,525	$ 33,510
Other comprehensive (loss)/income:				
Change in foreign currency translation, net of tax	(100)	(91)	(177)	(88)
Change in unrecognized gains/losses on derivative instruments:				
Change in fair value of derivatives, net of tax	188	150	791	216
Adjustment for net (gains)/losses realized and included in net income, net of tax	(357)	(54)	(203)	(305)
Total change in unrecognized gains/losses on derivative instruments, net of tax	(169)	96	588	(89)
Change in unrealized gains/losses on marketable securities:				
Change in fair value of marketable securities, net of tax	(883)	22	(1,001)	325
Adjustment for net (gains)/losses realized and included in net income, net of tax	(46)	(19)	(143)	(59)
Total change in unrealized gains/losses on marketable securities, net of tax	(929)	3	(1,144)	266
Total other comprehensive (loss)/income	(1,198)	8	(733)	89
Total comprehensive income	$ 5,702	$ 8,832	$ 28,792	$ 33,599

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

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

	June 29, 2013	September 29, 2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 11,248	$ 10,746
Short-term marketable securities	31,358	18,383
Accounts receivable, less allowances of $104 and $98, respectively	8,839	10,930
Inventories	1,697	791
Deferred tax assets	3,193	2,583
Vendor non-trade receivables	4,614	7,762
Other current assets	7,270	6,458
Total current assets	68,219	57,653
Long-term marketable securities	104,014	92,122
Property, plant and equipment, net	16,327	15,452
Goodwill	1,522	1,135
Acquired intangible assets, net	4,353	4,224
Other assets	5,421	5,478
Total assets	$ 199,856	$ 176,064
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current liabilities:		
Accounts payable	$ 15,516	$ 21,175
Accrued expenses	13,470	11,414
Deferred revenue	7,333	5,953
Total current liabilities	36,319	38,542
Deferred revenue non-current	2,672	2,648
Long-term debt	16,958	0
Other non-current liabilities	20,553	16,664
Total liabilities	76,502	57,854
Commitments and contingencies		
Shareholders equity:		
Common stock, no par value; 1,800,000 shares authorized; 908,442 and 939,208 shares issued and outstanding, respectively	19,024	16,422
Retained earnings	104,564	101,289
Accumulated other comprehensive (loss)/income	(234)	499
Total shareholders equity	123,354	118,210
Total liabilities and shareholders equity	$ 199,856	$ 176,064

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Nine Months Ended June 29, 2013	Nine Months Ended June 30, 2012
Cash and cash equivalents, beginning of the period	$ 10,746	$ 9,815
Operating activities:		
Net income	29,525	33,510
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	4,974	2,296
Share-based compensation expense	1,698	1,292
Deferred income tax expense	2,524	4,066
Changes in operating assets and liabilities:		
Accounts receivable, net	2,091	(2,278)
Inventories	(906)	(346)
Vendor non-trade receivables	3,148	(293)
Other current and non-current assets	484	(3,238)
Accounts payable	(4,740)	2,450
Deferred revenue	1,404	2,575
Other current and non-current liabilities	3,556	1,686
Cash generated by operating activities	43,758	41,720
Investing activities:		
Purchases of marketable securities	(122,681)	(121,091)
Proceeds from maturities of marketable securities	13,963	10,344
Proceeds from sales of marketable securities	81,734	73,140
Payments made in connection with business acquisitions, net	(443)	(350)
Payments for acquisition of property, plant and equipment	(6,210)	(4,834)
Payments for acquisition of intangible assets	(560)	(1,067)
Other	(188)	(56)
Cash used in investing activities	(34,385)	(43,914)
Financing activities:		
Proceeds from issuance of common stock	335	433
Excess tax benefits from equity awards	644	1,036
Taxes paid related to net share settlement of equity awards	(1,001)	(1,145)
Dividends and dividend equivalent rights paid	(7,795)	0
Repurchase of common stock	(17,950)	0
Proceeds from issuance of long-term debt, net	16,896	0
Cash (used in)/generated by financing activities	(8,871)	324
Increase/(decrease) in cash and cash equivalents	502	(1,870)
Cash and cash equivalents, end of the period	$ 11,248	$ 7,945

Supplemental cash flow disclosure:

Cash paid for income taxes, net	$	7,188	$	5,901

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 Summary of Significant Accounting Policies

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

Basis of Presentation and Preparation

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

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company s annual consolidated financial statements and the notes thereto for the fiscal year ended September 29, 2012, included in its Annual Report on Form 10-K (the 2012 Form 10-K). The Company s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company s fiscal year 2013 will include 52 weeks, whereas fiscal year 2012 included 53 weeks. An additional week was included in the first quarter of 2012 to realign the Company s fiscal quarters more closely to calendar quarters. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company s fiscal years ended in September and the associated quarters, months or periods of those fiscal years.

During the first quarter of 2013, the Company adopted amended accounting standards that changed the presentation of comprehensive income. These standards increased the prominence of other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in shareholders equity and required the components of OCI to be presented either in a single continuous statement of comprehensive income or in two consecutive statements. The amended accounting standards only impacted the financial statement presentation of OCI and did not change the components that are recognized in net income or OCI; accordingly, the adoption had no impact on the Company s financial position or results of operations.

Earnings Per Share

Basic earnings per 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 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 Company s 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.

The following table shows the computation of basic and diluted earnings per share for the three- and nine-month periods ended June 29, 2013 and June 30, 2012 (in thousands, except net income in millions and per share amounts):

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Numerator:				
Net income	$ 6,900	$ 8,824	$ 29,525	$ 33,510
Denominator:				
Weighted-average shares outstanding	918,618	936,596	932,388	933,672
Effect of dilutive securities	5,647	10,463	6,784	10,768
Weighted-average diluted shares	924,265	947,059	939,172	944,440
Basic earnings per share	$ 7.51	$ 9.42	$ 31.67	$ 35.89
Diluted earnings per share	$ 7.47	$ 9.32	$ 31.44	$ 35.48

Potentially dilutive securities representing 5.1 million and 4.4 million shares of common stock for the three- and nine-month periods ended June 29, 2013, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The number of potentially dilutive securities excluded from the computation of diluted earnings per share because their effect would have been antidilutive was not significant for the three- and nine-month periods ended June 30, 2012.

Note 2 Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company s cash and available-for-sale securities adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short- or long-term marketable securities as of June 29, 2013 and September 29, 2012 (in millions):

	June 29, 2013						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 6,196	$ 0	$ 0	$ 6,196	$ 6,196	$ 0	$ 0
Level 1 (a):							
Money market funds	1,887	0	0	1,887	1,887	0	0
Mutual funds	3,974	0	(206)	3,768	0	3,768	0
Subtotal	5,861	0	(206)	5,655	1,887	3,768	0
Level 2 (b):							
U.S. Treasury securities	31,329	11	(84)	31,256	327	11,717	19,212
U.S. agency securities	18,200	9	(78)	18,131	450	3,579	14,102
Non-U.S. government securities	4,899	29	(156)	4,772	0	390	4,382
Certificates of deposit and time deposits	2,103	0	0	2,103	1,023	423	657

Commercial paper	2,996	0	0	2,996	1,365	1,631	0
Corporate securities	54,285	236	(379)	54,142	0	8,920	45,222
Municipal securities	6,314	36	(40)	6,310	0	915	5,395
Mortgage- and asset-backed securities	15,140	17	(98)	15,059	0	15	15,044
Subtotal	135,266	338	(835)	134,769	3,165	27,590	104,014
Total	$ 147,323	$ 338	$ (1,041)	$ 146,620	$ 11,248	$ 31,358	$ 104,014

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	September 29, 2012						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 3,109	$ 0	$ 0	$ 3,109	$ 3,109	$ 0	$ 0
Level 1 (a):							
Money market funds	1,460	0	0	1,460	1,460	0	0
Mutual funds	2,385	79	(2)	2,462	0	2,462	0
Subtotal	3,845	79	(2)	3,922	1,460	2,462	0
Level 2 (b):							
U.S. Treasury securities	20,088	21	(1)	20,108	2,608	3,525	13,975
U.S. agency securities	19,540	58	(1)	19,597	1,460	1,884	16,253
Non-U.S. government securities	5,483	183	(2)	5,664	84	1,034	4,546
Certificates of deposit and time deposits	2,189	2	0	2,191	1,106	202	883
Commercial paper	2,112	0	0	2,112	909	1,203	0
Corporate securities	46,261	568	(8)	46,821	10	7,455	39,356
Municipal securities	5,645	74	0	5,719	0	618	5,101
Mortgage- and asset-backed securities	11,948	66	(6)	12,008	0	0	12,008
Subtotal	113,266	972	(18)	114,220	6,177	15,921	92,122
Total	$ 120,220	$ 1,051	$ (20)	$ 121,251	$ 10,746	$ 18,383	$ 92,122

(a) The fair value of Level 1 securities is estimated based on quoted prices in active markets for identical assets or liabilities.

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

The net unrealized losses as of June 29, 2013 and net unrealized gains as of September 29, 2012 are related primarily to long-term marketable securities. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The net realized gains or losses recognized by the Company related to such sales were not significant during the three- and nine-month periods ended June 29, 2013 and June 30, 2012. The maturities of the Company s long-term marketable securities generally range from one to five years.

As of June 29, 2013 and September 29, 2012, gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer were not significant.

As of June 29, 2013, the Company considered the declines in market value of its marketable securities investment portfolio to be temporary in nature and did not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s cost basis. During the three- and nine-month periods ended June 29, 2013 and June 30, 2012, the Company did not recognize any significant impairment charges.

Derivative Financial Instruments

The Company uses derivatives to partially offset its business exposure to foreign currency and interest rate risk. The Company may enter into forward contracts, option contracts, swaps, or other derivative instruments to offset some of the risk on expected future cash flows, on net investments in certain foreign subsidiaries, and on certain existing assets and liabilities.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company s subsidiaries whose functional currency is the U.S. dollar hedge a portion of forecasted foreign currency revenue. The Company s subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries functional currencies. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases generally up to six months.

To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates.

To help protect against adverse fluctuations in interest rates, the Company may enter into interest rate swaps, options, or other instruments to offset a portion of the changes in income or expense due to fluctuations in interest rates.

The Company may also enter into foreign currency forward and option contracts to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

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

The Company had a net deferred gain of $348 million and a net deferred loss of $240 million associated with cash flow hedges, net of taxes, recorded in AOCI as of June 29, 2013 and September 29, 2012, respectively. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized as a component of other income/(expense), net in the same period as the related income or expense is recognized. The majority of the Company s hedged foreign currency transactions and hedged interest rate transactions as of June 29, 2013 are expected to occur within six months and five years, respectively.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income and expense. Any subsequent changes in fair value of such derivative instruments are reflected in other income and expense unless they are re-designated as hedges of other transactions. The Company did not recognize any significant net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three- and nine-month periods ended June 29, 2013 and June 30, 2012.

The Company s unrealized net gains and losses on net investment hedges, included in the cumulative translation adjustment account of AOCI, were not significant as of June 29, 2013 and September 29, 2012. The ineffective portions of and amounts excluded from the effectiveness test of net investment hedges are recorded in other income and expense.

The gain/loss recognized in other income and expense for foreign currency forward and option contracts not designated as hedging instruments was not significant during the three- and nine-month periods ended June 29, 2013 and June 30, 2012, respectively. These amounts represent the net gain or loss on the derivative contracts and do not include changes in the related exposures, which generally offset a portion of the gain or loss on the derivative contracts.

The following table shows the notional principal amounts of the Company s outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of June 29, 2013 and September 29, 2012 (in millions):

	June 29, 2013		September 29, 2012	
	Notional Principal	**Credit Risk Amounts**	**Notional Principal**	**Credit Risk Amounts**
Instruments designated as accounting hedges:				
Foreign exchange contracts	$ 29,489	$ 585	$ 41,970	$ 140
Interest rate contracts	$ 3,000	$ 69	$ 0	$ 0
Instruments not designated as accounting hedges:				
Foreign exchange contracts	$ 11,635	$ 84	$ 13,403	$ 12

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

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values. As of June 29, 2013, the Company received $642 million of cash collateral related to the derivative instruments under its collateral security arrangements, which were recorded as accrued expenses in the Condensed Consolidated Balance Sheet. As of September 29, 2012, the Company posted cash collateral related to the derivative instruments under its collateral security arrangements of $278 million, which it recorded as other current assets in the Condensed Consolidated Balance Sheet. The Company did not have any derivative instruments with credit-risk related contingent features that would require it to post additional collateral as of June 29, 2013 or September 29, 2012.

The following tables show the Company s derivative instruments at gross fair value as reflected in the Condensed Consolidated Balance Sheets as of June 29, 2013 and September 29, 2012 (in millions):

	June 29, 2013		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	$ 526	$ 84	$ 610
Interest rate contracts	$ 69	$ 0	$ 69
Derivative liabilities (b):			
Foreign exchange contracts	$ 256	$ 28	$ 284

	September 29, 2012		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	$ 138	$ 12	$ 150
Derivative liabilities (b):			
Foreign exchange contracts	$ 516	$ 41	$ 557

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

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

The following table shows the pre-tax effect of the Company s derivative instruments designated as cash flow and net investment hedges in the Condensed Consolidated Statements of Operations for the three- and nine-month periods ended June 29, 2013 and June 30, 2012 (in millions):

	Three Months Ended						
	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Gains/(Losses) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing		
	June 29, 2013	June 30, 2012	June 29, 2013 (a)	June 30, 2012 (b)	Location	June 29, 2013	June 30, 2012
Cash flow hedges:							
Foreign exchange contracts	$ 272	$ 234	$ 492	$ 84	Other income/(expense), net	$ (63)	$ (39)
Interest rate contracts	33	0	(2)	0	Other income/(expense), net	0	0
Net investment hedges:							
Foreign exchange contracts	26	3	0	0	Other income/(expense), net	0	1
Total	$ 331	$ 237	$ 490	$ 84		$ (63)	$ (38)

	Nine Months Ended						
	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Gains/(Losses) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing		
	June 29, 2013	June 30, 2012	June 29, 2013 (c)	June 30, 2012 (d)	Location	June 29, 2013	June 30, 2012
Cash flow hedges:							
Foreign exchange contracts	$ 1,218	$ 337	$ 304	$ 468	Other income/(expense), net	$ (115)	$ (248)
Interest rate contracts	33	0	(2)	0	Other income/(expense), net	0	0
Net investment hedges:							
Foreign exchange contracts	132	10	0	0	Other income/(expense), net	1	2
Total	$ 1,383	$ 347	$ 302	$ 468		$ (114)	$ (246)

(a) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $96 million, $396 million and $(2) million were recognized within net sales, cost of sales and other income/(expense), net, respectively, within the Condensed Consolidated Statement of Operations for the three months ended June 29, 2013.

(b) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $63 million and $21 million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the three months ended June 30, 2012.

(c) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $(68) million, $372 million and $(2) million were recognized within net sales, cost of sales and other income/(expense), net, respectively, within the

Condensed Consolidated Statement of Operations for the nine months ended June 29, 2013.

(d) Includes gains/(losses) reclassified from AOCI into net income for the effective portion of cash flow hedges, of which $404 million and $64 million were recognized within net sales and cost of sales, respectively, within the Condensed Consolidated Statement of Operations for the nine months ended June 30, 2012.

Accounts Receivable

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, value-added resellers, small and mid-sized businesses, and education, enterprise and government customers that are not covered by collateral, third-party financing arrangements or credit insurance. There was one customer that accounted for 13% of the Company s trade receivables as of June 29, 2013. As of September 29, 2012, the Company had two customers that represented 10% or more of total trade receivables, one of which accounted for 14% and the other 10%. The Company s cellular network carriers accounted for 59% and 66% of trade receivables as of June 29, 2013 and September 29, 2012, respectively.

Additionally, the Company has non-trade receivables from certain of its manufacturing vendors. Vendor non-trade receivables from two of the Company s vendors accounted for 54% and 26% of total non-trade receivables as of June 29, 2013 and three of the Company s vendors accounted for 45%, 21% and 12% of total non-trade receivables as of September 29, 2012.

Note 3 Condensed Consolidated Financial Statement Details

The following tables show the Company s condensed consolidated financial statement details as of June 29, 2013 and September 29, 2012 (in millions):

Property, Plant and Equipment

	June 29, 2013	September 29, 2012
Land and buildings	$ 3,055	$ 2,439
Machinery, equipment and internal-use software	20,024	15,984
Leasehold improvements	3,810	3,464
Gross property, plant and equipment	26,889	21,887
Accumulated depreciation and amortization	(10,562)	(6,435)
Net property, plant and equipment	$ 16,327	$ 15,452

Accrued Expenses

	June 29, 2013	September 29, 2012
Accrued warranty and related costs	$ 2,717	$ 1,638
Accrued taxes	1,290	1,535
Deferred margin on component sales	1,255	1,492
Accrued marketing and selling expenses	1,152	910
Accrued compensation and employee benefits	1,006	735
Other current liabilities	6,050	5,104
Total accrued expenses	$ 13,470	$ 11,414

Non-Current Liabilities

	June 29, 2013	September 29, 2012
Deferred tax liabilities	$ 16,070	$ 13,847
Other non-current liabilities	4,483	2,817

Total other non-current liabilities	$	20,553	$	16,664

Note 4 Income Taxes

As of June 29, 2013, the Company recorded gross unrecognized tax benefits of $3.4 billion, of which $1.2 billion, if recognized, would affect the Company s effective tax rate. As of September 29, 2012, the total amount of gross unrecognized tax benefits was $2.1 billion, of which $889 million, if recognized, would affect the Company s effective tax rate. The Company s total gross unrecognized tax benefits are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. The Company had $501 million and $401 million of gross interest and penalties accrued as of June 29, 2013 and September 29, 2012, respectively, which are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to ad