

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except share and per share amounts)

	Three Months Ended	
	December 29, 2007	December 30, 2006
Net sales	\$ 9,608	\$ 7,115
Cost of sales ⁽¹⁾	<u>6,276</u>	<u>4,895</u>
Gross margin	<u>3,332</u>	<u>2,220</u>
Operating expenses:		
Research and development ⁽¹⁾	246	184
Selling, general and administrative ⁽¹⁾	<u>960</u>	<u>714</u>
Total operating expenses.....	<u>1,206</u>	<u>898</u>
Operating income	2,126	1,322
Other income and expense	<u>200</u>	<u>126</u>
Income before provision for income taxes.....	2,326	1,448
Provision for income taxes	<u>745</u>	<u>444</u>
Net income	\$ <u>1,581</u>	\$ <u>1,004</u>
Earnings per common share:		
Basic	\$ 1.81	\$ 1.17
Diluted	\$ 1.76	\$ 1.14
Shares used in computing earnings per share (in thousands):		
Basic	875,860	857,691
Diluted	900,054	883,297

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

Cost of sales	\$ 18	\$ 6
Research and development	\$ 39	\$ 16
Selling, general and administrative	\$ 53	\$ 24

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

	December 29, 2007	September 29, 2007
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 9,162	\$ 9,352
Short-term investments.....	9,286	6,034
Accounts receivable, less allowances of \$45 and \$47, respectively	1,939	1,637
Inventories	459	346
Deferred tax assets.....	993	782
Other current assets	<u>4,350</u>	<u>3,805</u>
Total current assets.....	26,189	21,956
Property, plant and equipment, net.....	1,870	1,832
Goodwill.....	38	38
Acquired intangible assets, net	311	299
Other assets.....	<u>1,631</u>	<u>1,222</u>
Total assets	\$ <u>30,039</u>	\$ <u>25,347</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 5,366	\$ 4,970
Accrued expenses.....	<u>5,169</u>	<u>4,329</u>
Total current liabilities.....	10,535	9,299
Non-current liabilities	<u>2,700</u>	<u>1,516</u>
Total liabilities	<u>13,235</u>	<u>10,815</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 1,800,000,000 shares authorized; 878,628,867 and 872,328,972 shares issued and outstanding, respectively.....	6,046	5,368
Retained earnings.....	10,684	9,101
Accumulated other comprehensive income	<u>74</u>	<u>63</u>
Total shareholders' equity.....	<u>16,804</u>	<u>14,532</u>
Total liabilities and shareholders' equity.....	\$ <u>30,039</u>	\$ <u>25,347</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three Months Ended	
	December 29, 2007	December 30, 2006
Cash and cash equivalents, beginning of the period	\$ <u>9,352</u>	\$ <u>6,392</u>
Operating Activities:		
Net income	1,581	1,004
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation, amortization, and accretion	106	74
Stock-based compensation expense	110	46
Provision for deferred income taxes	22	73
Loss on disposition of property, plant, and equipment	14	5
Changes in operating assets and liabilities:		
Accounts receivable, net	(302)	(369)
Inventories	(113)	(33)
Other current assets	(550)	36
Other assets	(253)	28
Accounts payable	484	495
Deferred revenue	1,048	199
Other liabilities	<u>640</u>	<u>255</u>
Cash generated by operating activities	<u>2,787</u>	<u>1,813</u>
Investing Activities:		
Purchases of short-term investments	(6,127)	(2,581)
Proceeds from maturities of short-term investments	2,129	934
Proceeds from sales of investments	758	655
Purchases of long-term investments	(9)	-
Payment for acquisition of property, plant, and equipment	(224)	(142)
Payment for acquisition of intangible assets	(8)	(115)
Other	<u>19</u>	<u>15</u>
Cash used in investing activities	<u>(3,462)</u>	<u>(1,234)</u>
Financing Activities:		
Proceeds from issuance of common stock	179	101
Excess tax benefits from stock-based compensation	315	87
Cash used to net share settle equity awards	<u>(9)</u>	<u>-</u>
Cash generated by financing activities	<u>485</u>	<u>188</u>
(Decrease) increase in cash and cash equivalents	<u>(190)</u>	<u>767</u>
Cash and cash equivalents, end of the period	\$ <u>9,162</u>	\$ <u>7,159</u>
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	\$ 251	\$ 114

UNAUDITED CONSOLIDATED SCHEDULE OF DEFERRED REVENUE

(in millions)

	December 29, 2007	September 29, 2007
Deferred revenue-current:		
iPhone and Apple TV	\$ 816	\$ 346
AppleCare	467	430
Other	<u>812</u>	<u>634</u>
Total deferred revenue-current.....	<u>2,095</u>	<u>1,410</u>
Deferred revenue-non-current:		
iPhone and Apple TV	624	290
AppleCare	529	495
Other	<u>40</u>	<u>45</u>
Total deferred revenue-non-current..	<u>1,193</u>	<u>830</u>
Total deferred revenue.....	\$ <u>3,288</u>	\$ <u>2,240</u>