Appendix

# A Financial Statement Information

This appendix includes financial information for (1) **Research In Motion**, (2) **Apple**, (3) **Palm**, and (4) **Nokia**. This information is taken from their annual reports (Form 10-K for Apple and Palm, 40-F for RIM, and 20-F for Nokia) filed with the SEC. An **annual report** is a summary of a company's financial results for the year along with its current financial condition and future plans. This report is directed to external users of financial information, but it also affects the actions and decisions of internal users.

A company often uses an annual report to showcase itself and its products. Many annual reports include photos, diagrams, and illustrations related to the company. The primary objective of annual reports, however, is the *financial section,* which communicates much information about a company, with most data drawn from the accounting information system. The layout of an annual report's financial section is fairly established and typically includes the following:

- Letter to Shareholders
- Financial History and Highlights
- Management Discussion and Analysis
- Management's Report on Financial Statements and on Internal Controls
- Report of Independent Accountants (Auditor's Report) and on Internal Controls
- Financial Statements
- Notes to Financial Statements
- List of Directors and Officers

This appendix provides the financial statements for Research In Motion (plus selected notes), Apple, Palm, and Nokia. The appendix is organized as follows:



RIM
Apple
Palm
NOKIA

Many assignments at the end of each chapter refer to information in this appendix. We encourage readers to spend time with these assignments; they are especially useful in showing the relevance and diversity of financial accounting and reporting.

*Special note:* The SEC maintains the EDGAR (**E**lectronic **D**ata **G**athering, **A**nalysis, and **R**etrieval) database at www.SEC.gov. The **Form 10-K** is the annual report form for most companies; **Form 10-K/A** refers to an amendment of the original Form 10-K. It provides electronically accessible information. The **Form 10-KSB** is the annual report form filed by small businesses. It requires slightly less information than the Form 10-K. One of these forms must be filed within 90 days after the company's fiscal year-end. (Forms 10-K405, 10-KT, 10-KT405, and 10-KSB405 are slight variations of the usual form due to certain regulations or rules; Forms 40-F and 20-F are common for international companies.)

# Research In Motion Financial Report

## Research In Motion Limited
## Summary Data—Management's Discussion and Analysis of Financial Condition and Results of Operations

| As at and for the Fiscal Year Ended | **February 27, 2010** | February 28, 2009 | March 1, 2008 | March 3, 2007 | March 4, 2006 |
|---|---|---|---|---|---|
| | (in thousands, except for per share amounts) | | | | |
| Revenue | **$ 14,953,224** | $ 11,065,186 | $ 6,009,395 | $ 3,037,103 | $ 2,065,845 |
| Cost of sales | **8,368,958** | 5,967,888 | 2,928,814 | 1,379,301 | 925,598 |
| Gross margin | **6,584,266** | 5,097,298 | 3,080,581 | 1,657,802 | 1,140,247 |
| Operating expenses | | | | | |
| Research and development | **964,841** | 684,702 | 359,828 | 236,173 | 158,887 |
| Selling, marketing, and administration | **1,907,398** | 1,495,697 | 881,482 | 537,922 | 314,317 |
| Amortization | **310,357** | 194,803 | 108,112 | 76,879 | 49,951 |
| Litigation | **163,800** | — | — | — | 201,791 |
| Total operating expenses | **3,346,396** | 2,375,202 | 1,349,422 | 850,974 | 724,946 |
| Income from operations | **3,237,870** | 2,722,096 | 1,731,159 | 806,828 | 415,301 |
| Investment income | **28,640** | 78,267 | 79,361 | 52,117 | 66,218 |
| Income before income taxes | **3,266,510** | 2,800,363 | 1,810,520 | 858,945 | 481,519 |
| Provision for income taxes | **809,366** | 907,747 | 516,653 | 227,373 | 106,863 |
| Net income | **$ 2,457,144** | $ 1,892,616 | $ 1,293,867 | $ 631,572 | $ 374,656 |
| Earnings per share | | | | | |
| Basic | **$ 4.35** | $ 3.35 | $ 2.31 | $ 1.14 | $ 0.66 |
| Diluted | **$ 4.31** | $ 3.30 | $ 2.26 | $ 1.10 | $ 0.64 |
| Weighted-average number of shares outstanding (000's) | | | | | |
| Basic | **564,492** | 565,059 | 559,778 | 556,059 | 566,742 |
| Diluted | **569,759** | 574,156 | 572,830 | 571,809 | 588,468 |
| Total asset | **$ 10,204,409** | $ 8,101,372 | $ 5,511,187 | $ 3,088,949 | $ 2,314,349 |
| Total liabilities | **$ 2,601,746** | $ 2,227,244 | $ 1,577,621 | $ 605,449 | $ 318,934 |
| Total long-term liabilities | **$ 169,969** | $ 111,893 | $ 103,190 | $ 58,874 | $ 34,709 |
| Shareholders' equity | **$ 7,602,663** | $ 5,874,128 | $ 3,933,566 | $ 2,483,500 | $ 1,995,415 |

## REPORT OF
## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of **Research In Motion Limited**

We have audited the accompanying consolidated balance sheets of **Research In Motion Limited** [the "Company"] as at February 27, 2010 and February 28, 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended February 27, 2010, February 28, 2009 and March 1, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and 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 the Company as at February 27, 2010 and February 28, 2009, and the results of its operations and its cash flows for the years ended February 27, 2010, February 28, 2009 and March 1, 2008, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of February 27, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 1, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP

Kitchener, Canada,
April 1, 2010.

Chartered Accountants
Licensed Public Accountants

**REPORT OF**
**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**
**ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Shareholders of **Research In Motion Limited**

We have audited **Research In Motion Limited's** [the "Company"] internal control over financial reporting as of February 27, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ["the COSO criteria"]. The Company'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. 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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, the Company maintained, in all material respects, effective internal control over financial reporting as of February 27, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as at February 27, 2010 and February 28, 2009, and the consolidated statements of operations, shareholders' equity and cash flows for the years ended February 27, 2010, February 28, 2009 and March 1, 2008 of the Company and our report dated April 1, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP

Kitchener, Canada,
April 1, 2010.

Chartered Accountants
Licensed Public Accountants

**Research In Motion Limited**
**Consolidated Balance Sheets**

| ($US, in thousands) | February 27, 2010 | February 28, 2009 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | $ 1,550,861 | $ 835,546 |
| Short-term investments | 360,614 | 682,666 |
| Accounts receivable, net | 2,593,742 | 2,112,117 |
| Other receivables | 206,373 | 157,728 |
| Inventories | 621,611 | 682,400 |
| Other current assets | 285,539 | 187,257 |
| Deferred income tax asset | 193,916 | 183,872 |
| Total current assets | 5,812,656 | 4,841,586 |
| **Long-term investments** | 958,248 | 720,635 |
| **Property, plant and equipment, net** | 1,956,581 | 1,334,648 |
| **Intangible assets, net** | 1,326,363 | 1,066,527 |
| **Goodwill** | 150,561 | 137,572 |
| **Deferred income tax asset** | — | 404 |
| Total assets | $10,204,409 | $8,101,372 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable | $ 615,620 | $ 448,339 |
| Accrued liabilities | 1,638,260 | 1,238,602 |
| Income taxes payable | 95,650 | 361,460 |
| Deferred revenue | 67,573 | 53,834 |
| Deferred income tax liability | 14,674 | 13,116 |
| Total current liabilities | 2,431,777 | 2,115,351 |
| **Deferred income tax liability** | 141,382 | 87,917 |
| **Income taxes payable** | 28,587 | 23,976 |
| Total liabilities | 2,601,746 | 2,227,244 |
| **Shareholders' Equity** | | |
| **Capital stock** | | |
| Preferred shares, authorized unlimited number of non-voting, cumulative, redeemable and retractable | — | — |
| Common shares, authorized unlimited number of non-voting, redeemable, retractable Class A common shares and unlimited number of voting common shares. Issued — 557,328,394 voting common shares (February 28, 2009 — 566,218,819) | 2,207,609 | 2,208,235 |
| **Treasury stock** | | |
| February 27, 2010 — 1,458,950 (February 28, 2009 — nil) | (94,463) | — |
| **Retained earnings** | 5,274,365 | 3,545,710 |
| **Additional paid-in capital** | 164,060 | 119,726 |
| **Accumulated other comprehensive income** | 51,092 | 457 |
| Total shareholders equity | 7,602,663 | 5,874,128 |
| Total liabilities and shareholders' equity | $10,204,409 | $8,101,372 |

**Research In Motion Limited**
**Consolidated Statements of Operations**

| ($US, in thousands, except per share data) For the Year Ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| **Revenue** | | | |
| Devices and other | $12,535,998 | $ 9,410,755 | $4,914,366 |
| Service and software | 2,417,226 | 1,654,431 | 1,095,029 |
| Total revenue | $14,953,224 | 11,065,186 | 6,009,395 |
| **Cost of sales** | | | |
| Devices and other | 7,979,163 | 5,718,041 | 2,758,250 |
| Service and software | 389,795 | 249,847 | 170,564 |
| Total cost of sales | 8,368,958 | 5,967,888 | 2,928,814 |
| **Gross margin** | 6,584,266 | 5,097,298 | 3,080,581 |
| **Operating expenses** | | | |
| Research and development | 964,841 | 684,702 | 359,828 |
| Selling, marketing, and administration | 1,907,398 | 1,495,697 | 881,482 |
| Amortization | 310,357 | 194,803 | 108,112 |
| Litigation | 163,800 | — | — |
| Total operating expenses | 3,346,396 | 2,375,202 | 1,349,422 |
| **Income from operations** | 3,237,870 | 2,722,096 | 1,731,159 |
| Investment income | 28,640 | 78,267 | 79,361 |
| **Income before income taxes** | 3,266,510 | 2,800,363 | 1,810,520 |
| **Provision for income taxes** | 809,366 | 907,747 | 516,653 |
| **Net income** | $ 2,457,144 | $ 1,892,616 | $1,293,867 |
| **Earnings per share** | | | |
| Basic | $ 4.35 | $ 3.35 | $ 2.31 |
| Diluted | $ 4.31 | $ 3.30 | $ 2.26 |

**Research In Motion Limited**

**Consolidated Statements of Shareholders' Equity**

| ($US, in thousands) | Capital Stock | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance as at March 3, 2007 | $2,099,696 | $ 36,093 | $ — | $ 359,227 | $(11,516) | $2,483,500 |
| Comprehensive income (loss): | | | | | | |
| Net income | — | — | — | 1,293,867 | — | 1,293,867 |
| Net change in unrealized gains on available-for-sale investments | — | — | — | — | 13,467 | 13,467 |
| Net change in fair value of derivatives designated as cash flow hedges during the year | — | — | — | — | 37,564 | 37,564 |
| Amounts reclassified to earnings during the year | — | — | — | — | (9,232) | (9,232) |
| Other paid-in capital | — | 9,626 | — | — | — | 9,626 |
| Shares issued: | | | | | | |
| Exercise of stock options | 62,889 | — | — | — | — | 62,889 |
| Transfers to capital stock from stock option exercises | 7,271 | (7,271) | — | — | — | — |
| Stock-based compensation | — | 33,700 | — | — | — | 33,700 |
| Excess tax benefits from stock-based compensation | — | 8,185 | — | — | — | 8,185 |
| Balance as at March 1, 2008 | $2,169,856 | $ 80,333 | $ — | $1,653,094 | $ 30,283 | $3,933,566 |
| Comprehensive income (loss): | | | | | | |
| Net income | — | — | — | 1,892,616 | — | 1,892,616 |
| Net change in unrealized gains on available-for-sale investments | — | — | — | — | (7,161) | (7,161) |
| Net change in fair value of derivatives designated as cash flow hedges during the year | — | — | — | — | (6,168) | (6,168) |
| Amounts reclassified to earnings during the year | — | — | — | — | (16,497) | (16,497) |
| Shares issued: | | | | | | |
| Exercise of stock options | 27,024 | — | — | — | — | 27,024 |
| Transfers to capital stock from stock option exercises | 11,355 | (11,355) | — | — | — | — |
| Stock-based compensation | — | 38,100 | — | — | — | 38,100 |
| Excess tax benefits from stock-based compensation | — | 12,648 | — | — | — | 12,648 |
| Balance as at February 28, 2009 | $2,208,235 | $119,726 | $ — | $3,545,710 | $ 457 | $5,874,128 |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 2,457,144 | — | 2,457,144 |
| Net change in unrealized gains on available-for-sale investments | — | — | — | — | 6,803 | 6,803 |
| Net change in fair value of derivatives designated as cash flow hedges during the year | — | — | — | — | 28,324 | 28,324 |
| Amounts reclassified to earnings during the year | — | — | — | — | 15,508 | 15,508 |
| Shares issued: | | | | | | |
| Exercise of stock options | 30,246 | — | — | — | — | 30,246 |
| Transfers to capital stock from stock option exercises | 15,647 | (15,647) | — | — | — | — |
| Stock-based compensation | — | 58,038 | — | — | — | 58,038 |
| Excess tax benefits from stock-based compensation | — | 1,943 | — | — | — | 1,943 |
| Purchase of treasury stock | — | — | (94,463) | — | — | (94,463) |
| Common shares repurchased | (46,519) | | | (728,489) | | (775,008) |
| **Balance as at February 27, 2010** | $2,207,609 | $164,060 | $(94,463) | $5,274,365 | $ 51,092 | $7,602,663 |

**Research In Motion Limited**
**Consolidated Statements of Cash Flows**

| For the Year Ended ($US, in thousands) | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | $ 2,457,144 | $ 1,892,616 | $ 1,293,867 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization | 615,621 | 327,896 | 177,366 |
| Deferred income taxes | 51,363 | (36,623) | (67,244) |
| Income taxes payable | 4,611 | (6,897) | 4,973 |
| Stock-based compensation | 58,038 | 38,100 | 33,700 |
| Other | 8,806 | 5,867 | 3,303 |
| Net changes in working capital items | (160,709) | (769,114) | 130,794 |
| **Net cash provided by operating activities** | 3,034,874 | 1,451,845 | 1,576,759 |
| **Cash flows from investing activities** | | | |
| Acquisition of long-term investments | (862,977) | (507,082) | (757,656) |
| Proceeds on sale or maturity of long-term investments | 473,476 | 431,713 | 260,393 |
| Acquisition of property, plant and equipment | (1,009,416) | (833,521) | (351,914) |
| Acquisition of intangible assets | (421,400) | (687,913) | (374,128) |
| Business acquisitions, net of cash acquired | (143,375) | (48,425) | (6,200) |
| Acquisition of short-term investments | (476,956) | (917,316) | (1,249,919) |
| Proceeds on sale or maturity of short-term investments | 970,521 | 739,021 | 1,325,487 |
| **Net cash used in investing activities** | (1,470,127) | (1,823,523) | (1,153,937) |
| **Cash flows from financing activities** | | | |
| Issuance of common shares | 30,246 | 27,024 | 62,889 |
| Additional paid-in capital | — | — | 9,626 |
| Excess tax benefits from stock-based compensation | 1,943 | 12,648 | 8,185 |
| Purchase of treasury stock | (94,463) | — | — |
| Common shares repurchased | (775,008) | — | — |
| Repayment of debt | (6,099) | (14,305) | (302) |
| **Net cash provided by (used in) financing activities** | (843,381) | 25,367 | 80,398 |
| **Effect of foreign exchange gain (loss) on cash and cash equivalents** | (6,051) | (2,541) | 4,034 |
| **Net increase (decrease) in cash and cash equivalents for the year** | 715,315 | (348,852) | 507,254 |
| **Cash and cash equivalents, beginning of year** | 835,546 | 1,184,398 | 677,144 |
| **Cash and cash equivalents, end of year** | $ 1,550,861 | $ 835,546 | $ 1,184,398 |

**RIM—SELECTED Notes to the Consolidated Financial Statements**

*$US in thousands, except share and per share data, and where otherwise indicated*

## 1. RESEARCH IN MOTION LIMITED AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Research In Motion Limited ("RIM" or the "Company") is a leading designer, manufacturer and marketer of innovative wireless solutions for the worldwide mobile communications market. Through the development of integrated hardware, software and services that support multiple wireless network standards, RIM provides platforms and solutions for seamless access to time-sensitive information including email, phone, short messaging service (SMS), Internet and intranet-based applications. RIM technology also enables a broad array of third party developers and manufacturers to enhance their products and services with wireless connectivity to data. RIM's portfolio of award-winning products, services and embedded technologies are used by thousands of organizations and millions of consumers around the world and include the BlackBerry wireless solution, and other software and hardware. The Company's sales and marketing efforts include collaboration with strategic partners and distribution channels, as well as its own supporting sales and marketing teams, to promote the sale of its products and services.

### Basis of presentation and preparation

The consolidated financial statements include the accounts of all subsidiaries of the Company with intercompany transactions and balances eliminated on consolidation. All of the Company's subsidiaries are wholly-owned. These consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles ("U.S. GAAP") on a basis consistent for all periods presented except as described in note 2. Certain of the comparative figures have been reclassified to conform to the current year presentation. The Company's fiscal year end date is the 52 or 53 weeks ending on the last Saturday of February, or the first Saturday of March. The fiscal years ended February 27, 2010, February 28, 2009, and March 1, 2008 comprise 52 weeks.

The significant accounting policies used in these U.S. GAAP consolidated financial statements are as follows:

### Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions with respect to the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the determination of reserves for various litigation claims, provisions for excess and obsolete inventories and liabilities for purchase commitments with contract manufacturers and suppliers, fair values of assets acquired and liabilities assumed in business combinations, royalties, amortization expense, implied fair value of goodwill, provision for income taxes, realization of deferred income tax assets and the related components of the valuation allowance, provisions for warranty and the fair values of financial instruments. Actual results could differ from these estimates.

### Foreign currency translation

The U.S. dollar is the functional and reporting currency of the Company. Foreign currency denominated assets and liabilities of the Company and all of its subsidiaries are translated into U.S. dollars. Accordingly, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and revenues and expenses at the rates of exchange prevailing when the transactions occurred. Remeasurement adjustments are included in income. Non-monetary assets and liabilities are translated at historical exchange rates.

### Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and liquid investments with maturities of three months or less at the date of acquisition.

### Accounts receivable, net

The accounts receivable balance which reflects invoiced and accrued revenue is presented net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects estimates of probable losses in accounts receivables. The Company is dependent on a number of significant customers and on large complex contracts with respect to sales of the majority of its products, software and services. The Company expects the majority of its accounts receivable balances to continue to come from large customers as it sells the majority of its devices and software products and service relay access through network carriers and resellers rather than directly.

The Company evaluates the collectability of its accounts receivables based upon a combination of factors on a periodic basis such as specific credit risk of its customers, historical trends and economic circumstances. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new

*$US in thousands, except share and per share data, and where otherwise indicated*

customer. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, and payment experiences), RIM records a specific bad debt provision to reduce the customer's related accounts receivable to its estimated net realizable value. If circumstances related to specific customers change, the Company's estimates of the recoverability of accounts receivables balances could be further adjusted. The allowance for doubtful accounts as at February 27, 2010 is $2.0 million (February 28, 2009- $2.1 million).

**Investments**

The Company's investments, other than cost method investments of $2.5 million and equity method investments of $4.1 million, consist of money market and other debt securities, and are classified as available-for-sale for accounting purposes. The Company does not exercise significant influence with respect to any of these investments.

Investments with maturities one year or less, as well as any investments that management intends to hold for less than one year, are classified as short-term investments. Investments with maturities in excess of one year are classified as long-term investments.

The Company determines the appropriate classification of investments at the time of purchase and subsequently reassesses the classification of such investments at each balance sheet date. Investments classified as available-for-sale are carried at fair value with unrealized gains and losses recorded in accumulated other comprehensive income (loss) until such investments mature or are sold. The Company uses the specific identification method of determining the cost basis in computing realized gains or losses on available-for-sale investments which are recorded in investment income.

The Company assesses individual investments in an unrealized loss position to determine whether the unrealized loss is other-than-temporary. The Company makes this assessment by considering available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition, the near-term prospects of the individual investment and the Company's intent and ability to hold the investments. In the event that a decline in the fair value of an investment occurs and the decline in value is considered to be other-than-temporary, an impairment charge is recorded in investment income equal to the difference between the cost basis and the fair value of the individual investment at the balance sheet date of the reporting period for which the assessment was made. The fair value of the investment then becomes the new cost basis of the investment.

Effective in the second quarter of fiscal 2010, if a debt security's market value is below its amortized cost and the Company either intends to sell the security or it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the Company records an other-than-temporary impairment charge to investment income for the entire amount of the impairment. For other-than-temporary impairments on debt securities that the Company does not intend to sell and it is not more likely than not that the entity will be required to sell the security before its anticipated recovery, the Company would separate the other-than-temporary impairment into the amount representing the credit loss and the amount related to all other factors. The Company would record the other-than-temporary impairment related to the credit loss as a charge to investment income and the remaining other-than-temporary impairment would be recorded as a component of accumulated other comprehensive income.

**Derivative financial instruments**

The Company uses derivative financial instruments, including forward contracts and options, to hedge certain foreign currency exposures. The Company does not use derivative financial instruments for speculative purposes.

**Inventories**

Raw materials are stated at the lower of cost and replacement cost. Work in process and finished goods inventories are stated at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead. Cost is determined on a first-in-first-out basis.

**Property, plant and equipment, net**

Property, plant and equipment is stated at cost less accumulated amortization. No amortization is provided for construction in progress until the assets are ready for use. Amortization is provided using the following rates and methods:

| | |
|---|---|
| Buildings, leaseholds and other | Straight-line over terms between 5 and 40 years |
| BlackBerry operations and other information technology | Straight-line over terms between 3 and 5 years |
| Manufacturing equipment, R&D equipment and tooling | Straight-line over terms between 2 and 8 years |
| Furniture and fixtures | Declining balance at 20% per annum |

*$US in thousands, except share and per share data, and where otherwise indicated*

**Intangible assets, net**

Intangible assets are stated at cost less accumulated amortization and are comprised of acquired technology, licenses, and patents. Acquired technology consists of purchased developed technology arising from the Company's business acquisitions. Licenses include licenses or agreements that the Company has negotiated with third parties upon use of third parties' technology. Patents comprise trademarks, internally developed patents, as well as individual patents or portfolios of patents acquired from third parties. Costs capitalized and subsequently amortized include all costs necessary to acquire intellectual property, such as patents and trademarks, as well as legal defense costs arising out of the assertion of any Company-owned patents.

Intangible assets are amortized as follows:

| | |
|---|---|
| Acquired technology . . . . | Straight-line over 2 to 5 years |
| Licenses . . . . . . . . . . . . . . | Straight-line over terms of the license agreements or on a per unit basis based upon the anticipated number of units sold during the terms, subject to a maximum of 5 years |
| Patents . . . . . . . . . . . . . . . | Straight-line over 17 years or over estimated useful life |

**Goodwill**

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired. Goodwill is allocated as at the date of the business combination. Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset may be impaired.

**Impairment of long-lived assets**

The Company reviews long-lived assets such as property, plant and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset.

**Income taxes**

The Company uses the liability method of tax allocation to account for income taxes. Deferred income tax assets and liabilities are recognized based upon temporary differences between the financial reporting and tax bases of assets and liabilities, and measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce deferred income tax assets to the amount that is more likely than not to be realized. The Company considers both positive evidence and negative evidence, to determine whether, based upon the weight of that evidence, a valuation allowance is required. Judgment is required in considering the relative impact of negative and positive evidence.

**Revenue recognition**

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. In addition to this general policy, the following paragraphs describe the specific revenue recognition policies for each major category of revenue.

*Devices*

Revenue from the sales of BlackBerry devices is recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled. For hardware products for which software is deemed not to be incidental, the Company recognizes revenue in accordance with industry specific software revenue recognition guidance. The Company records reductions to revenue for estimated commitments related to price protection and for customer incentive programs, including reseller and end-user rebates. The estimated cost of the incentive programs are accrued based on historical experience, as a reduction to revenue in the period the Company has sold the product and committed to a plan. Price protection is accrued as a reduction to revenue based on estimates of future price reductions and certain agreed customer inventories at the date of the price adjustment. In addition, provisions are made at the time of sale for warranties and royalties.

*Service*

Revenue from service is recognized rateably on a monthly basis when the service is provided. In instances where the Company bills the customer prior to performing the service, the prebilling is recorded as deferred revenue.

*Software*

Revenue from licensed software is recognized at the inception of the license term and in accordance with industry

*$US in thousands, except share and per share data, and where otherwise indicated*

specific software revenue recognition guidance. 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 undelivered elements is determinable. Revenue from software maintenance, unspecified upgrades and technical support contracts is recognized over the period that such items are delivered or that services are provided.

*Other*

Revenue from the sale of accessories is recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled. Technical support ("T-Support") contracts extending beyond the current period are recorded as deferred revenue. Revenue from repair and maintenance programs is recognized when the service is delivered which is when the title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled. Revenue for non-recurring engineering contracts is recognized as specific contract milestones are met. The attainment of milestones approximates actual performance.

*Shipping and handling costs*

Shipping and handling costs charged to income are included in cost of sales where they can be reasonably attributed to certain revenue; otherwise they are included in selling, marketing and administration.

*Multiple-element arrangements*

The Company enters into transactions that represent multiple-element arrangements which may include any combination of hardware and/or service or software and T-Support. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is vendor specific objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. 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 undelivered elements is determinable. This vendor specific objective evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

**Research and development**

Research costs are expensed as incurred. Development costs for BlackBerry devices and licensed 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. The Company's products are generally released soon after technological feasibility has been established and therefore costs incurred subsequent to achievement of technological feasibility are not significant and have been expensed as incurred.

**Comprehensive income (loss)**

Comprehensive income (loss) is defined as the change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's reportable items of comprehensive income are cash flow hedges and changes in the fair value of available-for-sale investments. Realized gains or losses on available-for-sale investments are reclassified into investment income using the specific identification basis.

**Earnings per share**

Earnings per share is calculated based on the weighted-average number of shares outstanding during the year. The treasury stock method is used for the calculation of the dilutive effect of stock options.

**Stock-based compensation plans**

The Company has stock-based compensation plans.

**Warranty**

The Company provides for the estimated costs of product warranties at the time revenue is recognized. BlackBerry devices are generally covered by a time-limited warranty for varying periods of time. The Company's warranty obligation is affected by product failure rates, differences in warranty periods, regulatory developments with respect to warranty obligations in the countries in which the Company carries on business, freight expense, and material usage and other related repair costs. The Company's estimates of costs are based upon historical experience and expectations of future return rates and unit warranty repair cost. If the Company experiences increased or decreased warranty activity, or increased or decreased costs associated with servicing those obligations, revisions to the estimated warranty liability would be recognized in the reporting period when such revisions are made.

**Advertising costs**

The Company expenses all advertising costs as incurred. These costs are included in selling, marketing, and administration.

*$US in thousands, except share and per share data, and where otherwise indicated*

## 4. CASH, CASH EQUIVALENTS AND INVESTMENTS

The components of cash, cash equivalents and investments were as follows:

| | Cost Basis | Unrealized Gains | Unrealized Losses | Recorded Basis | Cash and Cash Equivalents | Short-term Investments | Long-term Investments |
|---|---|---|---|---|---|---|---|
| As at February 27, 2010 | | | | | | | |
| Bank balances | $ 535,445 | $ — | $ — | $ 535,445 | $ 535,445 | $ — | $ — |
| Money market fund | 3,278 | — | — | 3,278 | 3,278 | — | — |
| Bankers acceptances and term deposits/certificates | 377,596 | — | — | 377,596 | 377,596 | — | — |
| Commercial paper and corporate notes/bonds | 855,145 | 6,528 | (49) | 861,624 | 472,312 | 187,369 | 201,943 |
| Treasury bills/notes | 203,514 | 129 | (12) | 203,631 | 92,272 | 50,786 | 60,573 |
| Government sponsored enterprise notes | 447,131 | 2,590 | (13) | 449,708 | 69,958 | 111,977 | 267,773 |
| Asset-backed securities | 393,751 | 5,280 | (50) | 398,981 | — | 10,482 | 388,499 |
| Auction-rate securities | 40,527 | — | (7,688) | 32,839 | — | — | 32,839 |
| Other investments | 6,621 | — | — | 6,621 | — | — | 6,621 |
| | $2,863,008 | $14,527 | $ (7,812) | $2,869,723 | $1,550,861 | $360,614 | $958,248 |

Realized gains and losses on available-for-sale securities comprise the following:

| For the year ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Realized gains | $439 | $ 158 | $ 10 |
| Realized losses | (17) | (1,801) | (410) |
| Net realized gains (losses) | $422 | $(1,643) | $(400) |

The contractual maturities of available-for-sale investments at February 27, 2010 were as follows:

| | Cost Basis | Fair Value |
|---|---|---|
| Due in one year or less | $1,371,047 | $1,372,752 |
| Due in one to five years | 773,471 | 783,451 |
| Due after five years | 173,146 | 168,176 |
| No fixed maturity date | 3,278 | 3,278 |
| | $2,320,942 | $2,327,657 |

## 5. FAIR VALUE MEASUREMENTS

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use in pricing the asset or liability such as inherent risk, non-performance risk, and credit risk. The Company applies the following fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

- Level 1 — Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The carrying amounts of the Company's cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities, approximate fair value due to their short maturities. When determining the fair value of its investments held, the Company primarily relies on an independent third party valuator for the fair valuation of securities.

*$US in thousands, except share and per share data, and where otherwise indicated*

## 6. INVENTORIES

Inventories were comprised as follows:

| | February 27, 2010 | February 28, 2009 |
|---|---|---|
| Raw materials | $ 490,063 | $464,497 |
| Work in process | 231,939 | 250,728 |
| Finished goods | 17,068 | 35,264 |
| Provision for excess and obsolete inventories | (117,459) | (68,089) |
| | $ 621,611 | $682,400 |

## 7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment were comprised of the following:

| February 27, 2010 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Land | $ 104,254 | $ — | $ 104,254 |
| Buildings, leaseholds and other | 926,747 | 115,216 | 811,531 |
| BlackBerry operations and other information technology | 1,152,637 | 484,180 | 668,457 |
| Manufacturing equipment, research and development equipment, and tooling | 347,692 | 182,228 | 165,464 |
| Furniture and fixtures | 346,641 | 139,766 | 206,875 |
| | $2,877,971 | $921,390 | $1,956,581 |

As at February 27, 2010, the carrying amount of assets under construction was $254.3 million (February 28, 2009 — $88.9 million). Of this amount, $110.9 million (February 28, 2009 — $50.0 million) was included in buildings, leaseholds and other; $102.5 million (February 28, 2009 - $35.8 million) was included in BlackBerry operations and other information technology; and $40.9 million (February 28, 2009 — $3.2 million) was included in manufacturing equipment, research and development equipment, and tooling. As at February 27, 2010, $31.7 million has been classified as an asset held for sale and accordingly has been reclassified from property, plant and equipment to other current assets. For the year ended February 27, 2010, amortization expense related to property, plant and equipment was $344.5 million (February 28, 2009 — $203.4 million; March 1, 2008 — $133.1 million).

## 8. INTANGIBLE ASSETS, NET

Intangible assets were comprised of the following:

| February 27, 2010 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Acquired technology | $ 165,791 | $ 70,777 | $ 95,014 |
| Licenses | 711,969 | 196,618 | 515,351 |
| Patents | 889,467 | 173,469 | 715,998 |
| | $1,767,227 | $440,864 | $1,326,363 |

For the year ended February 27, 2010, amortization expense related to intangible assets was $271.1 million (February 28, 2009 — $124.5 million; March 1, 2008 — $44.3 million). Total additions to intangible assets in fiscal 2010 were $531.0 million (2009 — $721.1 million). Based on the carrying value of the identified intangible assets as at February 27, 2010 and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the next five fiscal years is expected to be as follows: 2011 — $324 million; 2012 — $275 million; 2013 — $227 million; 2014 — $139 million; and 2015 — $61 million. The weighted-average remaining useful life of the acquired technology is 3.4 years (2009 – 3.7 years).

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## 10. INCOME TAXES

The difference between the amount of the provision for income taxes and the amount computed by multiplying income before income taxes by the statutory Canadian tax rate is reconciled as follows:

| For the year ended | February 27, 2010 | February 28, 2009 |
|---|---|---|
| Statutory Canadian tax rate | 32.8% | 33.4% |
| Expected income tax provision | $1,072,395 | $935,881 |
| Differences in income taxes resulting from: | | |
| Impact of Canadian U.S. dollar functional currency election | (145,000) | — |
| Investment tax credits | (101,214) | (81,173) |
| Manufacturing and processing activities | (52,053) | (49,808) |
| Foreign exchange | 2,837 | 99,575 |
| Foreign tax rate differences | 5,291 | (16,273) |
| Non-deductible stock compensation | 9,600 | 10,500 |
| Adjustments to deferred tax balances for enacted changes in tax laws and rates | 7,927 | 1,260 |
| Other differences | 9,583 | 7,785 |
| | $ 809,366 | $907,747 |

## 11. CAPITAL STOCK

### (a) Capital stock

The Company is authorized to issue an unlimited number of non-voting, redeemable, retractable Class A common shares, an unlimited number of voting common shares and an unlimited number of non-voting, cumulative, redeemable, retractable preferred shares. At February 27, 2010 and February 28, 2009, there were no Class A common shares or preferred shares outstanding. The Company declared a 3-for-1 stock split of the Company's outstanding common shares on June 28, 2007. The stock split was implemented by way of a stock dividend. Shareholders received an additional two common shares of the Company for each common share held. The stock dividend was paid on August 20, 2007 to common shareholders of record at the close of business on August 17, 2007. All share, earnings per share and stock option data have been adjusted to reflect this stock dividend.

The following details the changes in issued and outstanding common shares for the year ended February 27, 2010:

| | Capital Stock | | Treasury Stock | |
|---|---|---|---|---|
| | Stock Outstanding (000's) | Amount | Stock Outstanding (000's) | Amount |
| Common shares outstanding as at February 28, 2009 | 566,219 | 2,208,235 | — | — |
| Exercise of stock options | 3,408 | 30,246 | — | — |
| Conversion of restricted share units | 2 | — | — | — |
| Transfers to capital stock resulting from stock option exercises | — | 15,647 | — | — |
| Restricted share unit plan purchase of shares | — | — | 1,459 | (94,463) |
| Common shares repurchased | (12,300) | (46,519) | — | — |
| Common shares outstanding as at February 27, 2010 | 557,329 | $2,207,609 | 1,459 | $(94,463) |

On November 4, 2009, the Company's Board of Directors authorized a Common Share Repurchase Program for the repurchase and cancellation, through the facilities of the NASDAQ Stock Market, common shares having an aggregate purchase price of up to $1.2 billion, or approximately 21 million common shares based on trading prices at the time of the authorization. This represents approximately 3.6% of the outstanding common shares of the Company at the time of the authorization. All common shares repurchased by the Company pursuant to the Common Share Repurchase Program have been cancelled. The Common Share Repurchase Program will remain in place for up to 12 months from November 4, 2009 or until the purchases are completed or the program is terminated by the Company.

### (b) Stock-based compensation

***Stock Option Plan***

The Company recorded a charge to income and a credit to paid-in-capital of $37.0 million in fiscal 2010 (fiscal 2009 — $38.1 million; fiscal 2008 — $33.7 million) in relation to stock-based compensation expense.

The Company has not paid a dividend in the previous twelve fiscal years and has no current expectation of paying cash dividends on its common shares.

***Restricted Share Unit Plan***

During fiscal 2010, the trustee purchased 1,458,950 common shares for total consideration of approximately $94.5 million

*$US in thousands, except share and per share data, and where otherwise indicated*

to comply with its obligations to deliver shares upon vesting. These purchased shares are classified as treasury stock for accounting purposes and included in the shareholders' equity section of the Company's consolidated balance sheet. The Company recorded compensation expense with respect to RSUs of $21.0 million in the year ended February 27, 2010 (February 28, 2009 — $196; March 1, 2008 — $33).

***Deferred Share Unit Plan***

The Company issued 14,593 DSUs in the year ended February 27, 2010. There are 34,801 DSUs outstanding as at February 27, 2010 (February 28, 2009 — 20,208). The Company had a liability of $2.5 million in relation to the DSU plan as at February 27, 2010 (February 28, 2009 — $834).

## 12. COMMITMENTS AND CONTINGENCIES

### (a) Credit Facility

The Company has $150.0 million in unsecured demand credit facilities (the "Facilities") to support and secure operating and financing requirements. As at February 27, 2010, the Company has utilized $6.9 million of the Facilities for outstanding letters of credit, and $143.1 million of the Facilities are unused.

### (b) Lease commitments

The Company is committed to future minimum annual lease payments under operating leases as follows:

| | Real Estate | Equipment and other | Total |
|---|---|---|---|
| For the years ending | | | |
| 2011 | $ 35,088 | $1,917 | $ 37,005 |
| 2012 | 30,611 | 1,202 | 31,813 |
| 2013 | 27,841 | 163 | 28,004 |
| 2014 | 26,178 | — | 26,178 |
| 2015 | 21,755 | — | 21,755 |
| Thereafter | 63,631 | — | 63,631 |
| | $205,104 | $3,282 | $208,386 |

For the year ended February 27, 2010, the Company incurred rental expense of $39.6 million (February 28, 2009 — $22.7 million; March 1, 2008 — $15.5 million).

### (c) Litigation

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. The Company may be subject to claims (including claims related to patent infringement, purported class actions and derivative actions) either directly or through indemnities against these claims that it provides to certain of its partners.

## 13. PRODUCT WARRANTY

The Company estimates its warranty costs at the time of revenue recognition based on historical warranty claims experience and records the expense in cost of sales. The warranty accrual balance is reviewed quarterly to establish that it materially reflects the remaining obligation based on the anticipated future expenditures over the balance of the obligation period. Adjustments are made when the actual warranty claim experience differs from estimates. The change in the Company's warranty expense and actual warranty experience from March 3, 2007 to February 27, 2010 as well as the accrued warranty obligations as at February 27, 2010 are set forth in the following table:

| | |
|---|---|
| Accrued warranty obligations as at March 3, 2007 | $ 36,669 |
| Actual warranty experience during fiscal 2008 | (68,166) |
| Fiscal 2008 warranty provision | 116,045 |
| Accrued warranty obligations as at March 1, 2008 | 84,548 |
| Actual warranty experience during fiscal 2009 | (146,434) |
| Fiscal 2009 warranty provision | 258,757 |
| Adjustments for changes in estimate | (12,536) |
| Accrued warranty obligations as at February 28, 2009 | 184,335 |
| Actual warranty experience during fiscal 2010 | (416,393) |
| Fiscal 2010 warranty provision | 462,834 |
| Adjustments for changes in estimate | 21,541 |
| Accrued warranty obligations as at February 27, 2010 | $ 252,317 |

*$US in thousands, except share and per share data, and where otherwise indicated*

## 14. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| For the year ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Net income for basic and diluted earnings per share available to common shareholders | $2,457,144 | $1,892,616 | $1,293,867 |
| Weighted-average number of shares outstanding (000's) — basic | 564,492 | 565,059 | 559,778 |
| Effect of dilutive securities (000's) — stock-based compensation | 5,267 | 9,097 | 13,052 |
| Weighted-average number of shares and assumed conversions (000's) — diluted | 569,759 | 574,156 | 572,830 |
| Earnings per share — reported | | | |
| Basic | $ 4.35 | $ 3.35 | $ 2.31 |
| Diluted | $ 4.31 | $ 3.30 | $ 2.26 |

## 15. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are shown in the following table:

| For the year ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Net income | $2,457,144 | $1,892,616 | $1,293,867 |
| Net change in unrealized gains (losses) on available-for-sale investments | 6,803 | (7,161) | 13,467 |
| Net change in fair value of derivatives designated as cash flow hedges during the year, net of income taxes of $13,190 (February 28, 2009 - tax recovery of $8,641; March 1, 2008 - income taxes of $19,238) | 28,324 | (6,168) | 37,564 |
| Amounts reclassified to earnings during the year, net of income tax recovery of $6,079 (February 28, 2009 - income taxes of $4,644; March 1, 2008 - income taxes of $5,142) | 15,508 | (16,497) | (9,232) |
| Comprehensive income | $2,507,779 | $1,862,790 | $1,335,666 |

The components of accumulated other comprehensive income (loss) are as follows:

| | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Accumulated net unrealized gains (losses) on available-for-sale investments | $ 6,715 | $ (88) | $ 7,073 |
| Accumulated net unrealized gains on derivative instruments designated as cash flow hedges | 44,377 | 545 | 23,210 |
| Total accumulated other comprehensive income | $51,092 | $457 | $30,283 |

## 16. SUPPLEMENTAL INFORMATION

(a) Cash flows resulting from net changes in working capital items are as follows:

| For the year ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Accounts receivable | $(480,610) | $(936,514) | $(602,055) |
| Other receivables | (44,719) | (83,039) | (34,515) |
| Inventories | 60,789 | (286,133) | (140,360) |
| Other current assets | (52,737) | (50,280) | (26,161) |
| Accounts payable | 167,281 | 177,263 | 140,806 |
| Accrued liabilities | 442,065 | 506,859 | 383,020 |
| Income taxes payable | (266,517) | (113,868) | 401,270 |
| Deferred revenue | 13,739 | 16,598 | 8,789 |
| | $(160,709) | $(769,114) | $ 130,794 |

(b) Certain statement of cash flow information related to interest and income taxes paid is summarized as follows:

| For the year ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Interest paid during the year | $ — | $ 502 | $ 518 |
| Income taxes paid during the year | $1,081,720 | $946,237 | $216,095 |

*$US in thousands, except share and per share data, and where otherwise indicated*

(c) The following items are included in the accrued liabilities balance:

| | February 27, 2010 | February 28, 2009 |
|---|---|---|
| Marketing costs | $ 91,554 | $ 91,160 |
| Vendor inventory liabilities | 125,761 | 18,000 |
| Warranty | 252,316 | 184,335 |
| Royalties | 383,939 | 279,476 |
| Rebates | 146,304 | 134,788 |
| Other | 638,386 | 530,843 |
| | $1,638,260 | $1,238,602 |

Other accrued liabilities as noted in the above chart, include, among other things, salaries, payroll withholding taxes and incentive accruals, none of which are greater than 5% of the current liability balance.

(d) Additional information

Advertising expense, which includes media, agency, and promotional expenses totalling $790.8 million (February 28, 2009 — $718.9 million; March 1, 2008 — $336.0 million) is included in selling, marketing, and administration expense.

Selling, marketing, and administration expense for the fiscal year includes $58.4 million with respect to foreign exchange losses (February 28, 2009 – loss of $6.1 million; March 1, 2008 – loss of $5.3 million). For the year ended February 27, 2010, the Company recorded a $54.3 million charge primarily relating to the reversal of foreign exchange gains previously recorded in fiscal 2009 on the revaluation of Canadian dollar denominated tax liability balances.

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative instruments to manage exposures to foreign exchange risk resulting from transactions in currencies other than its functional currency, the U.S. dollar. The Company's risk management objective in holding derivative instruments is to reduce the volatility of current and future income as a result of changes in foreign currency. To limit its exposure to adverse movements in foreign currency exchange rates, the Company enters into foreign currency forward and option contracts.

## 18. SEGMENT DISCLOSURES

The Company is organized and managed as a single reportable business segment. The Company's operations are substantially all related to the research, design, manufacture, and sales of wireless communications products, services, and software. Selected financial information is as follows:

Revenue, classified by major geographic segments in which our customers are located, was as follows:

| For the year ended | February 27, 2010 | February 28, 2009 | March 1, 2008 |
|---|---|---|---|
| Revenue | | | |
| Canada | $ 843,762 | $ 887,005 | $ 438,302 |
| United States | 8,619,762 | 6,967,598 | 3,528,858 |
| United Kingdom | 1,447,417 | 711,536 | 461,592 |
| Other | 4,042,283 | 2,499,047 | 1,580,643 |
| | $14,953,224 | $11,065,186 | $6,009,395 |

| | February 27, 2010 | February 28, 2009 |
|---|---|---|
| Total assets | | |
| Canada | $ 4,502,522 | $3,218,640 |
| United States | 4,059,174 | 2,646,783 |
| United Kingdom | 1,195,534 | 1,931,387 |
| Other | 447,179 | 304,562 |
| | $10,204,409 | $8,101,372 |

# Apple Financial Report

**APPLE INC.**
**CONSOLIDATED BALANCE SHEETS**
(in millions, except share amounts)

| | September 26, 2009 | September 27, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 5,263 | $11,875 |
| Short-term marketable securities | 18,201 | 10,236 |
| Accounts receivable, less allowances of $52 and $47, respectively | 3,361 | 2,422 |
| Inventories | 455 | 509 |
| Deferred tax assets | 1,135 | 1,044 |
| Other current assets | 3,140 | 3,920 |
| Total current assets | 31,555 | 30,006 |
| Long-term marketable securities | 10,528 | 2,379 |
| Property, plant and equipment, net | 2,954 | 2,455 |
| Goodwill | 206 | 207 |
| Acquired intangible assets, net | 247 | 285 |
| Other assets | 2,011 | 839 |
| Total assets | $47,501 | $36,171 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 5,601 | $ 5,520 |
| Accrued expenses | 3,852 | 4,224 |
| Deferred revenue | 2,053 | 1,617 |
| Total current liabilities | 11,506 | 11,361 |
| Deferred revenue – non-current | 853 | 768 |
| Other non-current liabilities | 3,502 | 1,745 |
| Total liabilities | 15,861 | 13,874 |
| Shareholders' equity | | |
| Common stock, no par value; 1,800,000,000 shares authorized; 899,805,500 and 888,325,973 shares issued and outstanding, respectively | 8,210 | 7,177 |
| Retained earnings | 23,353 | 15,129 |
| Accumulated other comprehensive income/(loss) | 77 | (9) |
| Total shareholders' equity | 31,640 | 22,297 |
| Total liabilities and shareholders' equity | $47,501 | $36,171 |

**APPLE INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
(in millions, except share amounts which are reflected in thousands and per share amounts)

| For fiscal year ended | September 26, 2009 | September 27, 2008 | September 29, 2007 |
|---|---|---|---|
| Net sales | $ 42,905 | $ 37,491 | $ 24,578 |
| Cost of sales | 25,683 | 24,294 | 16,426 |
| Gross margin | 17,222 | 13,197 | 8,152 |
| Operating expenses | | | |
| Research and development | 1,333 | 1,109 | 782 |
| Selling, general and administrative | 4,149 | 3,761 | 2,963 |
| Total operating expenses | 5,482 | 4,870 | 3,745 |
| Operating income | 11,740 | 8,327 | 4,407 |
| Other income and expense | 326 | 620 | 599 |
| Income before provision for income taxes | 12,066 | 8,947 | 5,006 |
| Provision for income taxes | 3,831 | 2,828 | 1,511 |
| Net income | $ 8,235 | $ 6,119 | $ 3,495 |
| Earnings per common share: | | | |
| Basic | $ 9.22 | $ 6.94 | $ 4.04 |
| Diluted | $ 9.08 | $ 6.78 | $ 3.93 |
| Shares used in computing earnings per share: | | | |
| Basic | 893,016 | 881,592 | 864,595 |
| Diluted | 907,005 | 902,139 | 889,292 |

**APPLE INC.**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
(in millions, except share amounts which are reflected in thousands)

| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| Balances as of September 30, 2006 | 855,263 | $ 4,355 | $ 5,607 | $ 22 | $ 9,984 |
| Components of comprehensive income: | | | | | |
| Net income | — | — | 3,495 | — | 3,495 |
| 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 | | | | | 3,536 |
| 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 | 9,100 | 63 | 14,531 |
| Cumulative effect of change in accounting principle | — | 45 | 11 | — | 56 |
| Components of comprehensive income: | | | | | |
| Net income | — | — | 6,119 | | 6,119 |
| Change in foreign currency translation | — | — | — | (28) | (28) |
| 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 | | | | | 6,047 |
| 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 | 15,129 | (9) | 22,297 |
| Components of comprehensive income: | | | | | |
| Net income | — | — | 8,235 | — | 8,235 |
| Change in foreign currency translation | — | — | — | (14) | (14) |
| Change in unrealized loss on available-for-sale securities, net of tax | — | — | — | 118 | 118 |
| Change in unrealized gain on derivative instruments, net of tax | — | — | — | (18) | (18) |
| Total comprehensive income | | | | | 8,321 |
| Stock-based compensation | — | 707 | — | — | 707 |
| Common stock issued under stock plans, net of shares withheld for employee taxes | 11,480 | 404 | (11) | — | 393 |
| Tax benefit from employee stock plan awards, including transfer pricing adjustments | — | (78) | — | — | (78) |
| Balances as of September 26, 2009 | 899,806 | $ 8,210 | $23,353 | $ 77 | $31,640 |

**APPLE INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in millions)

| For fiscal year ended | September 26, 2009 | September 27, 2008 | September 29, 2007 |
|---|---|---|---|
| Cash and cash equivalents, beginning of the year | $ 11,875 | $ 9,352 | $ 6,392 |
| Operating Activities | | | |
| Net income | 8,235 | 6,119 | 3,495 |
| Adjustments to reconcile net income to cash generated by operating activities | | | |
| Depreciation, amortization and accretion | 734 | 496 | 327 |
| Stock-based compensation expense | 710 | 516 | 242 |
| Deferred income tax expense | 1,040 | 398 | 73 |
| Loss on disposition of property, plant and equipment | 26 | 22 | 12 |
| Changes in operating assets and liabilities | | | |
| Accounts receivable, net | (939) | (785) | (385) |
| Inventories | 54 | (163) | (76) |
| Other current assets | 749 | (274) | (1,279) |
| Other assets | (902) | 289 | 285 |
| Accounts payable | 92 | 596 | 1,494 |
| Deferred revenue | 521 | 718 | 566 |
| Other liabilities | (161) | 1,664 | 716 |
| Cash generated by operating activities | 10,159 | 9,596 | 5,470 |
| Investing Activities | | | |
| Purchases of marketable securities | (46,724) | (22,965) | (11,719) |
| Proceeds from maturities of marketable securities | 19,790 | 11,804 | 6,483 |
| Proceeds from sales of marketable securities | 10,888 | 4,439 | 2,941 |
| Purchases of other long-term investments | (101) | (38) | (17) |
| Payments made in connection with business acquisitions, net of cash acquired | — | (220) | — |
| Payment for acquisition of property, plant and equipment | (1,144) | (1,091) | (735) |
| Payment for acquisition of intangible assets | (69) | (108) | (251) |
| Other | (74) | (10) | 49 |
| Cash used in investing activities | (17,434) | (8,189) | (3,249) |
| Financing Activities | | | |
| Proceeds from issuance of common stock | 475 | 483 | 365 |
| Excess tax benefits from stock-based compensation | 270 | 757 | 377 |
| Cash used to net share settle equity awards | (82) | (124) | (3) |
| Cash generated by financing activities | 663 | 1,116 | 739 |
| (Decrease)/increase in cash and cash equivalents | (6,612) | 2,523 | 2,960 |
| Cash and cash equivalents, end of the year | $ 5,263 | $11,875 | $ 9,352 |
| Supplemental cash flow disclosures: | | | |
| Cash paid for income taxes, net | $ 2,997 | $ 1,267 | $ 863 |

# Palm Financial Report

PALM

**Palm, Inc.**

**Consolidated Balance Sheets**
(In thousands, except par value amounts)

| | May 31, 2009 | May 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 152,400 | $ 176,918 |
| Short-term investments | 102,733 | 81,830 |
| Accounts receivable, net of allowance for doubtful accounts of $350 and $1,169, respectively | 66,452 | 116,430 |
| Inventories | 19,716 | 67,461 |
| Deferred income taxes | 174 | 82,011 |
| Prepaids and other | 12,104 | 15,436 |
| Total current assets | 353,579 | 540,086 |
| Restricted investments | 9,496 | 8,620 |
| Non-current auction rate securities | 6,105 | 29,944 |
| Deferred costs | 14,896 | — |
| Property and equipment, net | 31,167 | 39,636 |
| Goodwill | 166,320 | 166,332 |
| Intangible assets, net | 48,914 | 61,048 |
| Deferred income taxes | 331 | 318,850 |
| Other assets | 12,428 | 15,746 |
| Total assets | $ 643,236 | $1,180,262 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| Current liabilities | | |
| Accounts payable | $ 105,628 | $ 161,642 |
| Income taxes payable | 475 | 1,088 |
| Deferred revenues | 18,429 | 4,080 |
| Accrued restructuring | 6,090 | 8,058 |
| Current portion of long-term debt | 4,000 | 4,000 |
| Other accrued liabilities | 207,820 | 232,478 |
| Total current liabilities | 342,442 | 411,346 |
| Non-current liabilities | | |
| Long-term debt | 390,000 | 394,000 |
| Non-current deferred revenues | 13,077 | — |
| Non-current tax liabilities | 5,783 | 6,127 |
| Other non-current liabilities | — | 2,098 |
| Series B redeemable convertible preferred stock, $0.001 par value, 325 shares authorized and outstanding; aggregate liquidation value: $325,000 | 265,412 | 255,671 |
| Series C redeemable convertible preferred stock, $0.001 par value, 100 shares authorized; outstanding: 51 shares and 0 shares, respectively; aggregate liquidation value: $51,000 and $0, respectively | 40,387 | — |
| Stockholders' equity (deficit) | | |
| Preferred stock, $0.001 par value, 125,000 shares authorized: | | |
| Series A: 2,000 shares authorized, none outstanding | — | — |
| Common stock, $0.001 par value, 2,000,000 shares authorized; outstanding: 139,687 shares and 108,369 shares, respectively | 140 | 108 |
| Additional paid-in capital | 854,649 | 659,141 |
| Accumulated deficit | (1,269,672) | (537,484) |
| Accumulated other comprehensive income (loss) | 1,018 | (10,745) |
| Total stockholders' equity (deficit) | (413,865) | 111,020 |
| Total liabilities and stockholders' equity (deficit) | $ 643,236 | $1,180,262 |

PALM

**Palm, Inc.**

**Consolidated Statements of Operations**
(In thousands, except per share amounts)

| Years Ended May 31 | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenues | $ 735,872 | $1,318,691 | $1,560,507 |
| Cost of revenues | 576,113 | 916,810 | 985,369 |
| Gross profit | 159,759 | 401,881 | 575,138 |
| Operating expenses | | | |
| Sales and marketing | 174,052 | 229,702 | 248,685 |
| Research and development | 177,210 | 202,764 | 190,952 |
| General and administrative | 55,923 | 60,778 | 59,762 |
| Amortization of intangible assets | 3,054 | 3,775 | 1,981 |
| Restructuring charges | 16,134 | 30,353 | — |
| Casualty recovery | (268) | — | — |
| Patent acquisition cost (refund) | (1,537) | 5,000 | — |
| Gain on sale of land | — | (4,446) | — |
| In-process research and development | — | — | 3,700 |
| Total operating expenses | 424,568 | 527,926 | 505,080 |
| Operating income (loss) | (264,809) | (126,045) | 70,058 |
| Impairment of non-current auction rate securities | (35,885) | (32,175) | — |
| Interest (expense) | (25,299) | (20,397) | (1,970) |
| Interest income | 5,840 | 21,860 | 25,958 |
| Loss on series C derivative | (2,515) | — | — |
| Other income (expense), net | (5,255) | (1,471) | (1,619) |
| Income (loss) before income taxes | (327,923) | (158,228) | 92,427 |
| Income tax provision (benefit) | 404,265 | (52,809) | 36,044 |
| Net income (loss) | (732,188) | (105,419) | 56,383 |
| Accretion of series B and series C redeemable convertible preferred stock | 21,285 | 5,516 | — |
| Net income (loss) applicable to common shareholders | $(753,473) | $ (110,935) | $ 56,383 |
| Net income (loss) per common share: | | | |
| Basic | $ (6.51) | $ (1.05) | $ 0.55 |
| Diluted | $ (6.51) | $ (1.05) | $ 0.54 |
| Shares used to compute net income (loss) per common share: | | | |
| Basic | 115,725 | 105,891 | 102,757 |
| Diluted | 115,725 | 105,891 | 104,442 |

## Palm, Inc.

### Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss)

(In thousands)

| | Common Stock | Additional Paid-In Capital | Unamortized Deferred Stock-Based Compensation | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balances, May 31, 2006 | $ 103 | $1,475,319 | $ (2,752) | $ (488,081) | $ (684) | $ 983,905 |
| Components of comprehensive income: | | | | | | |
| Net income | — | — | — | 56,383 | — | 56,383 |
| Net unrealized gains on available-for-sale investments | — | — | — | — | 1,522 | 1,522 |
| Recognized gains included in results of operations | — | — | — | — | (110) | (110) |
| Accumulated translation adjustments | — | — | — | — | 915 | 915 |
| Total comprehensive income | — | — | — | — | — | 58,710 |
| Common stock issued under stock plans, net | 3 | 21,923 | | — | — | 21,926 |
| Stock-based compensation expense | — | 21,503 | 2,752 | — | — | 24,255 |
| Tax benefit from employee stock options | — | 4,578 | — | — | — | 4,578 |
| Shares repurchased and retired | (2) | (30,961) | | | | (30,963) |
| Balances, May 31, 2007 | 104 | 1,492,362 | — | (431,698) | 1,643 | 1,062,411 |
| Components of comprehensive loss: | | | | | | |
| Net loss | — | — | — | (105,419) | — | (105,419) |
| Net unrealized losses on available-for-sale investments | — | — | — | — | (1,261) | (1,261) |
| Net unrealized losses in value of non-current auction rate securities | — | — | — | — | (44,706) | (44,706) |
| Net recognized losses on non-current auction rate securities included in results of operations | — | — | — | — | 32,175 | 32,175 |
| Net recognized gains on available-for-sale investments included in results of operations | — | — | — | — | (68) | (68) |
| Accumulated translation adjustments | — | — | — | — | 1,472 | 1,472 |
| Total comprehensive loss | — | — | — | — | — | (117,807) |
| Common stock issued under stock plans, net | 4 | 28,433 | | — | — | 28,437 |
| Stock-based compensation expense | — | 32,181 | — | — | — | 32,181 |
| Tax deficiency from employee stock options | — | (3,663) | — | — | — | (3,663) |
| Cash distribution to stockholders | — | (949,691) | — | — | — | (949,691) |
| Discount recognized on issuance of series B redeemable convertible preferred stock | — | 65,035 | — | — | — | 65,035 |
| Accretion of series B redeemable convertible preferred stock | — | (5,516) | — | — | — | (5,516) |
| Adjustment to accumulated deficit due to adoption of FIN No. 48 (see Note 16) | — | — | — | (367) | — | (367) |
| Balances, May 31, 2008 | 108 | 659,141 | — | (537,484) | (10,745) | 111,020 |
| Components of comprehensive loss: | | | | | | |
| Net loss | — | — | — | (732,188) | — | (732,188) |
| Net unrealized losses on available-for-sale investments | — | — | — | — | (1,649) | (1,649) |
| Net unrealized losses in value of non-current auction rate securities | — | — | — | — | (23,354) | (23,354) |
| Net recognized losses on non-current auction rate securities included in results of operations | — | — | — | — | 35,885 | 35,885 |
| Net recognized losses on available-for-sale investments included in results of operations | — | — | — | — | 3,594 | 3,594 |
| Accumulated translation adjustments | — | — | — | — | (2,713) | (2,713) |
| Total comprehensive loss | — | — | — | — | — | (720,425) |
| Common stock issued under stock plans, net | 5 | 15,531 | | — | — | 15,536 |
| Stock-based compensation expense | — | 23,853 | — | — | — | 23,853 |
| Tax benefit from employee stock options | — | 1,924 | — | — | — | 1,924 |
| Distribution liability related to canceled shares of restricted stock | — | 34 | — | — | — | 34 |
| Accretion of series B and series C redeemable convertible preferred stock | — | (21,285) | — | — | — | (21,285) |
| Warrants recorded in connection with issuance of series C units | — | 21,966 | — | — | — | 21,966 |
| Conversion of series C units and issuance of additional common stock, net | 27 | 101,544 | — | — | — | 101,571 |
| Discount recognized on issuance of series C redeemable convertible preferred stock | — | 51,941 | — | — | — | 51,941 |
| Balances, May 31, 2009 | $ 140 | $ 854,649 | $ — | $ (1,269,672) | $ 1,018 | $ (413,865) |

PALM

## Palm, Inc.

## Consolidated Statements of Cash Flows
(In thousands)

| Years Ended May 31 | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income (loss) | $(732,188) | $(105,419) | $ 56,383 |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities | | | |
| Depreciation | 19,677 | 19,699 | 13,316 |
| Stock-based compensation | 23,853 | 32,181 | 24,255 |
| Amortization of intangible assets | 12,134 | 16,510 | 8,315 |
| Amortization of debt issuance costs | 3,139 | 1,834 | — |
| In-process research and development | — | — | 3,700 |
| Deferred income taxes | 401,670 | (58,227) | 11,313 |
| Realized (gain) loss on short-term investments | 3,594 | (68) | (110) |
| Excess tax benefit related to stock-based compensation | (142) | (40) | (5,241) |
| Realized loss (gain) on disposition of property and equipment and sale of land | 619 | (4,446) | — |
| Impairment of non-current auction rate securities | 35,885 | 32,175 | — |
| Loss on series C derivative | 2,515 | — | — |
| Changes in assets and liabilities | | | |
| Accounts receivable | 48,425 | 89,312 | 2 |
| Inventories | 47,571 | (28,147) | 18,842 |
| Prepaids and other | 4,542 | 736 | 1,790 |
| Accounts payable | (54,883) | (35,840) | 11,654 |
| Income taxes payable | (346) | 3,033 | 16,421 |
| Accrued restructuring | (361) | 6,303 | (1,803) |
| Deferred revenues/costs, net | 12,530 | — | — |
| Other accrued liabilities | (16,746) | 12,866 | 9,354 |
| Net cash provided by (used in) operating activities | (188,512) | (17,538) | 168,191 |
| **Cash flows from investing activities** | | | |
| Purchase of brand name intangible asset | — | (1,500) | (44,000) |
| Purchase of property and equipment | (13,452) | (22,999) | (24,651) |
| Proceeds from sale of land | — | 64,446 | — |
| Cash paid for business acquisitions | — | (495) | (19,000) |
| Purchase of short-term investments | (112,385) | (517,104) | (682,882) |
| Sales/maturities of short-term investments | 88,109 | 777,917 | 671,623 |
| Purchase of restricted investments | (2,000) | (8,951) | — |
| Sale of restricted investments | 1,124 | 331 | — |
| Proceeds related to investments in non-current auction rate securities | 485 | 250 | — |
| Net cash provided by (used in) investing activities | (38,119) | 291,895 | (98,910) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of common stock, net | 104,049 | — | — |
| Proceeds from issuance of common stock, employee stock plans | 15,536 | 28,437 | 21,926 |
| Purchase and subsequent retirement of common stock | — | — | (30,963) |
| Excess tax benefit related to stock-based compensation | 142 | 40 | 5,241 |
| Proceeds from issuance of redeemable convertible preferred stock and series C units, net | 99,173 | 315,190 | — |
| Proceeds from issuance of debt, net | — | 381,107 | — |
| Repayment of debt | (14,446) | (3,089) | (50,816) |
| Cash distribution to stockholders | (439) | (948,949) | — |
| Net cash provided by (used in) financing activities | 204,015 | (227,264) | (54,612) |
| Effects of exchange rate changes on cash and cash equivalents | (1,902) | 1,695 | — |
| Change in cash and cash equivalents | (24,518) | 48,788 | 14,669 |
| Cash and cash equivalents, beginning of period | 176,918 | 128,130 | 113,461 |
| Cash and cash equivalents, end of period | $ 152,400 | $ 176,918 | $ 128,130 |
| **Supplemental cash flow information:** | | | |
| Cash paid for income taxes | $ 3,402 | $ 3,391 | $ 8,900 |
| Cash paid for interest | $ 21,828 | $ 18,042 | $ 1,741 |
| **Non-cash investing and financing activities:** | | | |
| Liability for property and equipment acquired | $ — | $ 3,334 | $ 2,309 |

# Nokia Financial Report

## Nokia Corporation and Subsidiaries
## Consolidated Statements of Financial Position

| December 31 | 2009 EURm | 2008 EURm |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Capitalized development costs | **143** | 244 |
| Goodwill | **5 171** | 6 257 |
| Other intangible assets | **2 762** | 3 913 |
| Property, plant and equipment | **1 867** | 2 090 |
| Investments in associated companies | **69** | 96 |
| Available-for-sale investments | **554** | 512 |
| Deferred tax assets | **1 507** | 1 963 |
| Long-term loans receivable | **46** | 27 |
| Other non-current assets | **6** | 10 |
| | **12 125** | 15 112 |
| **Current assets** | | |
| Inventories | **1 865** | 2 533 |
| Accounts receivable, net of allowances for doubtful accounts (2009: EUR 391 million, 2008: EUR 415 million) | **7 981** | 9 444 |
| Prepaid expenses and accrued income | **4 551** | 4 538 |
| Current portion of long-term loans receivable | **14** | 101 |
| Other financial assets | **329** | 1 034 |
| Investments at fair value through profit and loss, liquid assets | **580** | — |
| Available-for-sale investments, liquid assets | **2 367** | 1 272 |
| Available-for-sale investments, cash equivalents | **4 784** | 3 842 |
| Bank and cash | **1 142** | 1 706 |
| | **23 613** | 24 470 |
| **Total assets** | **35 738** | 39 582 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **Capital and reserves attributable to equity holders of the parent** | | |
| Share capital | **246** | 246 |
| Share issue premium | **279** | 442 |
| Treasury shares, at cost | **(681)** | (1 881) |
| Translation differences | **(127)** | 341 |
| Fair value and other reserves | **69** | 62 |
| Reserve for invested non-restricted equity | **3 170** | 3 306 |
| Retained earnings | **10 132** | 11 692 |
| | **13 088** | 14 208 |
| **Minority interests** | **1 661** | 2 302 |
| **Total equity** | **14 749** | 16 510 |
| **Non-current liabilities** | | |
| Long-term interest-bearing liabilities | **4 432** | 861 |
| Deferred tax liabilities | **1 303** | 1 787 |
| Other long-term liabilities | **66** | 69 |
| | **5 801** | 2 717 |
| **Current liabilities** | | |
| Current portion of long-term loans | **44** | 13 |
| Short-term borrowings | **727** | 3 578 |
| Other financial liabilities | **245** | 924 |
| Accounts payable | **4 950** | 5 225 |
| Accrued expenses | **6 504** | 7 023 |
| Provisions | **2 718** | 3 592 |
| | **15 188** | 20 355 |
| **Total shareholders' equity and liabilities** | **35 738** | 39 582 |

NOKIA

## Nokia Corporation and Subsidiaries
## Consolidated Income Statements

| Financial Year Ended December 31 | 2009 EURm | 2008 EURm | 2007 EURm |
|---|---|---|---|
| **Net sales** | **40 984** | 50 710 | 51 058 |
| Cost of sales | **(27 720)** | (33 337) | (33 781) |
| **Gross profit** | **13 264** | 17 373 | 17 277 |
| Research and development expenses | **(5 909)** | (5 968) | (5 636) |
| Selling and marketing expenses | **(3 933)** | (4 380) | (4 379) |
| Administrative and general expenses | **(1 145)** | (1 284) | (1 165) |
| Impairment of goodwill | **(908)** | — | — |
| Other income | **338** | 420 | 2 312 |
| Other expenses | **(510)** | (1 195) | (424) |
| **Operating profit** | **1 197** | 4 966 | 7 985 |
| Share of results of associated companies | **30** | 6 | 44 |
| Financial income and expenses | **(265)** | (2) | 239 |
| **Profit before tax** | **962** | 4 970 | 8 268 |
| Tax | **(702)** | (1 081) | (1 522) |
| **Profit** | **260** | 3 889 | 6 746 |
| **Profit attributable to equity holders of the parent** | **891** | 3 988 | 7 205 |
| **Loss attributable to minority interests** | **(631)** | (99) | (459) |
| | **260** | 3 889 | 6 746 |

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Earnings per share** | **EUR** | **EUR** | **EUR** |
| (for profit attributable to the equity holders of the parent) | | | |
| Basic | **0.24** | 1.07 | 1.85 |
| Diluted | **0.24** | 1.05 | 1.83 |

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Average number of shares (000's shares)** | | | |
| Basic | **3 705 116** | 3 743 622 | 3 885 408 |
| Diluted | **3 721 072** | 3 780 363 | 3 932 008 |

## Nokia Corporation and Subsidiaries
## Consolidated Statements of Comprehensive Income

| Financial Year Ended December 31 | 2009 EURm | 2008 EURm | 2007 EURm |
|---|---|---|---|
| **Profit** | **260** | 3 889 | 6 746 |
| **Other comprehensive income** | | | |
| Translation differences | **(563)** | 595 | (151) |
| Net investment hedge gains (losses) | **114** | (123) | 51 |
| Cash flow hedges | **25** | (40) | (7) |
| Available-for-sale investments | **48** | (15) | 49 |
| Other increase (decrease), net | **(7)** | 28 | (46) |
| Income tax related to components of other comprehensive income | **(44)** | 58 | (12) |
| **Other comprehensive income (expense), net of tax** | **(427)** | 503 | (116) |
| **Total comprehensive income (expense)** | **(167)** | 4 392 | 6 630 |
| **Total comprehensive income (expense) attributable to:** | | | |
| Equity holders of the parent | **429** | 4 577 | 7 073 |
| Minority interests | **(596)** | (185) | (443) |
| | **(167)** | 4 392 | 6 630 |

## Nokia Corporation and Subsidiaries
## Consolidated Statements of Changes in Shareholders' Equity

| | Number of shares (000's) | Share capital | Share issue premium | Treasury shares | Translation differences | Fair value and other reserves | Reserve for invested non-restrict. equity | Retained earnings | Before minority interests | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2007** | **3 845 950** | **246** | **644** | **(3 146)** | **(163)** | **23** | **3 299** | **13 870** | **14 773** | **2 565** | **17 338** |
| Translation differences | | | | | 595 | | | | 595 | | 595 |
| Net investment hedge gains, net of tax | | | | | (91) | | | | (91) | | (91) |
| Cash flow hedges, net of tax | | | | | | 42 | | | 42 | (67) | (25) |
| Available-for-sale investments, net of tax | | | | | | (3) | | | (3) | (2) | (5) |
| Other increase, net | | | | | | | | 46 | 46 | (17) | 29 |
| Profit | | | | | | | | 3 988 | 3 988 | (99) | 3 889 |
| **Total comprehensive income** | | — | — | — | **504** | **39** | — | **4 034** | **4 577** | (185) | **4 392** |
| Stock options exercised | 3 547 | | | | | | 51 | | 51 | | 51 |
| Stock options exercised related to acquisitions | | | 1 | | | | | | 1 | | 1 |
| Share-based compensation | | | 74 | | | | | | 74 | | 74 |
| Excess tax benefit on share-based compensation | | | (117) | | | | | | (117) | (6) | (124) |
| Settlement of performance and restricted shares | 5 622 | | (179) | 154 | | | (44) | | (69) | | (69) |
| Acquisition of treasury shares | (157 390) | | | (3 123) | | | | | (3 123) | | (3 123) |
| Reissuance of treasury shares | 143 | | | 2 | | | | | 2 | | 2 |
| Cancellation of treasury shares | | | 0 | 4 232 | | | | (4 232) | — | | — |
| Dividend | | | | | | | | (1 992) | (1 992) | (35) | (2 027) |
| Acquisitions and other change in minority interests | | | | | | | | | | (37) | (37) |
| Vested portion of share-based payment awards related to acquisitions | | | 19 | | | | | | 19 | | 19 |
| Acquisition of Symbian | | | | | | | | 12 | 12 | | 12 |
| **Total of other equity movements** | | **—** | **(202)** | **1 265** | **—** | **—** | **7** | **(6 212)** | **(5 142)** | **(78)** | **(5 220)** |
| **Balance at December 31, 2008** | **3 697 872** | **246** | **442** | **(1 881)** | **341** | **62** | **3 306** | **11 692** | **14 208** | **2 302** | **16 510** |
| Translation differences | | | | | (552) | | | | (552) | (9) | (561) |
| Net investment hedge gains, net of tax | | | | | 84 | | | | 84 | | 84 |
| Cash flow hedges, net of tax | | | | | | (35) | | | (35) | 49 | 14 |
| Available-for-sale investments, net of tax | | | | | | 42 | | | 42 | 2 | 44 |
| Other decrease, net | | | | | | | | (1) | (1) | (7) | (8) |
| Profit | | | | | | | | 891 | 891 | (631) | 260 |
| **Total comprehensive income** | | **—** | **—** | **—** | **(468)** | **7** | **—** | **890** | **429** | **(596)** | **(167)** |
| Stock options exercised | 7 | | | | | | — | | | | — |
| Stock options exercised related to acquisitions | | | (1) | | | | | | (1) | | (1) |
| Share-based compensation | | | 16 | | | | | | 16 | | 16 |
| Excess tax benefit on share-based compensation | | | (12) | | | | | | (12) | (1) | (13) |
| Settlement of performance and restricted shares | 10 352 | | (166) | 230 | | | (136) | | (72) | | (72) |
| Acquisition of treasury shares | | | | | | | | | — | | — |
| Reissuance of treasury shares | 31 | | | 1 | | | | | 1 | | 1 |
| Cancellation of treasury shares | | | | 969 | | | | (969) | — | | — |
| Dividend | | | | | | | | (1 481) | (1 481) | (44) | (1 525) |
| **Total of other equity movements** | | **—** | **(163)** | **1 200** | — | **—** | **(136)** | **(2 450)** | **(1 549)** | **(45)** | **(1 594)** |
| **Balance at December 31, 2009** | **3 708 262** | **246** | **279** | **(681)** | **(127)** | **69** | **3 170** | **10 132** | **13 088** | **1 661** | **14 749** |

Dividends declared per share were EUR 0.40 for 2009 (EUR 0.40 for 2008 and EUR 0.53 for 2007), subject to shareholders' approval.

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## Nokia Corporation and Subsidiaries
## Consolidated Statements of Cash Flows

| Financial Year Ended December 31 | 2009 EURm | 2008 EURm | 2007 EURm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit attributable to equity holders of the parent | **891** | 3 988 | 7 205 |
| Adjustments, total | **3 390** | 3 024 | 1 159 |
| Change in net working capital | **140** | (2 546) | 605 |
| Cash generated from operations | **4 421** | 4 466 | 8 969 |
| Interest received | **125** | 416 | 362 |
| Interest paid | **(256)** | (155) | (59) |
| Other financial income and expenses, net received | **(128)** | 250 | 67 |
| Income taxes paid, net received | **(915)** | (1 780) | (1 457) |
| **Net cash from operating activities** | **3 247** | 3 197 | 7 882 |
| **Cash flow from investing activities** | | | |
| Acquisition of Group companies, net of acquired cash | **(29)** | (5 962) | 253 |
| Purchase of current available-for-sale investments, liquid assets | **(2 800)** | (669) | (4 798) |
| Purchase of investments at fair value through profit and loss, liquid assets | **(695)** | — | — |
| Purchase of non-current available-for-sale investments | **(95)** | (121) | (126) |
| Purchase of shares in associated companies | **(30)** | (24) | (25) |
| Additions to capitalized development costs | **(27)** | (131) | (157) |
| Long-term loans made to customers | **—** | — | (261) |
| Proceeds from repayment and sale of long-term loans receivable | **—** | 129 | 163 |
| Proceeds from (+) / payment of (-) other long-term receivables | **2** | (1) | 5 |
| Proceeds from (+) / payment of (-) short-term loans receivable | **2** | (15) | (119) |
| Capital expenditures | **(531)** | (889) | (715) |
| Proceeds from disposal of shares in associated companies | **40** | 3 | 6 |
| Proceeds from disposal of businesses | **61** | 41 | — |
| Proceeds from maturities and sale of current available-for-sale investments, liquid assets | **1 730** | 4 664 | 4 930 |
| Proceeds from maturities and sale of investments at fair value through profit and loss, liquid assets | **108** | — | — |
| Proceeds from sale of non-current available-for-sale investments | **14** | 10 | 50 |
| Proceeds from sale of fixed assets | **100** | 54 | 72 |
| Dividends received | **2** | 6 | 12 |
| **Net cash used in investing activities** | **(2 148)** | (2 905) | (710) |
| **Cash flow from financing activities** | | | |
| Proceeds from stock option exercises | **—** | 53 | 987 |
| Purchase of treasury shares | **—** | (3 121) | (3 819) |
| Proceeds from long-term borrowings | **3 901** | 714 | 115 |
| Repayment of long-term borrowings | **(209)** | (34) | (16) |
| Proceeds from (+) / repayment of (-) short-term borrowings | **(2 842)** | 2 891 | 661 |
| Dividends paid | **(1 546)** | (2 048) | (1 760) |
| **Net cash used in financing activities** | **(696)** | (1 545) | (3 832) |
| **Foreign exchange adjustment** | **(25)** | (49) | (15) |
| **Net increase (+) / decrease (-) in cash and cash equivalents** | **378** | (1 302) | 3 325 |
| **Cash and cash equivalents at beginning of period** | **5 548** | 6 850 | 3 525 |
| **Cash and cash equivalents at end of period** | **5 926** | 5 548 | 6 850 |
| Cash and cash equivalents comprise of: | | | |
| Bank and cash | **1 142** | 1 706 | 2 125 |
| Current available-for-sale investments, cash equivalents | **4 784** | 3 842 | 4 725 |
| | **5 926** | 5 548 | 6 850 |

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