

TO: ~~TWN~~, ~~CAB~~, ~~MSR~~, ~~MIS(LAST)~~

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

150,000 Shares of Common Stock,
No Par Value, at \$3.00 per share.

November 18, 1977

Venrock / Hank Smith # 2
Name of Offeree

Copy 8 of 20.

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Any estimates or projections as to events that may occur in the future (including projections of income, expense and net income) are based upon the best judgment of Apple management as of the date of this Memorandum. Each offeree of these securities, upon request, shall have access to all information referred to in this Memorandum, including all information upon which estimates, projections or forecasts have been based by Apple management. Whether such estimates or projections may be achieved will depend upon Apple achieving its over-all business objectives, including availability of funds resulting from the sale of the shares offered herein.

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APPLE COMPUTER
20863 Stevens Creek Blvd.
Building B 3-C
Cupertino, California 95014
Telephone: (408) 996-1010

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INTRODUCTION

Apple Computer ("Apple") is a corporation organized under the laws of State of California to manufacture and sell personal computers and related peripherals and software for primarily non-business uses.* Apple was incorporated and commenced business on January 3, 1977.

Prior to formation of Apple, Steven P. Jobs and Stephen G. Wozniak, doing business in partnership form as Apple Computer Co., designed and sold single board hobby computers styled Apple I. A total of approximately 200 Apple I's were sold by Apple Computer Co. and, after its incorporation, by Apple, from January, 1976 through January, 1977.

Apple currently manufactures and sells Apple II, an improved version of the now-discontinued Apple I. Shipments of Apple II began in late May.

Apple is establishing a dealer network in the United States. Over 180 dealerships have been established. Apple is currently in the process of negotiating a distributorship agreement covering the exclusive right to distribute

* Non-business uses are defined as uses not specifically economically justified in a strictly business environment. A computer sold specifically to keep inventory and financials for a one-owner hardware store would be defined herein as a business use. A computer sold to a doctor for use at home to maintain and update a personal diagnostics data base which he may or may not use, promote, charge for or otherwise use in his practice, is considered a non-business use. Hobby, entertainment, education and general home use are also considered non-business uses.

Apple products in Europe, Australia and certain Arab countries with Mr. Andre Sousan, former Vice President of Engineering and board member of Commodore Electronics Ltd., the operating subsidiary of Commodore International. See Exhibit A herein.

Apple hereby offers to sell and issue a maximum of 150,000 shares of its common stock at \$3.00 per share. Apple, in its sole discretion, retains the right to close this offering if fewer than the maximum number of shares offered hereunder are purchased. Apple expects, however, to raise a minimum of \$300,000 through this offering. Proceeds of this offering are to be added to working capital to support increased levels of product development, inventories, accounts receivables, payment of salaries, leasing of facilities and marketing. See "USE OF PROCEEDS" and "FINANCIAL PROJECTIONS".

RISK FACTORS

The purchase of shares involves a high degree of risk and is suitable only for persons of adequate means who have no need for liquidity in this investment. Prospective investors should consider the following risk factors carefully in making a decision concerning the possible purchase of the securities offered hereunder.

A. OPERATING HISTORY

Apple is a new company which has not established a long history of operation upon which to base an evaluation of

its operating efficiency or an accurate forecast as to its future business and financial condition.

B. AVAILABILITY OF PARTS

Apple has experienced significant delivery delays with its supplier of custom injection molded cases. There is no assurance that this problem will be solved through the establishment of additional sources of supply. Apple has not yet established alternate sources of supply for these or certain other components. See "Alternate Sources of Supply". Shortages of other parts and materials may be experienced by Apple.

C. SUBCONTRACTORS

Apple relies extensively on subassemblers in the manufacture of its products. If Apple were to lose its subassemblers, it would have to locate others or establish, at significant cost, in-house subassembling capability.

D. PROFIT MARGIN REDUCTIONS

Apple is engaged in a relatively new and highly competitive business. As industry capacity increases, it is anticipated that prices will drop significantly. Companies engaged in emerging industries, particularly those involving electronic technology, find that profit margins decline as the business and industry mature. Many of Apple's competitors have, or may have in the future, substantially greater resources than Apple and, unlike Apple, do not rely entirely upon sales of personal computers and peripherals as their principal source of revenues.

E. MANAGEMENT-EMPLOYEES

Apple's management is young and relatively inexperienced in high-volume consumer electronics business. Apple's business is dependent upon its ability to attract and retain qualified managerial, technical and marketing personnel. None of Apple's officers or other employees have an employment contract with Apple. Apple's business would be adversely affected if it were to lose the services of certain of its employees and were unable to obtain qualified replacements, or if it were unable to expand its work force as necessary in the future.

F. PRODUCT DEVELOPMENT

Personal computer technology is relatively new and continues to evolve at a rapid rate. Other manufacturers are believed to be working on technological improvements in various aspects of the hardware and software related to personal computers. There is no assurance that new developments will not render Apple's present or future technology and products obsolete or uneconomic. The future of Apple will depend, in part, on its ability to improve existing products and develop new products in response to changes in technology and customer demand.

G. MARKET

While management believes that the market for personal computers will grow rapidly, a large market for personal computers is not assured and development of the market

will require education of potential personal computer consumers. Development of the market will be both time-consuming and expensive. See "Home Market" and "MARKETING PLAN" herein.

H. POTENTIAL COMPETITION

Large computer mainframe manufacturers such as IBM, Honeywell and Control Data Corporation, and/or minicomputer manufacturers such as Data General Corporation, Digital Equipment Corporation and Hewlett-Packard, and/or semiconductor manufacturers, such as RCA, National Semiconductor, Texas Instruments and Fairchild Camera and Instrument Corp. and/or other substantial corporations, foreign or domestic, may decide to enter the personal computer market. Such corporations, or newly formed corporations, have or may have the capital, experience, technological capability and established distributor channels to adversely affect Apple's ability to compete in the personal computer market.

I. PATENTS AND LICENSES

Basic aspects of Apple's technology are based upon "know-how" believed to be proprietary to Apple. Apple expects, however, that personal computer systems with comparable characteristics can be developed by others. Apple has applied for one patent, application number 786197, filed April 11, 1977. There is no assurance that this patent will be granted or, if granted, will be enforceable, and no assurance that this patent will be valuable to Apple.

J. FEDERAL COMMUNICATIONS COMMISSION

Present Apple computers cannot be used with most standard color TV sets without interfacing such color TV sets through a radio frequency modulator. Management understands that under present regulations of the Federal Communications Commission ("FCC"), such radio frequency modulators may not be used with most standard color TV sets unless marketed under a license by the FCC. Unlicensed radio frequency modulators are currently sold for use with personal computers. Should the FCC decide to take action to curtail such usages, sales of present Apple computers could be expected to decline.

K. CASH FLOW VS. RAPID GROWTH

Management of Apple expects rapid growth of the market for personal computers and significant market fluctuations of supply and demand. Such growth and market fluctuations may present significant cash flow difficulties for Apple.

L. RESTRICTIONS ON TRANSFER

The shares offered hereby will not be registered under the Securities Act of 1933, as amended (the "1933 Act"). Each purchaser will be required to acknowledge that his purchase is being made for investment, for his own account, and without any view to the distribution thereof. Purchasers must bear the economic risk of their investment in the shares indefinitely, unless they are

registered pursuant to the 1933 Act or an exemption from such registration is available. Apple has no present intention of registering the shares offered hereunder, and purchasers cannot be assured that any exemption from the 1933 Act will be available or, if available, will allow such purchasers to dispose of or otherwise transfer their shares under the circumstances, in the amounts, or at the times proposed by them.

M. NEW FACILITIES

Apple plans to move into new and much larger facilities in the next several months. The cost of these facilities represents a significantly higher fixed cost to Apple.

N. FUTURE FINANCINGS

Management does not expect that its goals, as set forth in this Memorandum, can be fully achieved based on the proceeds of this offering (even assuming that the entire offering is sold) and investment of operating revenues alone. Management of Apple expects that one or more equity investments of significant amounts will be necessary within the next twelve to eighteen months to continue the plans set forth herein which will dilute the percentage interest of persons purchasing the securities offered herein. Should such investments not be forthcoming in any subsequent offering, it is unlikely that the estimates and projections set forth in this Memorandum will be achieved. See "FINANCIAL PROJECTIONS" herein.

OFFERING AND DESCRIPTION OF THE SHARES

Apple offers to sell, according to the terms hereof, 150,000 shares of common stock, without par value, which, upon sale and issuance thereof, will be fully paid and nonassessable, at a price per share of \$3.00, payable in cash. Apple reserves the right to sell fewer shares pursuant to this offering.

PLAN OF DISTRIBUTION

The shares of stock will be issued directly to the purchasers who will take for their own account for investment. No underwriters or agents will be employed in connection with the proposed issuance and sale and no discount or compensation will be allowed or paid in connection therewith.

USE OF PROCEEDS

The proceeds from the sale of the shares pursuant to this Memorandum will be added to working capital to support increased levels of product development, inventories, accounts receivable, payment of salaries, leasing of facilities and marketing as proposed in the operating projections of Apple. See "FINANCIAL PROJECTIONS" herein.

CAPITALIZATION

Steven P. Jobs and Stephen G. Wozniak founded Apple. Each contributed his one-half interest in the assets (total assets valued at \$5,308) of Apple Computer Co., a California general partnership, and each received 260,000 shares of Apple common stock therefor. Until November 17,

1977, Apple was financed largely by internally generated profits and a series of loans made by its Chairman of the Board and Vice President, A. C. Markkula, and the Bank of America. On November 17, 1977, 327,500 shares of common stock were sold for an aggregate purchase price of \$114,625 to Mr. Markkula, Mr. Michael M. Scott, President of Apple, Mr. Rodney Holt, Chief Engineer of Apple, and Mr. James Martindale, acting Manager of Manufacturing of Apple.

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The present shareholders of Apple are as follows:

<u>Name</u>	<u>Number of Shares</u>
Steven P. Jobs	260,000
Stephen G. Wozniak	260,000
A. C. Markkula	260,000
Michael M. Scott	40,000
Rodney Holt	25,000
James Martindale	2,500
	847,500

MARKET

The market for Apple's products is young, growing, highly dependent on new technology, and subject to rapid changes in consumer preferences. All of the forecasts relating to the market for Apple products have been prepared by management based upon such information as they deemed relevant. To the extent not set forth herein, Apple management shall be pleased to discuss with any offerees the bases and assumptions upon which conclusions have been reached.

Management of Apple forecasts a market for personal computers (mainframes, peripherals and related software) for 1977 of \$43 million. This market is expected by

Apple to increase to approximately \$638 million by 1982. See Tables I and II (prepared by management) at Exhibit B.

Peripheral units will comprise a significant portion of the personal computer market. To forecast the value of the peripheral market, management of Apple has estimated the expenditure for existing and future peripheral products as a percentage of the original purchase price of the mainframe computer. The ratio of peripheral dollars to mainframe dollars is expected to be approximately 2.2 to 1 in 1976. This is expected to increase to 2.5 to 1 in 1979 and to begin to decrease to approximately 1.2 to 1 in 1982. See Tables III and IV (prepared by management) at Exhibit B.

The relatively high ratio of peripheral dollars to mainframe dollars through 1980 is expected to occur because of the rapid growth of the personal computer market as a whole. Initially, peripheral equipment will be developed and offered for sale as "add-on" items. As the market develops, however, many of these devices will become standard items incorporated into each mainframe computer and specifically tailored systems will be developed to meet specific application needs. By the 1980's, both of these trends are expected by management to reduce the ratio of peripheral dollar expenditures to mainframe dollars.

A. MARKET SEGMENTS

Apple management presently expects five segments of the personal computer market to develop. In defining

these market segments, management recognizes that there are overlaps. Management uses these categories, however, to identify the major purchasing motivations of potential personal computer consumers. These segments are as follows:

(1) Hobby market. This segment is made up of sophisticated persons capable of designing, constructing and programming their own equipment. This market began developing in 1975 as a result of the development of the single-chip microprocessor. While it is expected that this market segment will comprise approximately 67% of the personal computer market in 1977, and will grow in dollar terms, annually, this segment is expected to be a small percentage (6%) of the personal computer market by 1982. See Tables V and VI (prepared by management) at Exhibit B. Because the hobby market is presently the largest and Apple II is desired by many hobbyists because of its product configuration and features, Apple expects to obtain a significant share of this market by 1979 (its current share is estimated to be less than four percent). See Table V. Apple does not, however, intend to expend significant effort or funds in developing this segment of the market.

(2) Entertainment market. This segment of the market is comprised of purchasers of video games, graphic microprocessor displays and computer-generated music systems. This is the first large consumer market for microprocessor technology and is dominated by companies such as

Atari (a subsidiary of Warner Communications), Fairchild, Magnavox and RCA. Personal computers will permit the user to create his own audio and video games and to create computer-generated color graphic displays, computer-generated music, and speech synthesis. Apple does not expect to be a significant factor in the video game market, but expects to have a share of that market and to be an important factor in the development of color graphics and computer-generated music.

(3) Programmable personal calculator market.

This segment is comprised of current and potential future users of products similar to the TI SR-52 and the HP 67/97 calculators. Apple products, although portable, are not sufficiently small in physical size to gain an important share of this market segment, although increased computing capability and ease-of-use features are expected to give Apple products a small share of this business. Apple does not intend to expend significant effort or funds in developing this segment of the market.

(4) Education market. Institutional educational purchases of computers during 1977 are estimated at \$150 million annually, with virtually no participation (management approximates .6%) from computer systems priced at less than \$5,000. Bureaucratic sluggishness, among other factors, is expected to prevent rapid changeover to small systems. Small systems in 1977 are expected by

management to account for approximately \$1 million of this market and to grow to approximately \$35 million in 1982. Even though the size of this market segment is small, Apple management believes that sales to this market may have a significant influence on buying decisions made in the much larger home market. See "Home Market" immediately below. Hence, significant efforts will be expended in developing software and other support for the education market.

(5) Home market. This segment of the market is characterized by the lack of technical, mathematical or scientific interests of the user. The average consumer today is aware of the benefits and problems that extensive use of computers has brought to business, but lacks general knowledge of the benefits which can be gained from operating his own personal home computer. Because of this lack of knowledge, Apple management believes that most potential customers of 1980 do not today have the slightest interest in purchasing a home computer.

The process required to develop this market will be expensive and time-consuming. It will be necessary to educate this segment of the market regarding the benefits to be derived from ownership of a personal computer. Apple's limited experience indicates that a significant amount of time of one-on-one discussion is needed to demonstrate to the average consumer the advantages of a non-business computer. Mass media such as radio, television and consumer

magazines will be employed to accomplish much of this educational goal. The main burden of education of consumers, however, is expected by management to be carried by dealers who sell Apple and competitive personal computers.

It is expected by Apple that households using a personal computer will enjoy significant advantages over those which do not. Some examples of these are:

- (a) Better financial decisions and control with complete privacy.
- (b) Better security from theft and fire.
- (c) Better environmental control, with attendant energy cost savings.
- (d) More free time.
- (e) Better educational opportunities, especially for school/family members.
- (f) Lower cost communications.
- (g) Immediate access to all family records: financial, medical, educational and others.
- (h) Increased family interaction through the entertainment aspects of the personal computer.

B. MARKET SHARES

In 1977, by far the largest segments of the personal computer market are expected to be hobby (67%) and entertainment (18%). Programmable calculators (9%), education (3%) and home (3%) are presently very small segments. By 1982, Apple management forecasts that the hobby segment will have declined to 6% of the personal computer market, the entertainment segment will be approximately 30%, and

the home segment will be 56%. Programmable calculators (4%) and education (5%) are expected to remain only small segments of the personal computer market. See Table VI.

Apple management forecasts that for the calendar year 1977, Apple sales will account for approximately 4% of the hobby market, 1% of the entertainment market, 5% of the programmable calculator market, no percent of the education market, and 50% of the home market. The home market, however, is expected to be only \$1 million. The largest segment in 1977 is expected to be the hobby market (approximately \$29 million). Overall, Apple expects to have approximately 4.6% of the personal computer market during 1977.

PRODUCTS

A. MAINFRAMES

1. Existing Product

Apple II is Apple's only mainframe product at this time. Apple II is a single-board computer based on the 6502 microprocessor. Apple II has a suggested retail price of \$1,298 to \$2,778, depending on amount of installed memory. Apple II consists of an 8-1/2" x 14" printed circuit board that contains the entire computer mounted in a structural foam-injected molded case, with a switching power supply and a typewriter-style keyboard. A complete operational system requires an additional display device (CRT, printer, LED, LCD, and the like--none of which are

now sold by Apple) and an optional magnetic tape bulk storage device.

The most common system configuration at the present time is Apple II, a common home color TV set, an inexpensive (approximately \$20) radio frequency modulator, and an audio cassette tape recorder. Apple does not sell the TV, the modulator or the tape recorder. The user may store programs and data permanently on tape and retrieve them. Programs may be written by the user or purchased from Apple Computer. Typical applications include home financial analysis, home environmental controls, and color video games.

Apple II presently has several features which are not characteristic of competitive products. The most important of these are:

1. Color graphics capability.
 - (a) 40 lines x 48 lines Array in 15 colors.
 - (b) 280 lines x 192 lines Array in 4 colors.
2. Four Analog-to-Digital inputs for controllers, sensors or game paddles.
3. Fast, powerful, BASIC programming language in Read-Only-Memory (ROM).
4. Eight peripheral connectors for expandability.
5. Quiet, cool, fan-less operation.
6. Portability in size and weight (less than 15 pounds).
7. Fewer parts and fully socketed board for greater reliability and ease of service.

Apple management presently believes that with these features Apple II is approximately six months ahead of the current competition. See "COMPETITION" herein.

2. Planned Products

Apple IIA (Name may be changed)

Apple IIA is planned to be functionally equivalent to Apple II with six color high-resolution graphics and full floating-point BASIC in ROM. Cost reductions are expected from lower cost keyboard, lower-cost case and higher volume materials purchases. Apple management intends to make every effort to announce Apple IIA as early as possible in 1978. Apple IIA is planned to sell at or below \$995 retail.

Apple IIB (Name may be changed)

Apple IIB is expected to be functionally equivalent to Apple IIA with improved floating point BASIC and somewhat reduced flexibility. It is intended that this product will be FCC approved for use with any standard TV set, though to management's knowledge, no manufacturer currently has built and obtained FCC approval for a personal computer used with a standard TV set. The quantity of components is expected to be reduced through the use of one or two custom LSI chips. Specific jacks for modular peripherals such as an Apple printer and a floppy disc are expected to be incorporated. "Cartridge" type peripherals, such as a music synthesizer, voice recognition system, and

telephone interface are expected to be compatible with Apple IIB. It is planned that Apple IIB will be announced in the late fall of 1978. The suggested retail price is expected to be between \$600.00 and \$800.00.

Apple III (Name may be changed)

Apple III is currently expected to incorporate all features of Apple IIB plus improved programming language, built in printer interface, built in bulk storage, and major advances in input technology. Voice and optical character recognition are both being considered as built-in features. It is also possible that a UHF very short-range transmitter for wireless display capability may be included depending on FCC approval. No announcement date or shipping dates are planned at this time nor has a suggested retail price been established.

B. PERIPHERALS

Management has prepared a list, presented below, of peripherals which are being planned for introduction between the date of this Memorandum and middle to late 1978. The list is roughly in the expected order of availability. Apple does not represent that these units will all be available during this time period or that all of them even will be developed or sold by Apple or others.

1. Hobby Board - prototyping board for computer hobbyist.
2. Printer Board - a general purpose parallel printer interface board.

3. Model 33 Teletype Interface - For use with 20 mA current loop teletypes.
4. Terminal Board - 110 and 300 baud serial interface board for telephone communications via standard acoustic couplers.
5. RS232 Serial Printer Board - General purpose serial board with software selectable speed up to 9600 Baud.
6. PROM Programmer & Personality Board - 2716 PROM programmer with personality sockets.
7. PAL & SECAM Conversion Board - To be designed by Eurapple. Converts Apple II video output to PAL or SECAM standards for foreign nations.
8. 220 VAC Power Convertor - Step down transformer with various plug configurations, converts European 50, 220 VAC line voltages.
9. Telephone Interface Board - Hard wire touch tone generator with operating system to automatically dial, send messages, and answer using standard Bell system phone lines.
10. Printer - low cost electro-resistive printer (expected \$250.00 retail) High speed, 40 or 80 characters per line. 4" wide print-out.
11. Color TV Monitor - 13" diagonal picture tube direct video input jack (expected \$300.00 retail price).
12. Audio Cassette Recorder - Panasonic RQ309 (expected \$40.00 retail price).
13. Clock and Calendar Board - Battery operated time and date, firmware date calculation.
14. Isolated Power Control Board - Convenient control for 24 VAC to 110VAC solenoids, small appliances, etc.
15. Voice Recognition System - Designed and manufactured by Heuristics Inc.; 64-word vocabulary.
16. AC Remote Control System - Designed and manufactured by Mountain Hardware, Inc.

Uses standard 110 VAC house wiring for RF transmission of control and polling signals. Remote receiver has relay isolation for solenoid and small appliance control.

17. IEEE Interface Board - For interfacing laboratory instruments.

Memory

Floppy Disc Memory - Minifloppy with minimal operating system.

Accessories

1. Apple II BASIC Programming Manual - expected in December, 1977.
2. Joy Sticks.

MARKETING PLAN

A. ADVERTISING

Apple intends to use several means to reach both dealers and potential customers.

1. Media. Apple currently expects to advertise in computer hobby books, consumer electronics books and other consumer and professional periodicals. Ads for Apple products have run in Scientific American and Byte Magazine. Final media selection for fiscal year 1978 will be based on market trends and 1977 responses.

2. Co-op Advertising. A 5% co-op advertising program has been established for dealers. Apple has budgeted 4% of sales for this program, assuming that only 80% of dealers will participate. This program is for individual dealers' use in support of local advertising and merchandising programs. Apple will provide (at Apple's expense) some support materials to dealers for this purpose.

3. Point-of-Sale; Sales Training. Posters, free software, brochures, display racks, personal visits, and seminars are expected to be used to assist dealers in selling Apple products.

4. Public Relations. Efforts will be directed toward obtaining editorial coverage through editor visits, industry show participation (such as the Consumer Electronics Show), and free support of radio and TV coverage. Apple has been featured on both NBC and ABC news specials in California and Texas and received nearly five minutes of air time on CBS.

5. System Evaluation. This program provides editors and other key figures with a "loaner" system for their use and evaluation. Loans have thus far been made to seven individuals.

6. Direct Mail. A semi-monthly publication is expected to be produced similar to the HP Personal Calculator Digest. The publication is planned to be in a slick magazine format: four-color cover, two-color interior with one or two to four-color interior pages. Product information, applications and program listings are expected to be included. Each issue will be a "special" issue on one of the major application areas such as home finance, utility controls, or entertainment. The publication is expected to be mailed gratis to all Apple owners and dealers and as a response to advertising inquiries.

B. DISTRIBUTION

During fiscal 1977, Apple established over 180 authorized dealers in the United States. At the date of this Memorandum, approximately 120 dealerships are stocking Apple products. Of these, approximately half are a chain of highly successful consumer electronic retailers: TEAM ELECTRONICS.

Apple management gave consideration to several alternative distribution channels such as department stores with mail order operations. Apple has concluded that it cannot now support a program of sales to department stores. TEAM is seen by Apple management as a first step toward building into department store operations. Since TEAM operates stores specifically oriented to sales of advanced consumer electronics, it is more competent at selling a complex product than the average major department store, and TEAM has committed to a formal, two-day training program before any location physically handles the product. Training meetings with owners, managers and sales personnel of over 40 TEAM stores have been held.

During 1978 Apple expects to continue to distribute through existing channels. Depending on the relative success of the TEAM outlets, Apple will decide whether to sell Apple IIB through the larger department store chains and/or other advanced consumer electronics stores.

A main emphasis of Apple's present marketing strategy is to insure that each customer establishes a positive on-going relationship with the local Apple dealer.

This would be impossible to do through mail order houses and direct mail and difficult to do through existing department store organizations.

An important reason for this choice of strategy is service. Apple wishes to service Apple products at local dealer locations. One of Apple's competitors claims that its product can be serviced by any local TV repairman. Apple believes that today's average TV repairman cannot adequately repair computers. Apple believes that since the dealer wants to sell future computers and peripherals, the dealer has a stake in his customers' satisfaction. Apple is in the process of setting up a Warranty Service Center Authorization and Training Program, which is expected to result in many existing dealers also becoming authorized warranty service stations. The program is expected to be in operation by mid 1978.

COMPETITION

Apple's current competitors may be grouped into three categories:

1. Hobby Manufacturers
2. Small Business Manufacturers
3. Personal Computer Manufacturers

A. HOBBY

The first group is characterized by products which were designed to be sold as kits. Hobby manufacturers include Southwest Technical Products, Inc., Processor

Technology, Inc., and Cromemco Inc. Companies like these have dominated the hobby market until recently when several assembled products were announced by manufacturers such as Apple.

Because of the cost-consciousness of the average computer hobbyist and the product and business management strategies of the hobby manufacturers, no one company has gained a dominant share of the hobby market. Because of the applications development ability of the software oriented hobbyist, however, Apple will continue to service this part of the hobby market. Since Apple's product strategy is designed around fully assembled and tested systems, no effort is planned to service the kit builder segment of the hobby market.

B. BUSINESS

The small business manufacturers are led by MITS, Inc., now a division of Pertec, and IMS, producer of the IMSAI 8080 system. Both of these companies have set their courses strongly in the direction of small business, and away from the consumer. Average prices for installed systems of this type range from \$10,000 to \$20,000 dollars. Apple does not expect to compete directly with these companies unless they change their present marketing and product strategies.

C. PERSONAL COMPUTERS

The last category is currently characterized by manufacturers such as Tandy Corporation and Commodore

Business Machines. These two companies are expected to be Apple's major competition during 1978. Apple expects at least three additional (and probably stronger) competitors by the end of 1978. The most likely possibilities are Atari, Texas Instruments, and RCA. Other companies (established and startup) can be expected to enter the market as well.

1. Tandy - TRS 80

This system's configuration is divided into four separate elements: a black and white CRT monitor, a power supply, a recorder, and a keyboard with cabinet which also houses the main computer board. The unit includes a 4K byte BASIC in ROM which Apple management believes is unsuited to today's market. No n-key rollover is provided (making rapid typing impossible); there are no provisions for direct connection of analog devices such as game paddles or resistive sensors; and the system lacks a speaker for audio effects.

Tandy expects that a floppy disc and printer will be available in the future. Tandy's advantages are:

1. Up to 16K bytes of memory may be installed directly.
2. Some "canned" software has already been developed.
3. The price is approximately \$600.00.
4. Distribution through the Radio Shack chain.

Overall, Apple management believes this unit to be a very poor second to the Commodore PET.

2. Commodore - PET

The PET computer has a built in black and white display only, no speaker or provision for analog inputs, and also sells for approximately \$600.00. The PET BASIC is much more powerful than the Tandy machine and resides in 12K bytes of ROM. With 64 graphics characters for use in graphic displays, the system configuration is such that the CRT and cassette recorder are built in and an IEEE interface converter is provided. PET is limited to 8K bytes of RAM internally and PET has a calculator-style keyboard which is unsuitable for data entry or major programming efforts.

PET's advantages are its more powerful BASIC, its \$600 price and its built in display.

Both the Tandy and Commodore systems are limited in expandability when compared with Apple II or the projected Apple IIA. Commodore has publicly stated that its software will be developed mostly by users, not by Commodore.

The current strategy for distribution of PET is through the major department store chains and direct mail. Apple management expects that this effort will be plagued by both service and support problems. Apple believes that neither the department stores nor Commodore currently has an organization capable of properly supporting the sale of several thousand machines.

Both Tandy and Commodore are expected to revise and update their products in 1978.

Apple expects more formidable competition from Texas Instruments and Atari. It is likely that each will obtain at least a 20% market share within 18 months of their entry into the market. It is impossible at this time to obtain reliable information on either product or strategy from either company.

Atari, Texas Instruments, Commodore and Tandy are all experienced corporations with greater capital than Apple. The recent history of the introduction of handheld calculators may be repeated in this market (severe price pressure) which will favor the better capitalized corporations.

Large computer mainframe manufacturers such as IBM, Honeywell or Control Data Corporation, and/or mini-computer manufacturers such as Data General Corporation, Digital Equipment Corporation or Hewlett-Packard, and/or semiconductor manufacturers, such as RCA, National Semiconductor, Texas Instruments or Fairchild Camera and/or other substantial corporations, foreign or domestic, may also decide to enter the personal computer market. Such corporations, or newly formed corporations, have or may have the capital, experience, technological capability and established distributor channels to adversely affect Apple's ability to compete in the personal computer market.

MANUFACTURING

A. FACILITIES

Apple currently leases 3,500 square feet of space in an office complex at 20863 Stevens Creek Boulevard, Cupertino, California, at a total rental expense for the year ended September 30, 1977 of \$8,000. 1,500 square feet are used for manufacturing and warehousing, 1,000 square feet for engineering, and 1,000 for administration. These facilities are adequate to complete the assembly of up to 30 units per day.

Apple has signed a lease for a new facility of 20,000 square feet which Apple is scheduled to occupy during January 1978. The annual minimum rental for the new facility is \$36,675 in 1978, increasing to \$78,264 per year from 1979 through 1983. In the new building, 10,000 square feet are eventually expected to be used for manufacturing and warehousing, 6,500 for administration, and 3,500 for engineering. Apple management expects to sublet, on a month-to-month basis, approximately 5,000 square feet for six to 12 months until this space is needed for Apple manufacturing. There is no assurance that such subleasing can be achieved. This new facility should be adequate through 1979.

B. PRESENT MANUFACTURING

Apple purchases directly all parts for Apple II. Sub-assemblies are assembled by outside assembly houses. The computer printed circuit board, for example, which contains approximately 300 piece parts, is assembled by

C. Keyboard - Dataetics

General Technology Corp. of Sunnyvale, California (also a qualified sub-assembler for IBM and Memorex). GTC has, in Apple management's opinion, sufficient facilities to meet Apple's projected requirements throughout fiscal year 1978. GTC is subject to the same inventory controls as Apple. Apple does not anticipate establishing an alternate sub-assembler of the Apple II printed circuit board, although several qualified assemblers are available locally. Completely assembled boards are wave-soldered by GTC and returned to Apple in custom-designed carrying cases.

Apple installs memory based on current orders, completely tests each board manually (including powered "burn-in" and temperature cycling) and does repairs as needed. Approximately 45% of incoming boards currently need some repair, which Apple management believes to be good performance, given the complexity of the board.

The power supply is also sub-assembled by a local independent subcontractor. Upon delivery to Apple, power supply boards are also 100% tested, "burned in" at rated power, retested and mounted and sealed in a simple sheet-metal box.

C. ALTERNATE SOURCES OF SUPPLY

Apple currently has established alternate sources of supply for all parts of the Apple II, with the following exceptions:

- a. Case plastic housing - RIM Industries
- b. ROM memory - Synertek

c. Keyboard - Datametics

d. Game paddles - Duffy Electronics

Apple currently is seeking alternate suppliers for each of the above and expects to have proven alternate sources by the end of March, 1978.

MANAGEMENT

Presently the business of Apple is being conducted by the following officers and directors:

A. C. Markkula	Chairman of the Board; Vice President
Michael M. Scott	President
Steven P. Jobs	Director; Vice President
Stephen G. Wozniak	Director; Vice President; Secretary; and Chief Financial Officer

The educational and employment backgrounds of each of the above-named persons and certain other key employees are set forth at Exhibit C.

Apple has no employment contracts with any members of management or any other employee.

Organization charts are set forth at Exhibit D.

For fiscal 1977, the aggregate direct remuneration of all officers of Apple was \$43,696. Several officers, however, received reduced salaries or took virtually no salary during fiscal year 1977. Apple has not obtained life insurance policies on the lives of any of its officers.

EMPLOYEES

As of the date hereof, Apple has a total of 24 full-time employees. During fiscal year 1978, Apple expects

to increase employees to more than 100 and expects the percentage of employees in manufacturing to increase from 25% of total work force to more than 50%. Successfully recruiting and training qualified personnel will be an important factor influencing Apple's sales by fiscal year 1978.

LITIGATION

As of the date hereof, Apple management knows of no outstanding legal proceedings of any kind against Apple or any of its officers, directors or employees relating to any business of Apple or to any matter affecting the business of Apple. Certain of the officers and employees of Apple may be under legal obligation not to disclose proprietary data with respect to operations of their former employers, but no claims or demands have been made by any such employer with the respect to the activities of Apple or any of the individuals serving as officers or employees thereof.

DIVIDEND POLICY

It is the intention of management that Apple will retain all earnings for use in the business of Apple for the foreseeable future. Accordingly, it may not be expected that Apple will pay a dividend on its common stock in the immediate future.

FINANCIAL STATEMENTS

Reference is made to Exhibit E for (a) an audited balance sheet of Apple as of September 30, 1977

(year-end); and (b) statements of income, equity and changes in financial position of Apple from January 3, 1977 to September 30, 1977. Financial statements were prepared by Arthur Young & Company and are certified by that firm.

FINANCIAL PROJECTIONS

Financial projections are divided into three major sections. See Exhibit F herein. Section I details performance estimates for fiscal years 1978-1979 based on sales projections for calendar years 1977-1979. Section II assumes that only seventy percent of the sales plan in Section I is achieved but that marketing and engineering expenditures and capital equipment purchases are left unchanged. Inflation at the rate of 10% per annum is assumed for personnel salaries only. Materials costs are individually calculated.

The financial projections are based on a number of assumptions with respect to market growth, cost expectations, availability of materials, availability of additional financing, and the like, which assumptions may or may not occur. Certain of these assumptions are set forth below and in the Exhibits hereto. Detailed information as to those assumptions (and the bases for them) is available to the offerees hereof. Any offerees who have not already obtained such information are encouraged to consult with management of Apple with respect thereto. It should be recognized that the projections merely represent management's estimates, based upon limited operating experience, as to future events which may

or may not occur and may not be relied upon to indicate the actual results which will be obtained.

A. SECTION I

Section I includes the following Exhibits:

1. Sales by product family - FY 1978.
2. Pro forma profit and loss - FY 1978.
3. Balance sheets at 45 days A/R - FY 1978.
4. Cash flow at 30 days A/R - FY 1978.
5. Cash flow at 45 days A/R - FY 1978.
6. Cash flow at 60 days A/R - FY 1978.
7. Pro forma profit and loss - FY 1979.
8. Cash flow at 45 days A/R - FY 1979.

The majority of sales dollars for FY 1978 are expected to be contributed by Apple II and Apple IIA. Sales contributions from Apple IIB are not expected to begin until at least the very end of FY 1978. Inventory write-down and price protection to dealers when Apple IIA is announced is expected to have a major impact on April 1978 profit. Total inventories are expected to increase from eight weeks of supply to twelve weeks. During FY 1978 the majority of tooling, capital equipment purchases and research and development budget is allocated to introduction of Apple IIB; during FY 1979, those expenditures are expected for Apple III. It is assumed that during FY 1979 further expansion of research and development will not be required in order to support one major new product per year.

Major sources of funds for FY 1978 and FY 1979 are profits and deferred taxes. For purposes of these projections, it is assumed that the full \$450,000 offered herein will be raised, but there will be no additional equity financing in FY 1978. Apple hopes to be able to finance the balance of its FY 1978 cash needs by a credit line of up to \$1 million (using as security Apple's inventory and receivables). Prompt collection of accounts receivable is necessary during FY 1978. At 30 days A/R, peak cash needs will be \$429,000 and at 45 days, \$1,089,000. Apple anticipates that accounts receivable can be held to less than 45 days.

During FY 1979, cash needs are expected to increase sharply due to payment of deferred taxes and payment of quarterly tax estimates. Apple may need to raise approximately \$2 million to \$3 million through an equity offering or series of offerings in late FY 1978 to meet those needs.

B. SECTION II

Section II assumes that sales forecasts in Section I are too optimistic and that only 70% of forecast can be obtained for whatever reason. This Section includes the following exhibits:

1. Pro forma profit and loss at 70% - FY 1978.
2. Balance sheet at 70% - FY 1978.
3. Cash flow at 70% and 45 days A/R - FY 1978.

4. Pro forma profit and loss at 70% - FY 1979.

5. Cash flow at 70% and 45 days A/R - FY 1979.

For purposes of this analysis, it is assumed that capital spending, marketing and research and development budgets remain at the levels projected in Section I. While it would be possible for Apple to remain profitable at 70% of forecasted sales, its cash needs would increase by \$250,000 in FY 1978 due to lower profits.

All material information about Apple. Apple has consulted legal counsel as to the content of this memorandum, although Apple has not requested counsel to perform any factual investigation or to verify otherwise the statements made herein, and counsel has not undertaken to do so.

APPLE
STATEMENT

Apple management believes that the information printed in this Memorandum accurately reflects the current status of Apple and management's best estimate of Apple's immediate future. In preparing this Memorandum and the information supplemental thereto, Apple management has sought to advise investors fully as to all material information about Apple. Apple has consulted legal counsel as to the format of this Memorandum, although Apple has not requested counsel to perform any factual investigation or to verify otherwise the statements made herein, and counsel has not undertaken to do so.

Apple's computer language itself, BASIC, can be used in English since it is treated as an acronym. And last, the ways and means of doing business locally, the export-import procedures, the selection, appointment and support of local distributors require a group of people who have had experience in marketing technical products in Europe or who are generally abroad.

For all these reasons, Apple originally decided to delay entering the European market and concentrate its engineering, marketing and cash flow resources to the domestic market.

In April, 1977, Apple was approached by Andre Sussan, who had recently resigned from the position of corporate vice president of engineering and board member of

EURAPPLE

Europe represents a large potential market for Apple Computer products but has engineering requirements of its own.

First, the television system in Europe is two-display, 625 lines instead of the 525 lines of the United States system. Second, the main power is 220V, 50Hz instead of 110V, 60Hz. Third, the connecting hardware plugs, jacks, coax connectors-between electronic systems is dimensioned differently than in the United States. Fourth, the variety of languages (at least two: French and German) requires translation of technical information, manuals and literature. The computer language itself, BASIC, can remain in English since it is treated as mnemonics. And last, the ways and means of doing business locally, the export-import procedures, the selection, appointment and support of local distributors require a group of people who have had experience in marketing technical products in Europe or more generally abroad.

For all these reasons, Apple originally decided to delay entering the European market and concentrate its engineering, marketing and cash flow resources to the domestic market.

In April, 1977, Apple was approached by Andre Sousan, who had recently resigned from the position of corporate vice president of engineering and board member of

Commodore Electronics Ltd., the operating subsidiary of Commodore International. Andre Sousan had disagreements with Commodore on product and management philosophy.

Mr. Sousan offered to set up the European operations, finance personally both the required engineering changes that would need to be made and the implementation of a European operations group, and to provide for Apple's eventual buy-out of these operations. Apple is now in the process of negotiating a distributorship agreement with Mr. Sousan covering the exclusive right to distribute Apple products in areas utilizing the PAL or SECAM type of television broadcasting systems. Such areas include Europe, Australia and certain Arab countries. The proposed initial term for such distributorship would be four years.

Mr. Sousan is to organize a company to be known as "Eurapple" and will finance nearly all costs of such operations, including product development. It is contemplated that Apple will have the right after two years and for the next six years thereafter to buy all of the intangible assets of Eurapple for a price based on its pretax operating profits, subject to certain other terms and conditions. No agreements have yet been signed with Mr. Sousan.

Mr. Sousan holds a doctorate in physics from the University of Paris and a masters in electronics from

the Superior School of Radio-electronics in Paris. He was in Europe five years for Texas Instruments as marketing manager and assistant to the European Vice President, then was scientific director for Thomson-CSF engineering operations, with Europe and U.S. technical responsibility. He then moved to Varadyne to become Vice President, European Operations, before joining Commodore in 1971.

Eurapple has appointed a resident European director, Jacques Boivin, who was with Thomson CSF as an electronic engineer and then was with a European subsidiary of Wang, with European marketing responsibility.

Mr. Sousan, doing business as Eurapple, has sold, since he began shipping in September, approximately 35 systems in Europe and has approximately 350 systems backlogged as of the date of this Memorandum.

Year	Consumption of Electricity 17,182	Value of Equipment 6,871	Programable Controllers 574	Video Games 60	Electronic Kits 63	Personal Computers 18
1976	30,971	7,606	75	125	76	48
1977	31,382	8,095	130	250	76	43
1978			140	540		90
1979			180	705		1
1980			175	850	96	2
1981			180	905		4
1982			170	920		8

TABLES I-VI

Sources: 1. Electronics Magazine Jan. 1977
 2. Venture Development Corp.
 3. Apple Computer Inc.

TABLE I
MARKETS RELATED TO
THE CONSUMER COMPUTER MARKET

M\$

	Consumer Electronics	Color TV	Hi-Fi Components	Programmable Calculators	Video Games	Electronic Kits	Personal Computers
1975	17,182	6,671	1,838	N/A	40	63	-
1976	18,971	7,506	2,144	75	125	70	10
1977	21,182	8,095	2,414	110	250	75	43
1978				140	500		90
1979				160	750		172
1980				170	850	98	289
1981				180	900		448
1982				190	920		638

Source: 1. Electronics Magazine Jan. 1977
2. Venture Development Corp.
3. Apple Computer Inc.

PERSONAL COMPUTER MARKET

	1976	1977	1978	1979	1980	1981	1982
Main Frame Units	10K	27K	70K	175K	400K	800K	1450K
FASP	600	900	600	400	300	250	225
\$	6M	24M	42M	70M	120M	200M	326M
Peripherals Units	16K	76K	230K	633K	1300K	2430K	3866K
FASP	250	250	200	150	120	95	75
\$	4M	19M	46M	95M	156M	231M	290M
Software Units	-	0	300K	1100K	2500K	3400K	4300K
FASP	-	-	7-	6-	5-	5-	5-
\$	-	-	2M	7M	13M	17M	22M
Total	10M	43M	90M	172M	289M	448M	638M

* FASP = Factory Average Selling Price

TABLE III

RATIO OF PERIPHERAL \$ TO
MAIN FRAME \$ BY MODEL YEAR

Subsequent Year	-- Model Year --									
	1976	1977	1978	1979	1980	1981	1982			
Year 1	.6	.6	.6	.7	.6	.5	.3			
Year 2	.7	.7	.7	.7	.6	.5	.4			
Year 3	.6	.6	.6	.6	.5	.4	.3			
Year 4	.3	.4	.4	.4	.4	.3	.2			
Year 5	0	0	.1	.1	.1	.1	0			
Total By Model Year	2.2	2.3	2.4	2.5	2.2	1.8	1.2			
Total by Year	.6	.79	1.09	1.35	1.3	1.15	.89			

TABLE IV

PERIPHERALS M\$ FORECAST

For Mainframes Sold In:	1976	1977	1978	1979	1980	1981	1982
1976	3.6	4.2	3.6	1.8	-	-	-
1977	-	14.4	16.8	14.4	9.6	-	-
1978	-	-	25.2	29.4	25.2	16.8	4.2
1979	-	-	-	49.0	49.0	42.0	28.0
1980	-	-	-	-	72.0	72.0	60.0
1981	-	-	-	-	-	100.0	100.0
1982	-	-	-	-	-	-	97.8
1983	-	-	-	-	-	-	-
Total Peripheral M\$	3.6	18.6	45.6	94.6	155.8	230.8	290.0

TABLE V
M\$
PERSONAL COMPUTER
MARKET SEGMENTS

	1976	1977	1978	1979	1980	1981	1982
Hobby	9	29	32	34	36	38	40
Apple	-	1.2	8	10	11	12	13
Entertainment	1	8	25	55	102	140	185
Apple	-	.1	3	19	21	21	21
Prog. Calc.	-	4	10	15	24	26	28
Apple	-	.2	2	4	6	7	7
Inst. Education	-	1	8	12	17	24	35
Apple	-	-	2	4	6	7	8
Home	-	1	16	56	110	220	350
Apple	-	.5	8	23	57	110	174
Total	10	43	90	172	289	448	638
Apple	-	2	23	60	101	157	223
SOM	0%	4.6%	25%	35%	35%	35%	35%

TABLE VI

PERSONAL COMPUTER
MARKET SEGMENTS
AS A % OF TOTAL

COMPANY CONFIDENTIAL

	1976	1977	1978	1979	1980	1981	1982
Hobby	90	67	35	20	12	8	6
Entertainment	10	18	28	32	35	31	29
Prog. Calc.	-	9	11	9	8	6	4
Education	-	3	9	7	6	5	5
Home	-	3	17	32	39	50	56

J.C. Warkula, Chairman and V.P. Marketing
MBA, SDSU University of Southern California
Marketing Mgr. - Fairchild Semiconductor - 4 Yrs.
Marketing Mgr. - Intel Corporation - 4 Yrs.

J.S. Wozniak, V.P. Engineering
Attended University of Colorado and University of California at Berkeley
Engr. Tennant - 1 Yr.
Engr. Microclass - 1 Yr.
Engr. - Hewlett-Packard - 3 Yrs.

F.B. Nolt, Chief Engineer
BSc. Ohio State University
Engineering Mgr. R&D Hickock Elect. - 8 Yrs.
Assistant Chief Engineer, MB/Gilmore - 2 Yrs.

W.B. Sander, Staff Specialist
M.S.E., M.B.A., Ph.D., Iowa State University
Design Engineer - ITT Gilgillian 2 Yrs.
Senior Engineer - Tasker Industries - 8 Yrs.
Department Manager, Fairchild R&D - 13 Yrs.

Sara Carter, Director of Retail Marketing
M.S. Milwaukee School of Engineering
Sandia Corporation (ASCI) 6 Yrs.
Fairchild Semiconductor - MOS Marketing Mgr.
Senior Marketing Mgr. - 3 Yrs.
National Semiconductor - MOS Marketing Mgr. - 1 Yr.
IC Marketing Manager, 4 Yrs., Director of Marketing
1 Yr., Director of Microprocessor Mkt. 2 1/3 Yrs.

STAFF

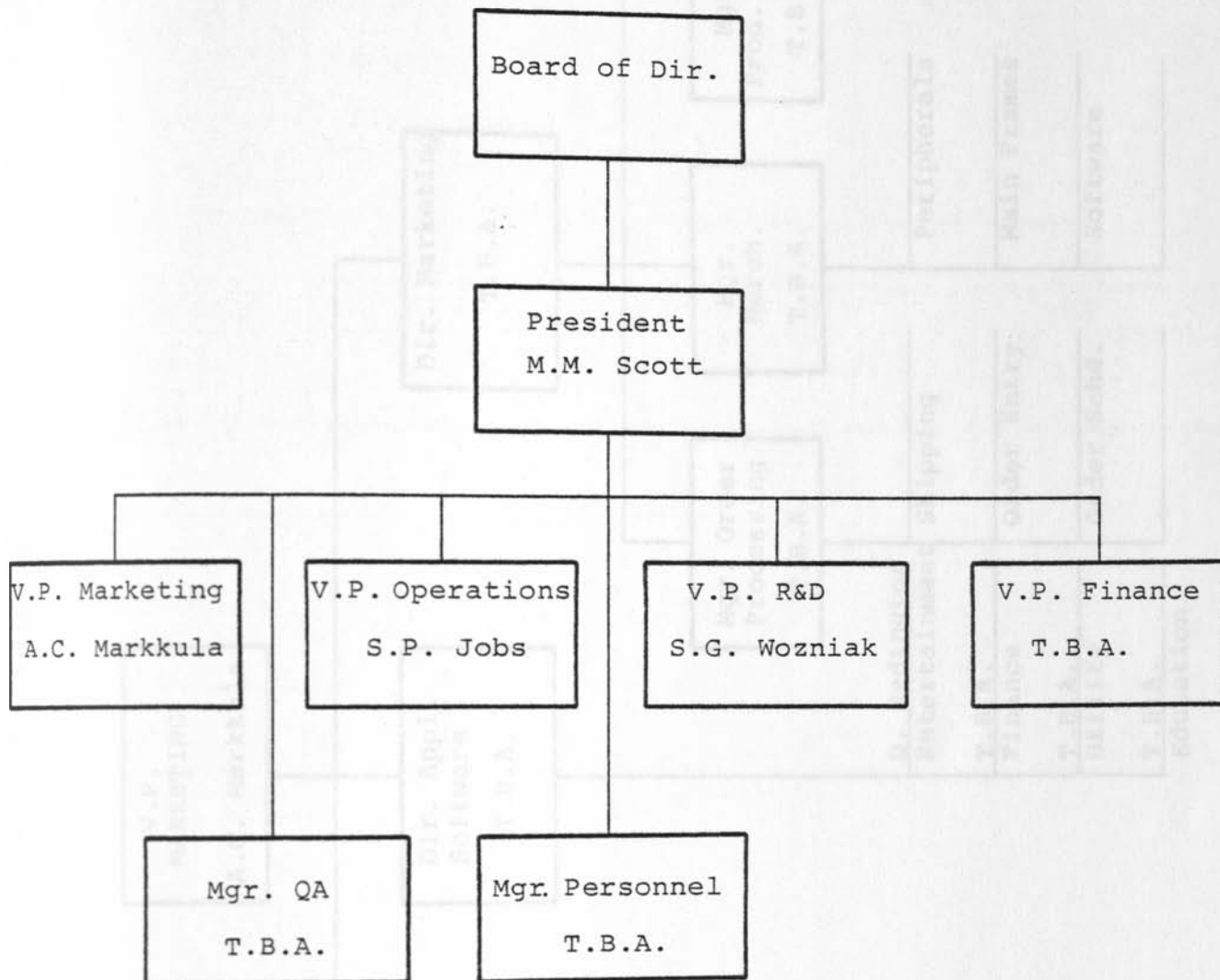
COMPANY CONFIDENTIAL

- A.C. Markkula, Chairman of the Board and V.P. Marketing
MSEE, BSEE University of Southern California
MTS - Hughes Aircraft Co. - 4 Yrs.
Marketing Mgr. - Fairchild Semiconductor - 4 Yrs.
Marketing Mgr. - Intel Corporation - 4 Yrs.
- M.M. Scott, President
BSPH, California Institute of Technology
Engineer, Beckman Inst. - 2 Yrs.
Marketing Mgr. - Fairchild Semiconductor - 4 Yrs.
Marketing Mgr. - National Semiconductor - 2 Yrs.
Director Hybrid Operations - National Semi. - 4 Yrs.
- S.P. Jobs, V.P. Operations
Attended Stanford and Reed College
Engineer - Atari - 2 Yrs
- S.G. Wozniak, V.P. Engineering
Attended University of Colorado and University of
California at Berkeley
Engr. Tennant - 1 Yr.
Engr. Electroglass - 1 Yr.
Engr. - Hewlett-Packard - 3 Yrs.
- F.R. Holt, Chief Engineer
BSc. Ohio State University
Engineering Mgr, R&D Hickock Elect.- 9 Yrs.
Assistant Chief Engineer, MB/Gilmore - 2 Yrs.
- Dr. W.B. Sander, Staff Scientist
BSEE, MSEE and PhDEE, Iowa State University
Design Engineer - ITT Gilgillian 2 Yrs.
Senior Engineer - Tasker Industries - 6 Yrs.
Department Manager, Fairchild R&D - 13 Yrs.
- Gene Carter, Director of Dealer Marketing
AAS Milwaukee School of Engineering
Sandia Corporation (AEC) 6 Yrs
Fairchild Semiconductor - MOS Marketing Mgr.
and Linear Marketing Mgr. - 3 Yrs.
National Semiconductor - MOS Marketing Mgr. - 1 Yr.
IC Marketing Manager, 4 Yrs., Director of Marketing
1 Yr., Director of Microprocessor Mkt. 2 1/2 Yrs.

EXHIBIT C

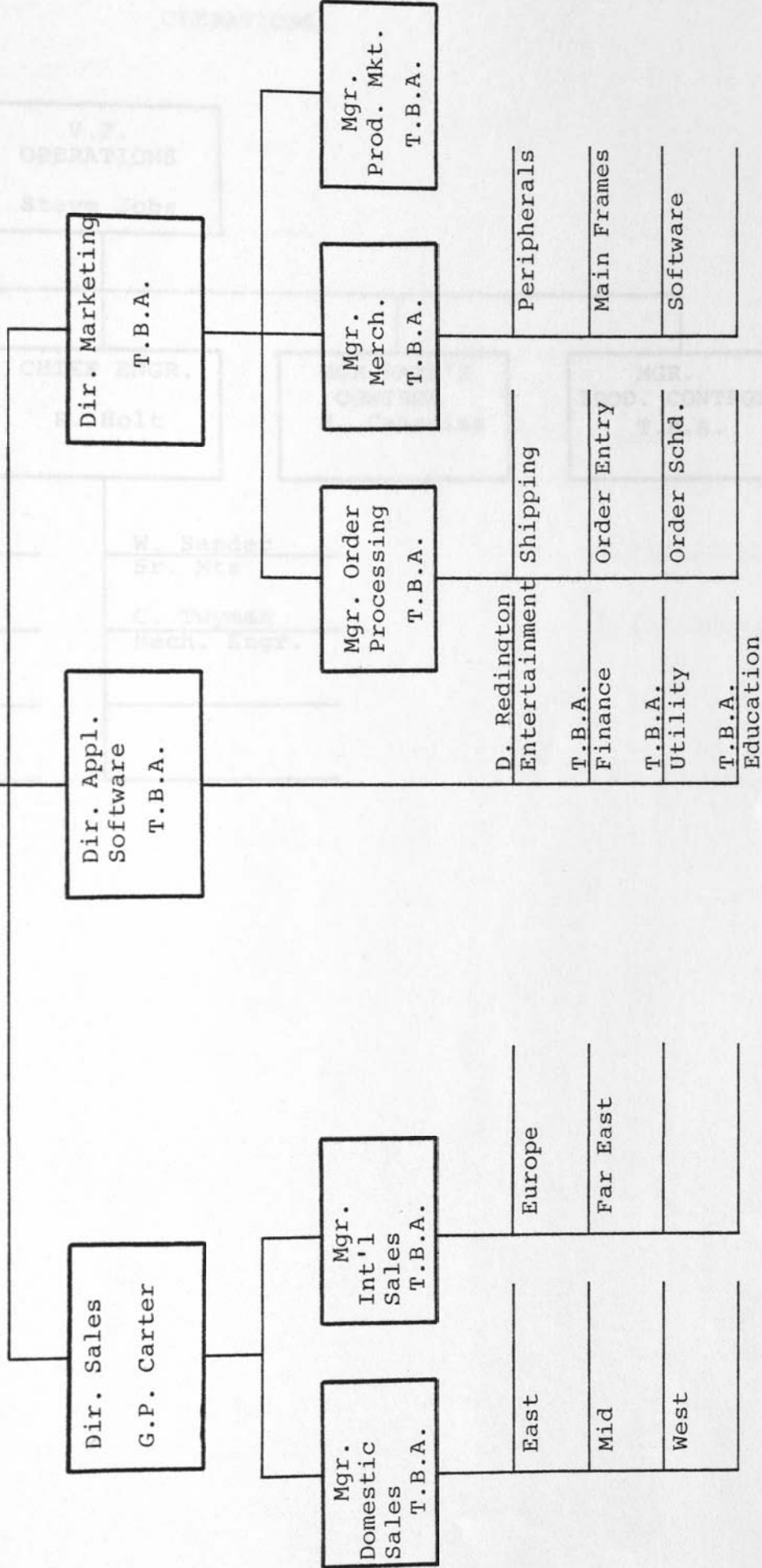
EXHIBIT B

ORGANIZATION CHART



MARKETING

V.P.
MARKETING
A.C. Markkula



OPERATIONS

V.P.
OPERATIONS
Steve Jobs

MFG. MGR.
J. Martindale
(acting)

CHIEF ENGR.
R. Holt

MGR MATL'S
CONTROL
S. Cabaniss

MGR.
PROD. CONTROL
T.B.A.

	W. Sander Sr. Mts
	C. Twyman Mech. Engr.

R. Wigginton
W. Fernandez

R & D

V.P. - R&D
S.G. Wozniak

Dir. Hardware
Development
T.B.A.

Dir. System
Software
Development
T.B.A.

R.Wigginton

W.Fernandez

FINANCE

V.P. FINANCE

M.M. Scott
(Acting)

Credit &
Collections

T.B.A.

FINANCIAL STATEMENTS
(Added)

Controller
G. Martin

ARTHUR YOUNG & COMPANY

101 PARK CENTER PLAZA
SAN JOSE, CALIFORNIA 95128

Board of Directors and Shareholders
Apple Computer

**FINANCIAL STATEMENTS
(Audited)**

We have examined the accompanying balance sheet of Apple Computer at September 30, 1977 and the related increase of income, shareholders' equity and changes in financial position for the period January 3, 1977 (inception of corporation) to September 30, 1977. Our examination was in accordance with generally accepted auditing standards, accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Apple Computer at September 30, 1977 and the results of operations and changes in financial position for the period January 3, 1977 to September 30, 1977, in conformity with generally accepted auditing principles applied on a consistent basis during the period.

Arthur Young + Company

October 3, 1977

Exhibit E

ARTHUR YOUNG & COMPANY

COMPUTER
BALANCE SHEET

September 30, 1977

101 PARK CENTER PLAZA
SAN JOSE, CALIFORNIA 95113

ASSETS

The Board of Directors and Shareholders
Apple Computer

We have examined the accompanying balance sheet of Apple Computer at September 30, 1977 and the related statements of income, shareholders' equity and changes in financial position for the period January 3, 1977 (inception of corporation) to September 30, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Apple Computer at September 30, 1977 and the results of operations and changes in financial position for the period January 3, 1977 to September 30, 1977, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young + Company

November 9, 1977

See accompanying notes.

APPLE COMPUTER
BALANCE SHEET
September 30, 1977

ASSETS

Current assets:	
Cash (Note 2)	\$ 24,420
Accounts receivable, net of allowance of \$10,000 for doubtful accounts and customer returns (Note 2)	178,648
Inventories (Note 2):	
Raw materials	36,598
Work in process	119,895
Finished goods	15,569
	<u>172,062</u>
Prepaid expenses and current deposits	13,526
Amounts receivable from stockholders (Note 3)	114,625
Total current assets	503,281
Machinery and equipment (Note 2)	58,894
Less accumulated depreciation	8,057
Net machinery and equipment	50,837
Other assets	1,364
	<u>\$555,482</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Notes payable to bank (Note 2)	\$150,000
Accounts payable	200,494
Accrued payroll expenses	13,522
Income taxes payable (Note 4)	11,100
Other accrued liabilities	18,857
Total current liabilities	393,973
Commitments (Note 5)	
Shareholders' equity:	
Common stock, 5,000 shares authorized:	
520,000 shares issued and outstanding	5,309
327,500 shares subscribed (Note 3)	114,625
Retained earnings	41,575
Total shareholders' equity	161,509
	<u>\$555,482</u>

See accompanying notes.

APPLE COMPUTER
STATEMENT OF INCOME
From January 3, 1977 (inception of corporation)
to September 30, 1977)

Net sales				\$773,977
Costs and expenses:				
Cost of sales				403,282
Research and development				75,520
Marketing, general and administrative				238,595
Interest				5,405
				<u>722,802</u>
Income before taxes on income				51,175
Taxes on income (Note 4)				<u>9,600</u>
Net income				<u>\$ 41,575</u>
Earnings per common share				<u>\$.08</u>

See accompanying notes.

APPLE COMPUTER

STATEMENT OF SHAREHOLDERS' EQUITY

From January 3, 1977 (inception of corporation)
to September 30, 1977

	<u>Common Stock</u>	<u>Common Stock Subscribed</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Issuance of 520,000 shares of common stock to founders	\$5,309	\$ -	\$ -	\$ 5,309
Common stock subscribed, 327,500 shares	-	114,625	-	114,625
Net income	-	-	41,575	41,575
Balance at September 30, 1977	<u>\$5,309</u>	<u>\$114,625</u>	<u>\$41,575</u>	<u>\$161,509</u>

See accompanying notes.

APPLE COMPUTER
 STATEMENT OF CHANGES IN FINANCIAL POSITION
 From January 3, 1977 (inception of corporation)
 to September 30, 1977

Working capital provided from operations:	
Net income	\$ 41,575
Charges to operations not requiring the use of working capital -	
Depreciation	<u>8,057</u>
Total working capital provided from operations	49,632
Issuance of common shares to founders	5,309
Common stock subscribed	<u>114,625</u>
Total sources of working capital	169,566
Applications of working capital:	
Acquisition of machinery and equipment of predecessor business	3,142
Additions to machinery and equipment	55,752
Increase in other assets	<u>1,364</u>
Total applications of working capital	<u>60,258</u>
Increase in working capital	<u>\$109,308</u>
Changes in components of working capital:	
Increases in current assets:	
Cash	\$ 24,420
Accounts receivable	178,648
Inventories	172,062
Prepaid expenses and current deposits	13,526
Amounts receivable from stockholders	<u>114,625</u>
	503,281
Increases in current liabilities:	
Notes payable to bank	150,000
Accounts payable	200,494
Accrued payroll expenses	13,522
Income taxes payable	11,100
Other accrued liabilities	<u>18,857</u>
	<u>393,973</u>
Increase in working capital	<u>\$109,308</u>

See accompanying notes.

APPLE COMPUTER
NOTES TO FINANCIAL STATEMENTS
September 30, 1977

1. Principal accounting policies

Inventories

Inventories are stated at the lower of first-in, first-out cost or market.

Machinery and equipment

Depreciation on machinery and equipment was computed using the straight-line method over an estimated useful life of 5 years.

Warranty

The Company reserves an amount which, in the opinion of management, is sufficient to cover the estimated cost to repair or replace product expected to be returned under the warranty provision in effect.

2. Notes payable to bank

The Company has a line of credit agreement whereby it can borrow, on 90-day notes, up to \$250,000 secured by inventories, accounts receivable, and machinery and equipment. In addition, the note is personally guaranteed by an officer of the Company. Interest is payable at the rate of 1-1/2% above the bank's prime rate. The Company is required to maintain a daily average cash balance with the bank of 10% of any outstanding borrowings.

3. Common stock subscribed

In April 1977, the Company and certain of its officers and employees, other than the founders, agreed that these individuals would buy 327,500 shares of common stock at the then fair value (\$.35 per share). In November 1977, these shares were issued when the amounts relating thereto were paid.

APPLE COMPUTER
 NOTES TO FINANCIAL STATEMENTS
 September 30, 1977

4. Taxes on income

The provision for taxes on income is made up of the following components:

Federal:	
Current	\$ 8,000
Prepaid	<u>(3,000)</u>
	5,000
State:	
Current	5,000
Prepaid	<u>(400)</u>
	<u>4,600</u>
	<u>\$ 9,600</u>

Prepaid taxes on income result from timing differences in the recognition of certain items for tax and financial reporting purposes. Timing differences relate primarily to franchise tax accruals and reserves for warranty and customer returns. The Company accounts for investment tax credit, which amounted to approximately \$5,600 in 1977, on the flow-through method.

5. Rental commitments

Total rental expense for the year ended September 30, 1977 was approximately \$8,000. Annual minimum rentals under an operating lease agreement expiring in 1983 for a manufacturing and office facility are as follows:

1978	\$36,675
1979	78,264
1980	78,264
1981	78,264
1982	78,264
1983	78,264

FINANCIAL PROJECTIONS

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Operating Income	10000	11000	12000	13000	14000	15000	16000	17000	18000	19000	20000
Depreciation	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000
Interest	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Income Tax	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
EBITDA	10000	11000	12000	13000	14000	15000	16000	17000	18000	19000	20000
Capital Expenditures	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000
Working Capital	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Free Cash Flow	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Debt Repayment	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Dividends	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Retained Earnings	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

SECTION I - Exhibit 1

APPLE COMPUTER
SALES FORECAST BY PRODUCT
FY 1978

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	TOTAL
GROSS APPLE II A \$ K													
# UNITS	363	441	525	684	807	841	425						
FASP \$	330	420	500	720	850	990	500						
STANDARD COST	1100	1050	1050	950	950	850	850						
	136	173	206	296	350	407	160						
GROSS APPLE II B \$ K													
# UNITS							487	975	1137	1137	1137	1137	
FASP \$							750	1500	1750	1750	1750	1750	
STANDARD COST							650	650	650	650	650	650	
							240	480	560	560	560	560	
GROSS APPLE II B \$ K													
# UNITS							360				360	720	
FASP \$							1000				360	2000	
STANDARD COST							360				141	283	
MISC													
4K MEMORY GROSS \$ K													
# UNITS	1	2	2	2	2	2	3	3	3	3	3	3	3
FASP \$	30	30	30	40	50	60	60	60	60	75	75	75	75
STANDARD COST	50	50	50	50	40	40	40	40	40	35	35	35	35
	.6	.6	.6	.8	1.1	1.3	1.1	1.1	1.1	1.4	1.4	1.4	1.4
16 K MEMORY GROSS \$ K													
# UNITS	15	6	9	13	18	23	25	25	25	27	27	27	27
FASP \$	50	20	30	50	70	90	100	100	100	135	135	135	135
STANDARD COST	300	300	300	250	250	250	250	250	250	200	200	200	200
	7.2	2.9	4.3	7.2	10.1	1.3	10	10	10	13.5	13.5	13.5	13.5
PERIPHERAL BOARD GROSS \$ K													
# UNITS	15	15	20	35	45	55	60	59	63	81	104	121	
FASP \$	150	200	200	350	450	550	600	650	700	900	1150	1350	
STANDARD COST	100	100	100	100	100	100	100	90	90	90	90	90	
	5	5	7	12	15	19	20	22	24	31	39	46	
MINI-FLOPPY GROSS \$ K													
# UNITS							140	288	375	375	375	375	
FASP \$							400	900	1250	1250	1250	1250	
STANDARD COST							350	320	300	300	300	300	
							35	105	146	146	146	146	

SECTION 1 - Exhibit 2

APPLE COMPUTER
PROFIT AND LOSS STATEMENT (PROFORMA)
FY 1978

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	TOTAL
NET UNITS	410	620	760	1160	1420	1990	2410	3210	3810	4110	5360	6560	
HEADCOUNT	23	28	37	50	59	63	72	76	81	87	92	98	
GROSS SALES	379	463	550	733	871	1026	1139	1349	1602	1623	2005	2383	14123
LESS ALLOWANCES	11	14	16	22	26	31	232	41	48	49	60	71	621
NET SALES	368	449	534	711	845	995	907	1308	1554	1574	1945	2312	13502
STANDARD COST OF SALES	144	181	218	316	376	461	478	618	740	751	900	1049	6232
MANUFACTURING	11	16	18	32	37	39	43	49	54	61	66	72	498
MANUFACTURING O/H	5	4	9	10	10	11	11	11	11	13	13	13	121
EARNED LABOR O/H	(11)	(15)	(19)	(27)	(33)	(43)	(39)	(53)	(64)	(65)	(72)	(79)	(520)
MANUFACTURING VARIANCES	5	5	8	15	14	7	15	7	1	9	7	6	99
MATERIAL VAR. & SCRAP TOOLING	7	9	11	16	19	23	24	31	37	38	45	52	312
	0	0	25	45	20	60	20	20	20	10	0	0	220
R & D	12	17	24	39	41	41	43	43	43	48	48	48	447
PRODUCTION CONTROL	2	2	4	4	8	8	10	10	10	12	12	12	94
OTHER COSTS	14	17	21	28	33	39	35	51	60	61	75	90	524
INVENTORY ADJUSTMENTS							64						64
TOTAL COST OF SALES	184	231	311	463	511	639	689	780	911	929	1087	1257	7992
GROSS PROFIT	184	218	223	248	334	356	218	528	643	645	858	1055	5510
MARKETING	22	20	20	48	47	36	51	46	57	49	55	54	505
COOP ADV.	16	18	23	29	35	41	46	53	64	65	80	96	566
ADMINISTRATION	13	15	17	28	28	28	34	34	33	34	34	34	332
ACCOUNTING	2	2	2	4	6	6	8	8	9	11	11	11	80
TOTAL G. & A. COST	53	55	62	109	116	111	139	141	163	159	180	195	1483
OPERATING PROFIT	131	163	161	139	218	245	79	387	480	486	678	860	4027
INTEREST EXPENSE	1	1	1	2	2	2	2	2	2	2	2	2	21
TAXES	58	72	70	62	96	109	34	171	211	214	299	379	1775
NET PROFIT	72	90	90	75	120	134	43	214	267	270	377	479	2231
CAPITAL EQUIPMENT INVENTORY	0	8	10	10	90	11	14	16	91	16	16	7	289
	266	349	438	665	823	1045	1141	1525	1893	1989	2484	2910	2910

SECTION 1 - Exhibit 3

APPLE COMPUTER
BALANCE SHEET - FY 78
@ 45 DAYS A/R

	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
ASSETS													
CASH	24	24	24	24	24	24	24	24	24	24	24	24	24
ACCOUNTS RECEIVABLE	171	351	489	654	937	1150	1358	1337	1778	2420	2558	2922	3451
INVENTORY	172	266	349	438	665	823	1045	1141	1525	1893	1989	2487	2913
FIXED ASSETS	59	59	67	77	87	177	188	202	218	309	325	341	348
DEPRECIATION	(8)	(9)	(10)	(11)	(12)	(15)	(19)	(24)	(28)	(33)	(39)	(47)	(56)
NET FIXED ASSETS	51	50	57	66	75	162	169	178	190	276	286	294	292
OTHER	2	2	2	2	2	2	2	2	2	2	2	2	2
TOTAL	420	693	921	1184	1703	2161	2598	2682	3519	4615	4858	5729	6682
LIABILITIES & EQUITY													
ACCOUNTS PAYABLE	207	207	240	348	414	507	526	679	814	826	990	1154	1300
LOAN	150	293	206	201	516	664	838	692	1008	1614	1208	1238	1186
ACCOUNTING EXPENSES	26	26	26	26	26	26	26	26	26	26	26	26	26
INCOME TAXES	7	65	137	207	269	365	474	508	679	890	1104	1403	1782
EQUITY	5	5	125	125	125	125	125	125	125	125	125	125	125
RETAINED EARNINGS	25	97	187	277	353	474	609	652	867	1134	1405	1783	2263
TOTAL	420	693	921	1184	1703	2161	2598	2682	3519	4615	4858	5729	6682

SECTION I - Exhibit 4

APPLE COMPUTER
Cash Flow
FY 78 - 30 Days

(000 Omitted)

230

ENDING BALANCE

PLUSES

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT
NET PROFIT AFTER TAXES	\$ 72	90	90	76	121	135	43	215	267	271	378	480
DEPRECIATION	1	1	1	1	3	4	5	4	5	6	8	9
DEFERRED TAXES	58	72	70	62	96	109	34	171	211	214	299	379
SALE STOCK	120											
SUBTOTAL	\$ 131	283	161	139	220	248	82	390	483	491	685	868
LOAN	75	0		203	63			230	199		21	
TOTAL CASH IN	\$ 206	283	161	342	283	248	82	620	682	491	706	868

LESS:

CAPITAL EQUIPMENT	\$ 0	8	10	10	90	11	14	16	91	16	16	7
INCREASE ACCOUNTS RECEIVABLE	112	79	80	171	128	144	(90)	394	235	19	356	351
INCREASE INVENTORY	94	83	89	227	158	222	96	384	368	96	498	426
DECREASE ACCOUNTS PAYABLE	0	(33)	(108)	(66)	(93)	(19)	(153)	(135)	(12)	(164)	(164)	(146)
SUBTOTAL	\$ 206	137	71	342	283	158	(133)	659	682	(33)	706	638
LOAN REPAYMENT	0	146	79			90	176			429		21
TOTAL CASH OUT	\$ 206	283	150	342	283	248	43	659	682	396	706	659

LOAN BALANCE
(BEGINNING @ 150)

	\$ 225	79	0	203	266	176	0	230	429	0	21	0
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LOAN END 0

SECTION I - Exhibit 6

APPLE COMPUTER
CASH FLOW
FY 78 - 60 DAYS

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT
ENDING BALANCE												
PLUS:												
NET PROFIT AFTER TAXES	\$ 72	90	90	76	121	135	43	215	267	271	378	480
DEPRECIATION	1	1	1	1	3	4	5	4	5	6	8	9
DEFERRED TAXES	58	72	70	62	96	109	34	171	211	214	299	379
SALE STOCK	120											
SUBTOTAL	\$ 131	283	161	139	220	248	82	390	483	491	685	868
LOAN	143			315	190	330	161	176	593		40	126
TOTAL CASH IN	\$ 274	283	161	454	410	578	243	566	1076	491	725	994

LESS:

CAPITAL EQUIPMENT	\$ 0	8	10	10	90	11	14	16	91	16	16	7
INCREASE ACCOUNTS RECEIVABLE	180	138	165	283	255	364	286	301	629	254	375	707
INCREASE INVENTORY	94	83	89	227	158	222	96	384	368	96	498	426
DECREASE ACCOUNTS PAYABLE	-	(33)	(108)	(66)	(93)	(19)	(153)	(135)	(12)	(164)	(64)	(146)
SUBTOTAL	\$ 274	196	156	454	410	578	243	566	1076	202	725	994
LOAN REPAYMENT		87	5							289		
TOTAL CASH OUT	\$ 274	283	161	454	410	578	243	566	1076	491	725	994

LOAN BALANCE
(BEGINNING @ 150)

1843

LOAN END

SECTION I - Exhibit 7

APPLE COMPUTER
PROFIT AND LOSS STATEMENT (PROFORMA)
FOR SALES PROJECTED FOR FY1979

	4Q FY78	TOT FY78	1Q FY79	2Q FY79	3Q FY79	4Q FY79	TOT FY79
GROSS SALES	6011	14123	8000	10500	13500	16500	48500
NET SALES	5831	13699	7760	10185	13095	16005	47045
STANDARD COST	2700	6232	3725	5093	6678	8323	23819
MANUFACTURING VARIANCES							
MATERIAL VAR. & SCRAP	22	99	37	76	131	160	404
TOOLING	135	312	186	229	262	300	977
PRODUCTION CONTROL	10	220	200	300	400	100	1000
OTHER COSTS	36	95	40	40	45	45	170
INVENTORY ADJUSTMENTS	226	524	260	306	327	400	1293
TOTAL COST OF SALES	0	64	0	510	0	0	510
	3270	7990	4598	6714	8013	9508	28833
GROSS PROFIT	2561	5709	3162	3471	5082	6497	18212
MARKETING	155	503	200	200	250	275	925
COOP ADV	240	565	155	203	0	0	358
ADMINISTRATION	102	330	120	140	160	180	600
ACCOUNTING	33	80	40	45	50	50	185
TOTAL G & A EXPENSES	530	1478	515	588	460	505	2068
OPERATING PROFIT	2031	4231	2647	2883	4622	5992	16144
INTEREST EXPENSES	6	21	33	48	121	73	276
TAXES	892	1775	1307	1417	2250	2959	8808
NET PROFIT	1133	2237	1307	1418	2251	2960	7800
CAPITAL EQUIPMENT	39	289	500	1000	1000	500	2000
INVENTORY	2910	2910	3700	5000	6500	8000	8000

SECTION I - Exhibit 8

APPLE COMPUTER
 PROFIT AND LOSS FOR PROJECTED 1979 SALES
 AT 45 DAYS A/R

	1ST QTR 79	2ND QTR 79	3RD QTR 79	4TH QTR 79
PLUSES				
NET PROFIT AFTER TAXES	\$ 1307	1418	2251	2960
DEPRECIATION	28	61	112	162
DEFERRED TAXES	863	973	1806	2515
SALES STOCK	-	-	-	-
SUBTOTAL	\$ 2198	2507	4169	5637
LOAN	\$ 454	1592	-	-
CASH IN	\$ 2652	4044	4169	5637
LESS				
CAPITAL EQUIPMENT	\$ 500	1000	1000	500
INCREASE ACCOUNTS RECEIVABLE	430	1212	1456	1419
INCREASE INVENTORY	790	1300	1500	1500
TAXES PAYMENT	1332	1332	444	443
DECREASE ACCOUNTS PAYABLE	(400)	(800)	(1006)	(864)
SUBTOTAL	2652	4044	3394	2998
LOAN REPAYMENT	-	-	775	2457
TOTAL CASH OUT	2652	4044	4169	5455
ACCOUNTS RECEIVABLE @ 45 DAYS LOAN BEGINNING 1186	1640	3232	2457	0

SECTION 11 - Exhibit 1

APPLE COMPUTER
 PROFIT AND LOSS STATEMENT (PROFORMA)
 ASSUMES 70% OF PROJECTED SALES FOR FY1978

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	TOT
NET UNITS	291	440	540	824	1008	1413	1711	2279	2741	2918	3806	4658	
GROSS SALES	269	329	390	520	618	728	809	958	1137	1152	1424	1692	10026
LESS DISC & ALLOW 3%	8	10	12	16	19	22	24	29	34	35	43	51	
NET SALES	261	319	378	504	599	706	785	929	1103	1117	1381	1641	9723
STANDARD COST OF SALES	107	134	161	233	278	341	436	457	548	556	666	777	4694
MANUFACTURING VARIANCES	5	5	8	15	14	7	15	7	1	9	7	6	99
MATERIAL VARIANCE & SCRAP 5%	5	7	8	12	14	17	22	23	27	28	33	39	235
TOOLING	0	0	25	45	20	60	20	20	20	10	0	0	220
R & D	12	17	24	39	41	41	42	42	42	47	47	47	441
PRODUCTION CONTROL	2	2	3	3	5	5	8	8	10	10	10	12	78
OTHER COST	10	13	15	20	24	28	31	37	44	45	55	66	388
INVENTORY ADJUSTMENTS							45						45
TOTAL COST	141	178	244	367	396	499	619	594	692	705	818	947	6200
GROSS PROFIT	120	141	134	137	203	207	166	335	411	412	563	694	3523
MARKETING	22	21	21	48	46	35	51	45	57	48	54	53	501
COOP ADVERTISING 4%	10	13	15	20	24	28	31	37	44	45	55	66	388
ADMINISTRATION	13	15	17	20	20	20	23	23	23	25	25	25	249
ACCOUNTING	2	2	2	3	4	4	5	5	8	8	8	11	62
TOTAL G & A COST	47	51	55	91	94	87	110	110	132	126	142	155	1191
OPERATING PROFIT	73	90	79	46	109	120	56	225	279	286	421	539	2323
INTEREST EXPENSES	1	1	0	2	2	1	0	2	3	0	0	0	0
TAXES	36	40	39	22	53	59	28	116	138	143	210	269	1153
NET PROFIT	36	40	40	22	54	60	28	117	138	143	211	270	1153
CAPITAL EQUIPMENT	0	8	10	10	90	11	14	16	91	16	16	7	289
INVENTORY	214	281	354	536	667	853	1134	1234	1534	1612	1998	2331	2331

SECTION 11 - Exhibit 2

APPLE COMPUTER
BALANCE SHEET FY '78

ASSUMES 70% OF PROJECTED SALES AND 45 DAYS A/R

	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
ASSETS:													
CASH	24	24	24	24	24	24	24	24	24	24	24	24	24
ACCOUNTS RECEIVABLE	171	261	362	483	693	851	1006	1138	1322	1568	1667	1931	2332
INVENTORY	172	214	281	354	536	667	853	1134	1234	1534	1612	1998	2331
FIXED ASSETS	59	59	67	77	87	177	188	202	218	309	325	341	348
DEPRECIATION	(8)	(9)	(10)	(11)	(12)	(15)	(19)	(24)	(28)	(33)	(39)	(47)	(56)
NET FIXED ASSETS	51	50	57	66	75	162	169	178	190	276	286	294	292
OTHER	2	2	2	2	2	2	2	2	2	2	2	2	2
TOTAL	420	551	726	929	1330	1706	2054	2476	2772	3404	3591	4249	4981
LIABILITIES & EQUITY													
ACCOUNTS PAYABLE	207	182	225	291	391	471	587	698	767	867	933	1107	1252
LOAN	150	234	157	215	472	661	774	1029	1023	1279	1114	1177	1225
ACCOUNTING EXPENSES	26	26	26	26	26	26	26	26	26	26	26	26	26
INCOME TAXES	7	43	83	122	144	197	256	284	400	538	681	891	1160
EQUITY	5	5	125	125	125	125	125	125	125	125	125	125	125
RETAINED EARNINGS	25	61	110	150	172	226	286	314	431	569	712	923	1193
TOTAL	420	551	726	929	1330	1706	2054	2476	2772	3404	3591	4249	4981

SECTION II - Exhibit 3

CASH FLOW FY 78

ASSUMES 70% PROJECTED SALES AND 45 DAYS A/R

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
PLUS												
NET PROFIT AFTER TAXES	36	49	40	22	54	60	28	117	138	143	211	270
DEPRECIATION	1	1	1	1	3	4	5	4	5	6	8	9
DEFERRED TAXES	36	40	39	22	53	59	28	116	138	143	210	269
SALE STOCK	120											
SUBTOTAL	73	210	80	45	110	123	61	237	281	292	429	548
LOAN	84	0	58	257	189	113	255	0	256	0	63	48
TOTAL CASH IN	157	210	138	302	299	236	316	237	537	292	492	596
LESS												
CAPITAL EQUIPMENT	0	8	10	10	90	11	14	16	91	16	16	7
INCREASE ACCOUNTS RECEIVABLE	90	101	121	210	158	155	132	184	246	99	264	401
INCREASE INVENTORY	42	67	73	182	131	186	281	100	300	78	386	333
DECREASE ACCOUNTS PAYABLE	25	(43)	(66)	(100)	(80)	(116)	(111)	(69)	(100)	(66)	(174)	(145)
SUBTOTAL	157	133	138	302	299	236	316	231	537	127	492	596
LOAN REPAYMENT	0	77	0	0	0	0	0	6	0	165	0	0
TOTAL CASH OUT	157	219	138	302	299	236	316	237	537	292	492	596
LOAN BALANCE BEGINNING AT 150	234	157	215	472	661	774	1029	1023	1279	1114	1177	1225

SECTION 11 - Exhibit 4

APPLE COMPUTER
PROFIT AND LOSS STATEMENT (PROFORMA)
FOR 70% OF PROJECTED FY79 SALES

	4Q FY78	TOT FY78	1Q FY79	2Q FY79	3Q FY79	4Q FY79	TOT FY79
GROSS SALES	4268	10026	5600	7350	9450	11550	33950
NET SALES	4139	9723	5432	7129	9166	11203	32930
STANDARD COST	1999	4694	2607	3565	4674	5825	16671
MANUFACTURE VARIANCES	22	99	26	53	92	112	283
MATERIAL VAR. & SCRAP	100	235	130	160	183	210	683
TOOLING	10	220	200	300	400	100	1000
R & D	141	441	150	160	170	180	660
PRODUCTION CONTROL	32	78	36	40	40	45	161
OTHER COSTS	166	388	182	214	229	280	905
INVENTORY ADJUSTMENTS	0	45		360			360
TOTAL COST OF SALES	2470	6200	3331	4852	5788	6752	21726
GROSS PROFIT	1669	3523	2101	2277	3378	4451	11204
MARKETING	155	501	200	200	250	275	925
COOP ADV	166	388	108	143	0	0	251
ADMINISTRATION	75	249	100	120	140	160	520
ACCOUNTING	27	62	30	35	40	45	150
TOTAL G & A EXPENSES	423	1191	438	498	430	480	1846
OPERATING PROFIT	1246	2332	1663	1779	2948	3971	10361
INTEREST EXPENSE			45	55	107	111	308
TAXES			809	862	1420	1930	4961
NET PROFIT			809	862	1421	1930	4962
CAPITAL EQUIPMENT			500	1000	1000	500	3000
INVENTORY			2600	3600	4700	5800	5800

SECTION II - Exhibit 5

CASH FLOW AT 70% FY '79
PROJECTED SALES AND 45 DAYS A/R

	1ST. QTR	2ND QTR	3RD QTR	4TH QTR
PLUS				
NET PROFIT AFTER TAXES	\$ 809	862	1421	1930
DEPRECIATION	28	61	112	162
DEFERRED TAXES	521	574	1132	1642
SALES STOCK	-	-	-	-
SUB TOTAL	\$ 1358	1497	2665	3734
LOAN	339	1715	160	-
CASH IN	\$ 1697	3212	2825	3734
LESS				
CAPITAL EQUIPMENT	\$ 500	1000	1000	500
INCREASE ACCOUNTS RECEIVABLE	385	849	1018	1018
INCREASE INVENTORY	271	1000	1100	1100
TAXES PAYMENT	865	865	289	289
DECREASE ACCOUNTS PAYABLE	(324)	(502)	(582)	(604)
SUBTOTAL	\$ 1697	3212	2825	2303
LOAN REPAYMENT	-	-	-	1431
CASH OUF	\$ 1697	3212	2825	3734
45 DAY 70% LOAN @ 1501	\$ 1840	3555	3715	2284

Section II - Exhibit 8

Standard Costs

COMPANY CONFIDENTIAL

Apple II	4K	16K
Mother PCB	\$137.09	\$137.09 (includes sub assy)
RAM (Bytes)	21.20	144.00 (\$18 ea. for 16K)
Power Supply	51.15	51.15 (includes sub assy)
Case Assy.	102.32	102.32
Ship Kit	<u>11.00</u>	<u>11.00</u>
Total Mat'l	\$332.76	\$445.56
+1% Burden	3.23	4.46
Labor +OH	<u>34.11</u>	<u>34.11</u> (\$5.95/hr. @ 270%)
Total Mfg. Cost	\$360.10	\$484.13

Average Std. Cost @ 15/85 mix = \$465.53

Apple II A Same as Apple II except.

1. Floating point basic in ROM
2. 6 vs. 4 color HiRes and HiRes ROM
3. Color killer in Text Mode
4. New Case Mat'l but same style
5. New low cost keyboard

	4K	16K
PCB	\$100.00	\$100.00 (includes sub. assy)
RAM	18.00	100.00 (\$12.50 ea 16K)
Add'l ROM	9.00	9.00 FP + HeRes
Power Supply	37.75	37.75 (includes sub. assy)
Case Assy	57.00	57.00
Ship Kit	<u>3.00</u>	<u>3.00</u>
Total Mfg. Cost	\$224.75	306.75
+ 1% Burden	2.25	3.07
Labor +OH	<u>22.41</u>	<u>22.41</u> (\$6.20/hr @ 220%)
Total Mfg. Cost	\$249.41	\$332.23

Average Std. Cost @ 15/85 mix = \$318.81

Section II - Exhibit 10

Standard Cost Estimates

Apple II B

Cartridge Add-in's
FCC Approved
UL Approved

COMPANY CONFIDENTIAL

Keyboard	\$13.00	(CPU Scammer)
8K RAM	28.00	
Case	15.00	Injection
CPU	5.00	
10K ROM	15.00	65K + 16K
Custom IC (40 pin)	7.00	
Connectors & Sockets	5.00	
PCB	5.00	
Power Supply	15.00	Wall Xformer
Paddles	4.00	
TTL	5.00	8 IC's
Demo Cartridge	5.00	
Ship Kit	3.00	
<hr/>		
Total Mat'l	\$125.00	
+1% Burden	1.35	
Sub Assy	10.00	(sub contractor)
Labor +OH	4.95	(\$4.25/hr. @ 220%)
<hr/>		
Total Mfg. Cost	\$141.30	

Apple Plug-in Peripheral Cards

Est. Average Mat'l	\$26.26	
Lab +OH	7.70	(\$7.00/hr @220%)
<hr/>		
Total Mfg. Cost	\$33.96	

Apple II B Mini Floppy.

Est. Average Mat'l	\$101.00	(sub assy)
Labor +OH	15.40	(\$7.00/hr. @220)
<hr/>		
Total	\$116.40	

SECTION II - Exhibits 3 & 4

APPLE COMPUTER
BUDGET & HEADCOUNT REPORT BY DEPARTMENT
FY 78

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
4000 - MANUFACTURE												
HEADCOUNT	0	0	0	1	1	1	2	2	2	2	3	3
EXEMPT	3	5	6	10	13	15	17	20	24	25	25	26
S N E	2	3	4	5	7	7	7	8	8	10	14	18
DIRECT LABOR												
TOTAL	5	8	10	16	21	23	26	30	34	37	42	47
WAGES & 25% FRINGE												
FACILITIES & PROPERTY TAX	5	9	11	18	24	26	30	35	39	42	48	53
FREIGHT	1	1	1	3	3	3	3	3	3	5	5	5
INSURANCE	1	2	2	2	2	2	2	2	2	3	3	3
SUPPLIES	1	1	1	2	2	2	2	2	2	4	4	6
DEPRECIATION	1	2	2	3	3	3	3	3	3	3	3	3
OTHER	1	1	1	2	2	2	2	2	2	3	3	3
TOTAL	12	17	19	33	39	41	44	50	54	61	68	74
CAPITAL EQUIPMENT												
SETUPS	0	2	1	3	2	1	1	2	2	2	2	3
TEST EQUIPMENT					75	5	5	10	10	10	10	10
ASSEMBLY EQUIPMENT												
TOTAL	0	2	1	3	77	6	6	12	87	12	12	3
5000 MANUFACTURE OVERHEAD												
HEADCOUNT EXEMPT	2	2	4	4	4	4	4	4	4	5	5	5
S N E	0	0	0	1	1	2	2	2	2	2	2	2
TOTAL	2	2	4	5	5	6	6	6	6	7	7	7
PAYROLL & 25% FRINGE												
OTHER	4	4	8	9	10	11	11	11	11	13	13	13
TOTAL	4	4	8	9	11	12	12	12	12	14	14	14
CAPITAL EQUIPMENT												
TOTAL	0	0	2	1	1	1	0	0	0	0	0	0

SECTION II - Exhibits 5 & 6
 APPLE COMPUTER
 BUDGET & HEADCOUNT REPORT BY DEPARTMENT
 FY 78

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
<u>7000 - SALES & MARKETING</u>												
HEADCOUNT	2	2	2	4	4	4	5	5	6	6	6	7
EXEMPT	2	2	2	2	2	3	3	3	3	3	3	3
S N E	4	4	4	6	6	7	8	8	9	9	9	10
TOTAL	9	9	9	18	18	18	22	22	26	26	26	30
PAYROLL & 25% FRINGE	2	1	1	2	0	0	1	0	3	0	0	0
TRAVEL & ENTERTAINMENT	8	8	8	4	15	4	15	4	15	4	15	4
ADVERTISING	2	2	2	8	2	2	8	2	2	2	2	8
MERCHANDISING	1	1	1	5	0	0	0	0	0	0	0	0
COMPLIMENTARY PRODUCT	0	0	0	11	11	11	11	11	11	11	11	11
SHOWS & DIGEST	0	0	0	0	0	0	0	0	0	0	0	0
DEPRECIATION	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	22	21	21	48	46	35	51	45	57	48	54	53

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
CAPITAL EQUIPMENT	0	1	0	1	4	1	1	0	1	0	0	1

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
<u>8000 R & D AND ENGINEERING</u>												
HEADCOUNT	3	4	6	8	9	9	10	10	10	10	10	10
EXEMPT	2	3	5	6	6	6	7	7	7	7	7	7
S N E	5	7	11	14	15	15	17	17	17	17	17	17
TOTAL	9	13	21	30	33	33	36	36	36	38	38	38

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
SALARY AND 25% FRINGE	1	1	2	1	3	3	4	4	4	4	4	4
SUPPLIES	1	1	1	1	1	1	1	1	1	1	1	1
TRAVEL	1	1	1	1	1	1	2	2	2	2	2	2
TIMESHARE	1	1	0	1	1	2	1	1	1	1	1	1
OTHER	1	1	1	1	1	1	1	1	1	1	1	1
DEPRECIATION	0	0	0	3	3	3	3	3	3	3	3	3
FACILITIES	14	18	26	38	43	44	48	48	48	50	50	50
TOTAL	30	44	62	85	96	99	113	113	113	117	117	117

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
CAPITAL EQUIPMENT	0	6	7	7	5	4	5	4	4	4	4	4

SECTION II - Exhibit 7

APPLE COMPUTER
BUDGET & HEADCOUNT REPORT
FY 78

	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT
9000 - ADMINISTRATION												
HEADCOUNT - SALARY												
S N E	4	4	4	4	4	4	5	5	5	5	5	5
TOTAL	1	1	1	1	1	1	1	1	1	1	1	1
	5	5	5	5	5	5	6	6	6	6	6	6
PAYROLL & 25% FRINGE												
LEGAL FEES	9	9	9	22	22	22	27	27	27	27	27	27
ACCOUNTING FEES	1	1	1	1	1	1	1	1	1	1	1	1
SUPPLIES/TRAVEL	0	2	2	0	1	1	1	1	1	1	1	1
DEPRECIATION	1	1	1	1	1	1	1	1	1	1	1	1
ADMINISTRATION FACILITIES	0	0	0	0	0	0	0	0	0	0	0	0
TELEPHONE	1	1	4	3	3	3	3	3	3	3	3	3
TOTAL	13	15	18	28	29	29	35	35	35	35	35	35
CAPITAL EQUIPMENT	0	0	0	0	2	0	1	0	0	0	0	0