APPLE COMPUTER INC.
Preliminary Confidential
Offering Memorandum

 Copy__________of__________

APPLE COMPUTER INC.

Preliminary Confidential
Offering Memorandum

150,000 shares of Common Stock at $
per share with a par value of $0.00 per share

The information contained herein is deemed confidential by the company, has not been released publicly and is disclosed for the sole purpose of evaluation by a potential purchaser of the company's Common Stock. 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 company management as of the date of this prospectus. Whether or not such estimates or projections may be achieved will depend upon the company achieving its over-all business objectives, including availability of funds resulting from the sale of the shares offered herein.

The shares are offered to a limited number of individuals qualified as sophisticated investors, and as a private placement without registration under the Securities Act of 1933 in reliance upon specific exemptions under that act relating to transactions not involving a public offering or solicitation. Transfer of the shares is subject to all of the requirements of the Federal and California Securities Act.

THE SALE OF THE SHARES WHICH ARE THE SUBJECT OF THIS OFFERING HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA. THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL. THE RIGHTS OF ANY PARTY TO THIS OFFERING ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED. THE COMMISSIONER OF CORPORATIONS DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF THESE SECURITIES.

SUMMARY OF PROPOSED OFFERING

Number of Shares Offered

The maximum number of shares offered will be 150,000 shares at $ per share with maximum proceeds to the company of $
Apple retains the option to close the offering at 100,000 shares at $ per share with proceeds of $

Risk Factors

Operating History: Apple Computer Inc. is a new company which has not established a long history of operation upon which to base opinions of accuracy of forecasts, financial projections or operations efficiency.

Manufacturing: Apple has experienced extreme difficulty in obtaining its custom injection molded cases. There is no assurance that this problem will be solved through establishing additional sources of supply.

Cash Flow vs Rapid Growth: Apple management expects that rapid growth and potential market fluctuations may present severe cash flow management difficulties.

Management: Apple Computers' Management team is young and relatively in-experienced in the high volume consumer electronics business.

TABLE OF CONTENTS

INTRODUCTION AND SUMMARY

Apple Computer Inc. began as Apple Computer Co., a partnership, in January of 1976. The company was operated from Los Altos, California, supplying Apple I, a single board hobby computer, until January of 1977. Apple I was successfully accepted among the then embryonic computer hobbyist community and several hundred systems were sold. During the latter part of 1976 it became evident to the two founders that a much larger and more profitable market would come into existence as small computers moved from the hobby market into the home (consumer) market. By January of 1977, a third member was identified who also supplied $250,000.00 initial financial backing, and the company was incorporated; a second, more consumer oriented product, Apple II, was defined, and production and marketing plans were laid for 1977.

Shipments of Apple II began in late May. By the end of September, cumulative revenues were $756,391 with a net retained earnings of $48,882 . Three new mainframe products and new peripherals had been defined and scheduled for introduction from October '77 to June '79, over 180 authorized dealer locations had been signed up and stocked, and a separate European distribution company, Eurapple, had been structured and staffed.

The current business plan indicates the company's revenues for fiscal 78 will be in excess of 13 million with earnings of 2 million. Capital needs will be approximately 3 million* which the company intends to raise from a combination of equity financing, profits, and long term debt.

PRODUCT AND MARKETING PLANS

THE MARKET:

The Personal Computer Market is defined to include all computers, related peripherals and software to be sold for non-business uses. Non-business uses are defined as uses not specifically economically justified in a strictly business environment, e.g. a computer sold specifically to keep inventory and financials for a one owner hardware store would be defined here 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 in his practice is defined as part of the personal computer market.

* Note: An additional 2 million will be needed by 2nd quarter FY 79 to pay deferred '78 income taxes.

The market for Apple's products is young, growing rapidly (approximately 250%/yr), diverse in character, highly dependent on new technology, and subject to the whims of the general consumer. It is generally true that new technology is applied in the consumer market long after it has been developed and used in the military or industrial/commercial markets. Such is the case with computer technology.

The average consumer today is aware of the benefits and problems that extensive use of computers has brought to the business world, but has very little concept of the functions he can perform or the resultant benefits to be obtained from operating his own, personal, home computer. Some of these benefits are listed below:

personal pleasure and enjoyment
increased variety of entertainment
time saved
money saved
better financial decisions
increased leisure time
complete security of personal information
elimination of wasted paper, energy and storage space
increased personal comfort
improved standard of living
increased learning efficiency
increased knowledge of computers and related technology
protection from fire, theft, and personal injury
non-verbal communications ability
reduced pollution

The following table provides a perspective of the relative size of the personal computer market as compared to other consumer oriented electronic products. (See Table I)

Apples' overall strategy for attacking (developing?) this market is to simultaneously maintain a posture of both product and quality leadership.

As is the case with all new markets, the advantage of being first is immensely important, and may result in:

1. Large market share.... 35% long term.

2. Competition edge - competitors must copy and therefore lag in product availability and cost.

3. Greater ability to determine proper new product directions through more extension customer contact and feedback.

MARKET SIZE BY PRODUCT TYPE

Table II forecasts the personal computer market place segmented into mainframes and peripherals. Units, retail selling price and total dollars are included for both. The technique used to forecast the value of the peripherals market consists of estimating the aged dollar expenditure for existing and future products as a percentage of the original purchase price. For example, an average 1976 system such as an IMSAI 8080 will have approximately two times its purchase price spent for peripherals over the useful lifetime of the system. Apple management has estimated that this ratio will increase to 2.5 through 1985 and then begin decreasing again. This occurs because of the embryonic nature of the market and its expected rapid growth. Initially, large numbers of various peripherals will be developed and offered for sale as "add-on" items. As the market develops some of these devices will become standard items sold with every mainframe. As these "standard" items are determined, they will be incorporated into the mainframe, thereby, reducing the ratio of peripheral to mainframe dollars. In addition, as the market matures, we expect that several specific applications or groups of applications will become large enough segments of the market that systems specifically tailored to these segments will be offered, again incorporating various peripherals into the mainframe. Each of these factors was considered in estimating the ratios shown in Table III. Table IV shows the total peripheral sales for the personal computer market as estimated by Apple Computer Incorporated.

The personal computer market (non-business) may be segmented as follows:

Hobby Market - computer technology used on a personal basis in the home by a relatively sophisticated person who is capable of designing, constructing and programming his own equipment. This market began developing in 1975 as a result of the development of the single chip microprocessor.

Entertainment Market - The first truly large market ($\approx$\$500 million in 1978) is currently comprised of video games such as pong, hockey, etc. The application of microprocessor technology to this market provides the user with the ability to create his own games (both audio and video) and expand's the users horizon to creating computer color graphic displays and computer generated music. Apple expects to participate only in the "top end" of the video games market and to be a dominant factor in the color graphics and music markets.

Programmable Personal Calculator Market - This market is comprised of the current users of products similar to the TI SR-52 and the HP 67/97 calculators. Apple estimates the market to be in excess of $100M in 1977. Our products offer increased capability and more care of use features than any of the portable products currently available. It is felt that Apple products although truly portable, are not sufficiently small in physical size to gain a dominant share of this business. We do not intend to expend a major effort to penetrate this business, but expect that the advantages of our product will capture the top end.

Educational Market - The institutional education market for computers is estimated at $150M annually today with essentially no participation ([illegible].6%) from small (less than $5000.00) systems. It is expected that governmental sluggishness will prevent an extremely rapid change over to small systems, resulting in a growth from about $1M in 1977 to approximately $35M in 1982.

Home Market - The major distinguishing characteristic of the true home computing market is the relative lack of technical, mathematical or scientifically related interest of the user. In addition, due to a general lack of knowledge of the benefits offered by the computer, most potential customers of 1980 do not have even the slightest desire to purchase one today. It will therefore be necessary to educate the market regarding the benefits derived from ownership. (See Page 2 for a partial list) It is forecasted that indeed, by 1985, a household using a computer will have significant advantages over one that doesn't. Some examples of these are:

1. Better financial decision and controls with complete privacy.

2. Better security from theft and fire.

3. Better environmental control with attendant energy cost savings.

4. More free time for any purpose, leisure or profit.

5. Better educational opportunity, especially for school-age family member.

6. Lower cost communications.

7. Immediate access to all family records, financial, medical, educational, etc.

8. Increased family interaction through the entertainment aspects of the machine.

The process required to develop this market will be expensive and time consuming. Simply communicating with 75 million households is an expensive proposition, let alone educating each one about the benefits of owning a computer. Apple's limited experience with existing products indicates that a <u>minimum</u> of two hours of one-on-one disucssion is needed to convince "Joe Average" that he needs a computer. Mass media such as radio, TV and consumer magazines will be employed to accomplish much of this "educational" goal.

Tables V and VI delineate the relative sizes of the five market segments as defined above; Figure 4 illustrates graphically the growth of each segment. Table V also projects Apple's market share of each segment.

Fig. 1
Market Forecast
Main Frames

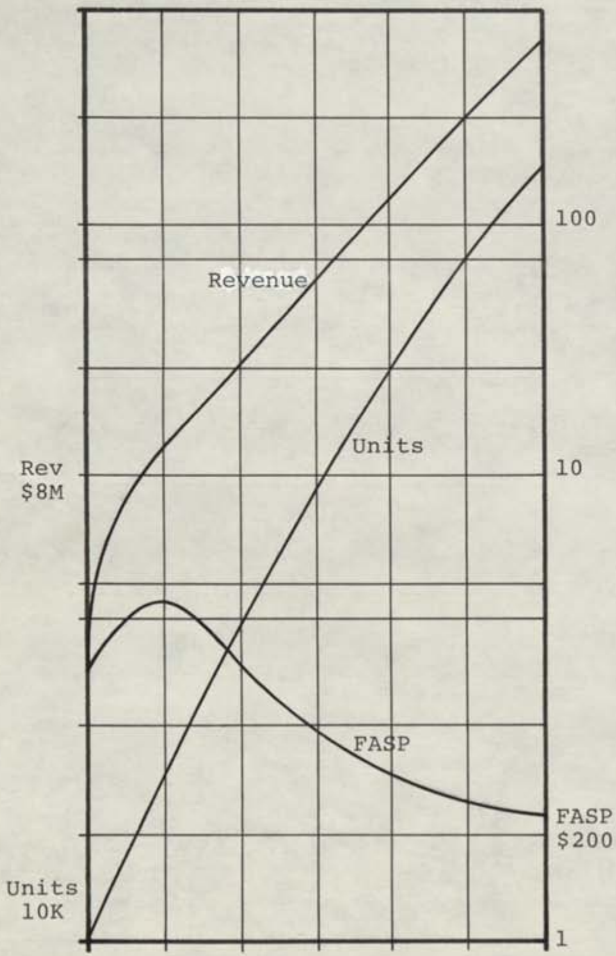
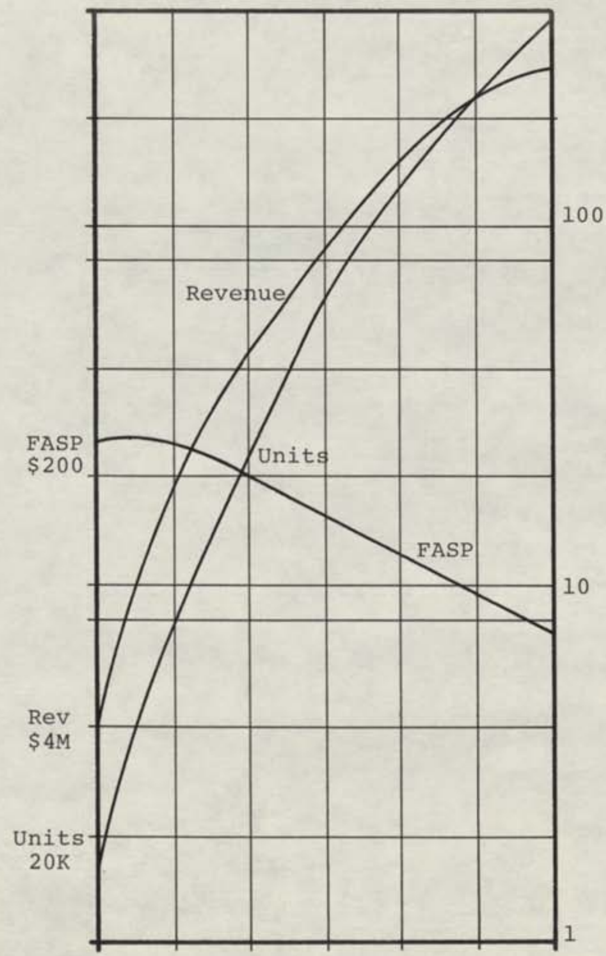


Fig. 2
Peripherals
Market



PERSONAL COMPUTER

MARKET

TOTAL REVENUE

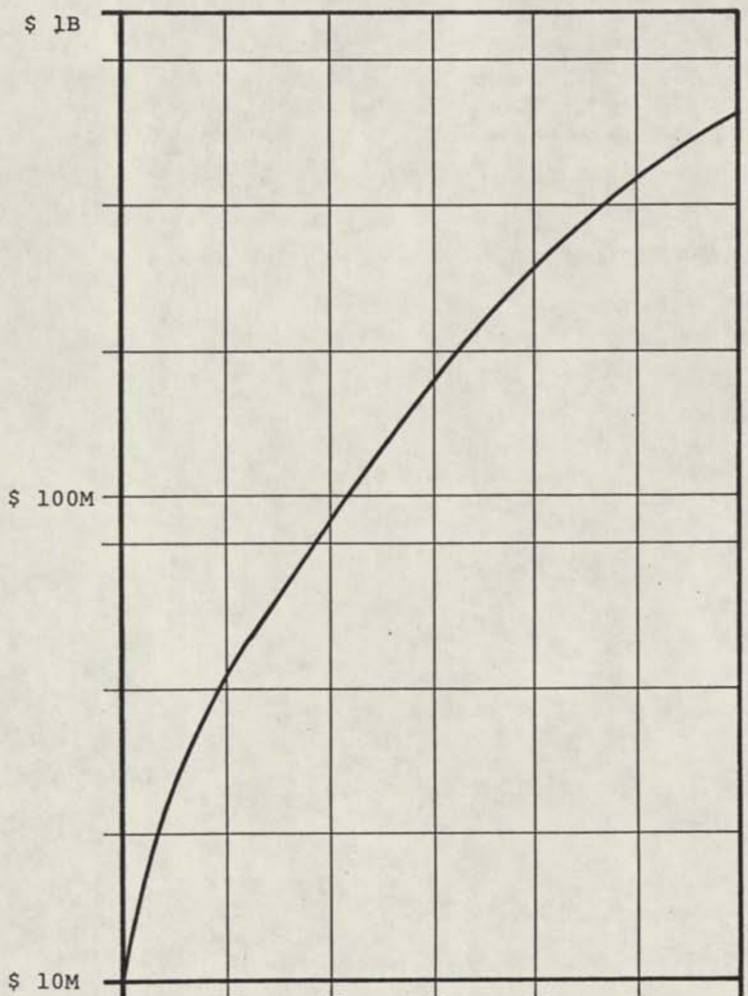
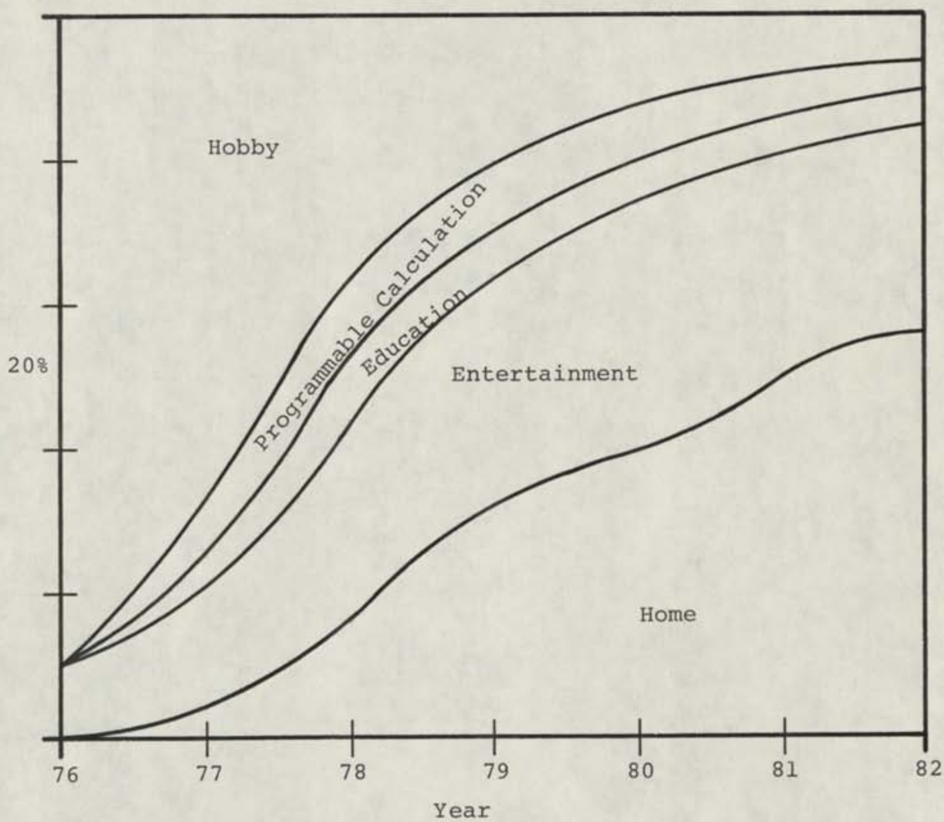


Fig. 3

Fig. 4

Market Segments as
a % of total
Market



PRODUCT PLAN

Mainframes

Apple II - (Manufacturing cost≈$400.00 to $300.00)

A single board computer based on the 6502 microprocessor. The system includes a structural foam injected molded case, a high efficiency switching power supply and a typewriter style keyboard. A complete operational system requires an additional display device, CRT, printer, LED, LCD, etc., and an optional magnetic tape bulk storage device.

The most common system configuration is an Apple II, a common home color TV an inexpensive (≈ $20.00) RF modulator, and an audio cassette tape recorder.

With the above configuration, the user may store programs and data permanently on tape or conversely. retrieve them. These programs may be either written by the user or purchased from Apple Computer Incorporated. Typical applications include home financial analysis, home environmental controls and color video games.

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

1. Color graphics capability in two modes.
   a) 40x48 Array in 15 colors
   b) 280x192 Array in 4 colors
2. Four Analog-to-Digital inputs for controllers, sensors or game paddles.
3. Fast, extremely powerful, BASIC programming language in Read-Only-Memory (ROM).
4. Eight peripheral connectors for maximum ease of expandability.
5. Quiet, cool, fan-less operation.
6. True portability in size and weight (less than 11 pounds).
7. Minimum parts count and fully socketed board for maximum reliability and ease of service.

Combined, these features put Apple II approximately 12 months ahead of current competitive entries.

Apple II A - (Manufacturing cost≈$300.00 to $225.00)

Functionally equivalent to Apple II with 6 color High Resolution graphics and full floating point BASIC in ROM. Maximum cost reduced implementation accomplished mainly by:

1. lower cost keyboard
2. soldered-in components
3. lower cost case
4. high volume materials purchases

Apple IIA pricing will be announced in January 1977 at the Consumer Electronics Show in Las Vegas. The product will be sold as a $995.00 ensemble including cassette recorder and color TV monitor.

Apple IIB - (Manufacturing cost $250.00 - 150.00)

Functionally equivalent to Apple IIA with improved floating point BASIC, and somewhat reduced flexibility. FCC approved for use with any standard TV. Drastically reduced component count through the use of 1 to 3 custom LSI chips. "Cartridge" type peripherals such as music synthesizer, voice recognition system, telephone interface, etc. Specific jacks for modular peripherals such as the Apple printer and Floppy Disc. Completely redesigned case.

Apple II B will be announced at the June '78 CES. First shipments are planned for September '78. The retail price will be between $600.00 and $700.00 at announcement.

Apple III - (project leapfrog)

Currently defined to incorporate all features of Apple II B plus significantly improved programming language, built in printer interface, built in bulk storage (Bubble memory?), and major advance in input technology. Voice and character recognition are both being considered as built in features. Possibility of UHF very short range transmitter for wireless display capability depending on FCC approval.

Ultra low cost LSI design.

PERIPHERALS

OCT '77	1. Hobby Board - prototyping board for computer hobbyist.
NOV'77	2. Printer Board - a general purpose parallel printer interface board.
NOV'77	3. Model 33 Teletype Interface - a cable with a potted DIP connector on one end and a teletype connector on the other end. For use with 20 mA current loop teletypes.
NOV'77	4. Terminal Board - 100 and 300 baud serial interface board for telephone communications via standard acoustic couplers.

DEC'77	5. RS232 Serial Printer Board - General purpose serial board with software selectable speed up to 9600 Baud.
DEC'77	6. PROM Programmer & Personality Board - 2716 PROM programmer with personality sockets.
JAN'78	7. Telephone Interface Board - Hard wire touch tone generator with operating system to automatically dial, send messages, and answer using standard Bell system phone lines.
JAN'78	8. Printer - low cost electro-resistive printer ($250.00 retail) High speed, 40 or 80 characters per line, 4" wide print out.
JAN'78	9. Color TV Monitor - 13" diagonal picture tube direct video input jack, $300.00 retail price.
JAN'78	10. Audio Cassette Recorder - Panasonic RQ309, $40.00 retail price.
1st Half '78	11. Clock and Calendar Board - Battery operated time and date, firmware date calculation.
1st Half '78	12. Isolated Power Control Board - Provides convenient control for 24 VAC to 110VAC solenoids, small appliances, etc.
1st Half '78	13. Voice Recognition System - Designed and manufactured by Heuristics Inc., 64 word vocabulary.
1st Half '78	14. 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.
1st HALF '78	15. PAL & SECAM Conversion Board - Designed and manufactured by Eurapple. Converts Apple II video output to PAL or SECAM standards for Europe, Arabia and other countries.

1st Half '78	16. 220 VAC Power Convertor - Step down transformer with various plug configurations, converts European 50 , 220 VAC line voltages to Apple II compatible supply
1st Half '78	17. IEEE Interface Board - For interfacing laboratory instruments.
UNSCHED.	18. Bar Code Reader
UNSCHED.	19. Optical Character Reader
UNSCHED.	20. Music Synthesis System
UNSCHED.	21. Voice Synthesis System
UNSCHED.	22. Light Pen
UNSCHED.	23. Acoustic Coupler

<u>Memory</u>

MAY '77	1. 4K Byte Add-In memory
MAY '77	2. 16K Byte Add-In memory
JAN '78	3. Floppy Disc
JAN '78	4. Floppy Disc Memory - Dual density mini-floppy with minimal operating system.
1st Half '78	5. Software Controlled Cassette - Inexpensive substitute for floppy disc where speed is not important (15 sec max access). Retail price $350.00.

<u>Accessories</u>

MAY '77	1. Vinyl Carrying Case
MAY '77	2. Misc. Cables & Power Cords
MAY '77	3. Apple II Operators Manual - Final version in December '77.
MAY '77	4. Game Paddles
1st Half '78	5. Joy Sticks

MARKETING PLAN

Merchandising

Due to the broad scope of the marketplace, no single merchandising tool can provide adequate overall coverage. Apples' strategy is to use several avenues to reach both dealers and potential customers.

Media - our current advertising program will be increased to run in computer hobby books, consumer electronics books and other consumer and professional periodicals such as Scientific American. At least 3 separate ads will be produced for this purpose. Final media selection will be based on market trends and 1977 responses.

Co-op Advertising - a budget of 5% of sales will be allocated for individual dealers' use in support of local advertising and merchandising programs. Apple will provide (at Apples' expense) some materials to dealers for this purpose.

Point - of Sale - Posters, free software, brochures, display racks, personal visits, and seminars will all be used to assist dealers in selling Apple products.

Public Relations - major efforts will be directed toward obtaining massive editorial coverage through editor visits, industry show participation, such as CES, and free support of radio and TV coverage. (We have already been featured on both NBC and ABC news specials in California and Texas. We also received nearly 5 minutes of air time on CBS.

In addition, our Marketing System Evaluation Program will be continued. This program provides editors and other key figures with a "loaner" system for their use and evaluation. Five systems have currently been allocated for this purpose.

Direct Mail - a semi-monthly publication will be produced similar to the HP Personal Calculator Digest. It will be in a slick magazine format, 4 color cover, 2 color interior with one or 2-4 color interior pages. The piece will be mailed to all Apple owners and dealers and as a response to ad inquiries.

The contents of the book are as follows:

I. "Testimonial" letters to the editor

II. Product data sheets

III. A minimum of one application note

IV. A minimum of one documented program listing

V. Updated listing of the Apple Software Bank

VI. New products

VII. Updated dealer listing

Each issue will be a "special" issue on one of the major application areas such as home finance, utility controls, or entertainment.

The overall expenditure required to support this program is $500K during calendar 1978.

Distribution

During 1977, Apple was successful in establishing 180 authorized dealers across the United States. Of these, approximately half are a chain of highly successful consumer electronics retailers - TEAM ELECTRONICS. TEAM is a subsidiary of Dayton Hudson Corporation, a large retailing organization. This is Apples' first step (in distribution) toward the eventual true home market. Careful consideration was given to several alternative channels such as Sears, Wards, etc. with the conclusion being that Apple could not possibly support a program of that magnitude, nor can any of our competitors. It is our strategy to "build" our way into the market by laying a sound foundation each step of the way. TEAM was a logical first step since they operate only about 100 stores, are more competent at selling a complex product than the average sales person at a major department store, and were willing to commit to a formal, two day training program prior to any location physically handling the product. We have already held the first of 3 training meetings with the owners, managers and sales personnel from 24 stores in attendance.

During 1978 we will continue to distribute through our existing channels. Depending on the relative success of the TEAM outlets, we will decide whether or not to sell Apple IIB through the larger department store chains.

Our main strategy in distribution 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, direct mail, or through existing department store organizations.

Another reason for this choice has to do with service. One of our competitors claims that his product will be serviceable by any local TV repairman. Based on the average competence level of today's TV repairman, it is Apples' opinion that this technique simply will not succeed! Our approach is to service Apple products at local dealer locations. Since the dealer wants to sell future peripherals, he has a stake in seeing that his customer remains satisfied. Apple is in the process of setting up a Warranty Service Center Authorization and Training Program, which will result in many existing dealers also becoming authorized warranty service stations. The program will be fully operational by February '78.

Competition

The current competitors may be grouped into three categories:

1. Hobby Manufacturers

2. Small Business Manufacturers

3. Personal Computer Manufacturers

The first group is characterized by products which were designed to be sold as kits. Examples of this type are 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 "penney pinching" nature of the average computer hobbyist, and the product and business management strategies of the companies participating in the market, no one company has gained a dominant market share. It is highly likely that Apple will. Since this becomes a small fraction of the overall market by 1982, no major effort will be expended by Apple to satisfy the on-going needs of the kit building hobbyist.

Because of the applications development ability of the software oriented hobbyist, Apple will continue to service his needs.

The small business manufacturers are lead 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. We do not expect to compete with them directly.

The last category is characterized by manufacturers such as Commodore Business Machines and Tandy Corporation. These two machines will be our major competition during 1978. Apple expects at least three additional and probably stronger competitors by the end of 1978. The most likely are Atari, Texas Instruments, and RCA.

Tandy - TRS 80

The system configuration is divided into four separate elements; a CRT monitor (poor quality black and white), 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 is entirely unsuitable in todays market. The keyboard has no n-key rollover 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 claims that a floppy and printer will be available in the future but makes no commitment as to when. Advantages of the system are:

1. Up to 16K bytes of memory may be installed directly.

2. Some "canned" software has already been developed for it.

Overall, it is a very poor second after the PET.

Apple IIA will definitely outsell the TRS 80 "hands down" regardless of the large number of potential retail locations in the Radio Shack chain.

Commodore - PET

The PET computer is similar to the TRS80 in that it has a black and white display only,has no speaker or provision for analog inputs, and sells for the same $600.00 price.

The important differences are:

1. PET has a calculator style keyboard- completely unacceptable for data entry or major programming efforts.

2. The PET BASIC is much more powerful than the Tandy machine and resides in 12K bytes of ROM.

3. The CRT and cassette are built in.

4. PET is limited to 8K bytes of RAM internally. Note: The PET uses 4K static RAMs from MOS technology. The retail price for 4K bytes is $200.00 over twice the Apple price for 4K bytes of dynamic RAM.

5. PET has an IEEE interface port.

6. PET has 64 graphics characters for use in graphic displays.

Both systems are severely limited in expandability when compared with Apple II or Apple IIA. Commodores current cost projection for PET through the end of the year is $360.00. Commodore has publicly stated that their software will be developed mostly by users, not by Commodore.

The current strategy for distribution of the PET machine is to sell through the major department store chains. Apple expects that this effort will be plagued by both service and support problems. Neither the department stores nor Commodore has an organization capable of answering the questions that will be generated by the sale of several thousand machines. Apple's strategy in this regard is to "let Commodore hang themselves" during the first half of 1978, while we build an organization competent to train department store personnel (through experience with TEAM) and to train competent service personnel (through the dealer warranty training program). At the same time the Apple Software Bank will grow to nearly 700 canned programs. In June of '78 we will be ready to properly support a major department store type of distribution channel, will be announcing Apple IIB, and will already have the broadest product line with 18 peripherals and 2 main frames. This combination of events should put us in a position to become a "favored" supplier to the Sears', Wards' and Penney's type of stores in time for Christmas of '78.

Surely both Tandy and Commodore will revise and update their products by June '78, but it is expected that Apple IIB will be as far ahead of PET II and TRS 80II as our current product is ahead of PET and TRS 80.

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.

An estimate of market shares vs time is given in Table VII.

	1978	1980	1982
APPLE	18%	35%	35%
ATARI	0%	15%	25%
T.I.	0%	15%	25%
COMMODORE	10%	10%	___
TANDY	5%	5%	___
ALL OTHERS	67%	20%	15%

TABLE VII

Market Share-Estimate

OPERATING PLAN

STAFF

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 Semciondcutor - 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 Berkley
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 Gilgilian 2 Yrs.
Senior Engineer - Tasker Industries - 6 Yrs.
Department Manager, Fairchield 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.

APPENDIX A

APPENDIX B

APPLE SOFTWARE BANK & POLICY

Redington
10-5-77

ROUGH DRAFT

Apple Computer Inc., referred to in this paper as APPLE, has developed a way of increasing the availability of APPLE software and in extending the usefulness of the Apple II computer system. APPLE would like to introduce it to all present and potential Apple users. It is called the APPLE Software Bank. This paper describes the APPLE Software Bank, the APPLE Software Policy, the two bank sections: User supported software and APPLE supported software, the Software Bank Contributor's Guide, and what this bank will do for the user.

APPLE SOFTWARE BANK

The APPLE Software Bank is a repository for all APPLE programs, procedures, and related documentation. The enormous amount of mail that has been received from Apple users has been the inspiration for establishing this software bank. This mail has consisted of numerous software and product suggestions and many exciting, clever and useful programs. Apple Computer Inc. has created this software bank with the user in mind.

APPLE Software Policy

The foundation of this bank is the APPLE Software Policy. Policy as used here means a method of action to guide and determine present and future decisions concerning APPLE software. As a process the APPLE Software Policy has several steps. They are:

1. Apple Computer Inc. encourages interested users to develop software for the Apple computer.
2. APPLE encourages its users to submit their developed software: APPLE will then carefully survey its potential utility with the Apple computer system and then make it available to all Apple users.
3. Apple Computer Inc. encourages its users who contribute software by awarding them with an

ROUGH DRAFT

II. APPLE Program Cassette - a recorded program on a high quality low noise APPLE tape cassette.

Some of these steps may be omitted or expanded depending upon the nature of the software involved.

Contributor's Guide

Apple Computer Inc. is developing the APPLE Software Bank Contributor's Guide. This manual will explain the process, step by step, in submitting a program to the software bank. More information on the Contributor's Guide will be available after October 24th, 1977.

Any questions, suggestions and programs may be mailed to:

APPLE SOFTWARE BANK
Apple Computer Inc.
20863 Stevens Creek Blvd., B3-C
Cupertino, California 95014
(408)- 996-1010

The APPLE Software Bank will afford Apple users more effective utilization of their Apple Systems. The chances are that someone, an Apple user or Apple Computer Inc., has already written software for a particular application to satisfy a need that is similar if not identical to another users need; this software, if existing will be available through the software bank. The bank will save time. As a result of the APPLE Software Bank, the user will have easy access to a large number of programs and applications information. The user will be able to contribute almost any kind of software. The APPLE Software Bank has been created to increase the usefulness and enjoyment of the Apple II system and is available to all Apple users.

ROUGH DRAFT

APPLE SUPPORTED SOFTWARE

Apple supported software is the second bank section. It will primarily contain all software written and supported by Apple Computer Inc. And, it will contain contributions considered to be outstanding by APPLE's Software Development Lab personnel.

All software available through this section will be fully documented and supported by Apple Computer Inc. Programs in this section will contain:

I. A PROGRAM BOOKLET

A. PROGRAM DESCRIPTION - a mini-essay on what the program is intended to do.

B. PROGRAM INSTRUCTIONS - how to load and use the program on the Apple II System.

C. PROGRAM LISTING - a hardcopy listing of the program that is annotated with appropriate comments explaining program concepts.

D. PROGRAM FLOWCHART - an APPLE flowchart diagram showing schmatically the flow of the program.

E. PROGRAM MODIFICATION - a list of suggestions for changing certain variables and/or parts of the program to meet specific user needs.

F. GLOSSARY - a list of words and their definitions that are used in the program.

ROUGH DRAFT

APPLE Product Gift Certificate in appreciation of their contribution. The value of the certificate will vary depending on the value of the contribution and or an honorarium for an outstanding programming contribution

This policy provides a means for easy contribution, access, and distribution of software to all Apple users through two bank sections.

USER SUPPORTED SOFTWARE

The first bank section is User Supported Software. Software; programs, tapes, and listings, available through this section will be supported and maintained by their contributors. APPLE will periodically publish a User Software Listing for all user contributed software. Each software listing will contain:

I. Contributor's Software List - a listing of the name and mailing address of each contributor along with a listing of all of the software they have authored and submitted.

II. User Contributed Programs

A. PROGRAM NAME- the name given to the programs by their contributors and a reference number designated by APPLE.

B. PROGRAM ABSTRACT- a brief description of the software. It will answer the questions:

i) what the software is intended for.

ii) what are its limitations, if any.

iii) what are its system requirements (program language, minimum memory size, etc.,).

C. ACQUISITION OF SOFTWARE- describes;

i) how an interested user can obtain a list of a particular program.

ii) how, for how much, where, and by whom to obtain a specific program listed in the user supported software bank.

PROGRAM STATUS

		PRELIMINARY VERSION		PRODUCTION VERSION	
ENTERTAINMENT	SOFTWARE NUMBER	TAPE	DOC	TAPE	DOC
Breakout	B2T-001E-I04-TB	Yes	-	11-1-77	11-1-77
Startrek	B2T-002E-I16-TB	Yes	-	11-1-77	11-1-77
Biorhythm	B2T-003E-I04-TB	Yes	-	11-1-77	11-1-77
Chess	B2T-005E-X16-TB	No	-	-	-
Pong & Handball	B2T-006E-I04-TB	Yes	-	3-1-78	3-1-78
Etch & Sketch	B2T-007E-I04-TB	Yes	-	11-1-78	11-1-78
Coloreater	B2T-008E-I04-TB	Yes	-	2-1-78	2-1-78
Mastermind	B2T-010E-I04-TB	Yes	-	1-1-78	1-1-78
Fortune Teller	B2T-011E-I04-TB	-	-	3-1-78	3-1-78
Space War	B2T-012E-I16-TB	9-26-77	-	11-1-77	11-1-77
Towers of Hanoi	B2T-013E-I04-T	No	-	3-1-78	3-1-78
FINANCE					
Checkbook	B2T-001F-I16-T	Yes	-	11-1-77	11-1-77
Home Finance	B2T-002F-M16-T	-	-	1-1-78	1-1-78
Loan Amortization	B2T-003F-M16-T	-	-	12-1-77	12-1-77
LEARNING & EDUCATION					
Hangman	B2T-001L-I04-TB	Yes	-	11-1-77	11-1-77
Color Math	B2T-002L-I04-TB	Yes	-	11-1-77	11-1-77
Learning Math	B2T-003L-I04	-	-	1-1-78	1-1-78
How to Program in BASIC	B2T-004L-I04	-	-	-	-
MISC.					
4K Color Demo/Breakout	B2T-001M-I04-TB	Yes	No	No	No
Startrek/Hi-Res	B2T-002M-I04-TB	Yes	No	No	No
Color Graph Demo	B2T-003M-I04-TB	Yes	No	No	No
Renumber/Append	B2T-004M-I04-TB	Yes	No	11-1-77	11-1-77
Hi-Res Demo	B2T-005M-I16-TB	Yes	No	2-1-78	2-1-78
Music	B2T-006M-I04-TA	-	-	1-1-78	1-1-78
Bouncer	B2T-007M-I04-TB	Yes	-	2-1-78	2-1-78
Applesoft BASIC	B2T-008M-I16-TB	9-30-77	-	12-1-77	12-1-77
UTILITY					
Kitchen	B2T-001U-I04-TA	-	-	1-1-78	1-1-78
WORK & BUSINESS RELATED					
Mailing list	B2T-001W-	-	No	12-1-77	12-1-77
Calendar	B2T-002W-	-	No	1-1-78	1-1-78
Telephone directory	B2T-003W-	-	No	1-1-78	1-1-78
Hi-Res Text Graphics	B2T-004W-	-	No	1-1-78	1-1-78

KEY

YES means available
NO means not available
- means in development
XX-XX-XX means estimated date of availability

APPENDIX C

(EURAPPLE ORGANIZATION)

Apple Computer, Europe (Eurapple) represents a large potential market but it has requirements of its own.

First, the television system in Europe is two-display, 625 lines instead of the 525 lines of the U.S. 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 U.S. Fourth, the variety of languages, at least two, French and German dictates to translate 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 had originally decided to delay the European market a year or two, 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 V.P. 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. He was familiar with Apple, in 1976 when Apple was operating in a garage he tried to interest Commodore in the new approach Apple had in the personal computer market.

Mr. Sousan offered Apple the opportunity to set up the European operations, finance personally the required engineering changes that would need to be made, the implementation of a European operations group, and later merge these operations with Apple Computer when both companies would be at a productive level. This was accomplished when Mr. Sousan set up Eurapple as a distributor for Apple to all European Countries and more generally for all countries that have a television system similar to the European version. Eurapple purchases from Apple, maintains its own engineering and manufacturing for the add-on converters between Apple II and the European TV receivers, its own product inventory and its own sales and marketing group.

Mr. Sousan holds a doctorate in physics from the University of Paris, a master 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 V.P., then was scientific director for Thomson-CSF engineering operations, with Europe and US technical responsibility. He then moved to Vice President, European operations for Varadyne before joining Commodore in 1971. At Commodore, he traveled extensively to Europe and to the Far East, both for product marketing and manufacturing engineering purposes.

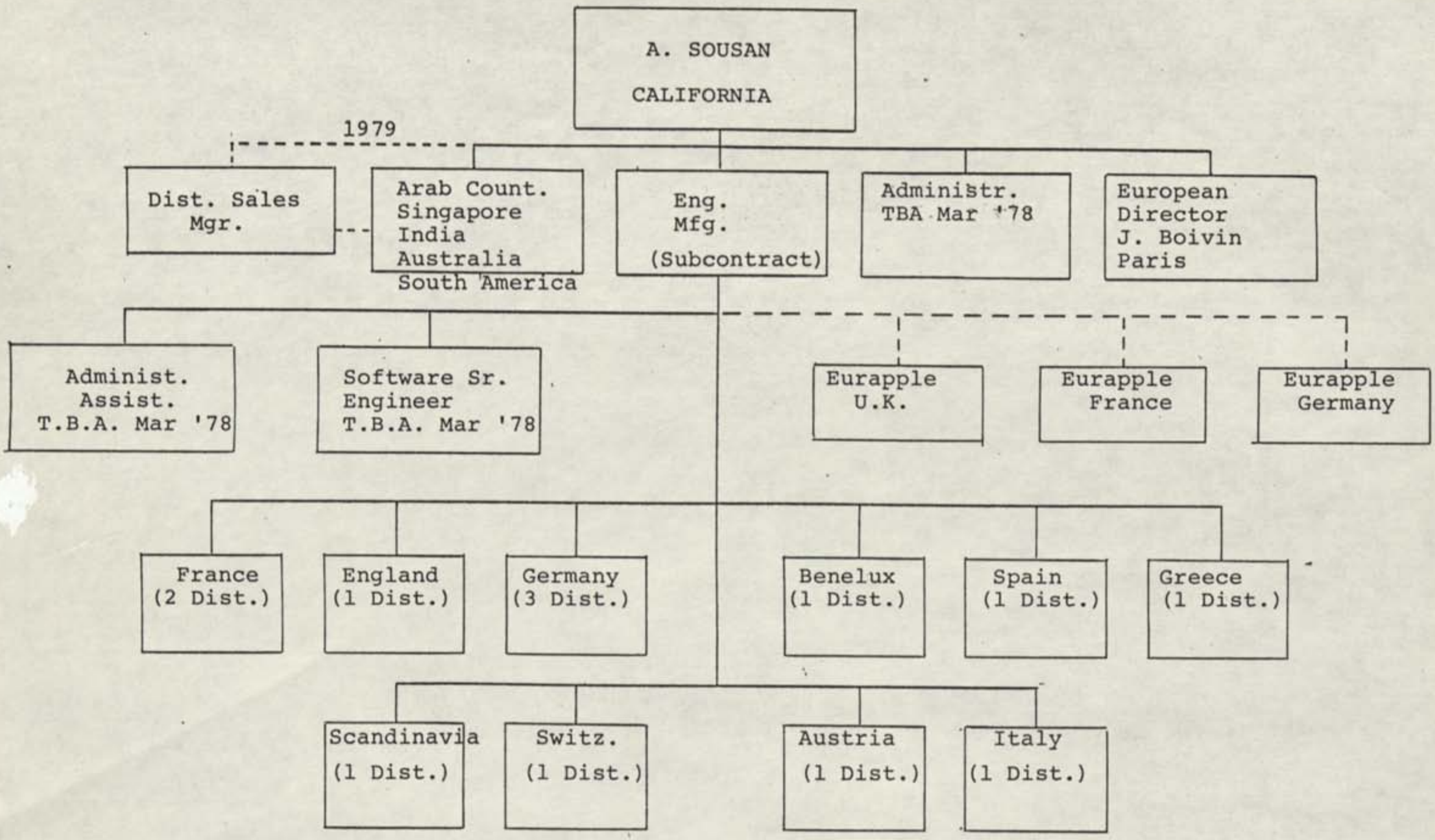
Eurapple has appointed a resident European director, Jacques Boivin who was with Thomson CSF as an electronic engineer and then was with European subsidiary of Wang, with European marketing responsiblity. Jacques is located in Paris but travels constantly throughout Europe.

The first step of Eurapple has been to implement a distributor network in Europe and at the same time promote the Apple II. Apple II is currently demonstrated in all major electronics shows this fall/winter season; the Sicob in Paris, Systems 77 in Munich, EuroMicro in Amsterdam, data fair in London, and the US department of Commerce sponsored computer show in London in January.

At this show, Mr. Sousan will make the final selection between 4 companies who have confirmed a strong interest in distributing Apple II respectively in England and 4 others in Germany (which needs 3 distributors, North, Central and South). Eurapple will have a hospitality suite in London at the same time as the show to more efficiently conduct its business.

Eurapple has already sold, since it began shipping in September, approximately 20 systems in Eurpoe and has approximately 50 systems backlogged as of this date. Eurapple has appointed 2 distributors in France, one in the Benelux, one in Spain, one for all Arab countries, one in Australia, one in Singapore and one in India. All these distributors have extensive capabilities in marketing computer equipment, including programmers and service technicians. As an example, the Arab countries distributor is the Atari licensee for video games and has paid for the re-design of Apple II through Eurapple to make Apple II display its characters in the Arabic language. The head of this company in Egypt is a computer sciences major from Stanford University.

ORGANIZATIONAL CHART FOR EURAPPLE



JUDGED BACKLOG

	OCT		NOV		DEC	
	Order	Prob	Order	Prob	Order	Prob
Dealers	67	82	74	99	68	109
Hi Tech	40	40	50	40	40	40
Allied	40	20	40	20	40	20
Team	36	36	24	40	24	50
Eurapple	10	10	20	20	30	30
Computerland	59	50	90	60	90	80
Computer Sotre	10	10	12	25	12	30
Direct		5		10		15
Subtotal	262	253	310	314	304	374
Additional Orders resulting from:						
F.P. Basic and Peripheral Availability		25		35		50
Total		278		349		424

7/27/77
ALS/st

APPLE PRODUCT DEVELOPMENT PROGRAM

1. Competition based development

   1.1 Does competition have features that would make our product sell better? (e.g. floating point basic, floppy, etc.) Identify those features. Do we have the resources to add them, in house or subcontract? Schedule.

   1.2 Does competition sell a comparable product to ours at a lower price? Identify.

   1.3 If competition product is identified as comparable to Apple II, does competition deliver? If yes, how and when do we plan to meet the price?

   1.4 If competition product is identified as generally comparable to Apple II but less performance or features, does this justify price difference? List all differences (e.g. color, expandability, etc.) Go over differences one by one. Can a dealer be sold on price difference because of them? Can user be sold? Ask marketing. Define market portion that will belong to competition because of features/price difference combination. Evaluate lost sales accordingly. Is it worth it? If not, how and when to remedy?

   1.5 If we agree to lower price models to meet competition, how to restructure our expenses to assign engineering budget? Do we do all of engineering in house or part on subcontract? Do we attempt private label with customer development or any other possible source of additional funds?

2. Innovation based development.

   2.1 Do we have unique ideas that will make our product a favored buy with regard to competition? Can we patent those ideas? How and when do we implement them?

   2.2 Do we have better ideas that will save cost on our product? (independently of the normal engineering/purchasing cost reduction program) How and when do we implement them?

   2.3 Do we keep a close look to technological developments (new micro architectures, new memories, etc.) and evaluate how and when they may impact our product?

3. Market based development

   3.1 Do we have the right product configurations for the existing markets? (Software - peripherals - packaging, etc.) Do we have to modify anything?

   3.2 Do we anticipate market evaluations that will call for new configurations? Do we prepare for them and when?

Standard Costs

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	11.00	11.00	
Total Mat'l	$332.76	$445.56	
+1% Burden	3.23	4.46	
Labor +OH	34.11	34.11	($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	3.00	3.00	
Total Mfg.Cost	$224.75	306.75	
+ 1% Burden	2.25	3.07	
Labor +OH	22.41	22.41	($6.20/hr @ 220%)
Total Mfg.Cost	$249.41	$332.23	

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

Standard Cost Estimates

Apple II B — Cartridge Add-in's
FCC Approved
UL Approved

Keyboard	$13.00	(CPU Scanned)
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	
Total Mat'l	$125.00	
+1% Burden	1.35	
Sub Assy	10.00	(sub contractor)
Labor +OH	4.95	($4.25/hr. @ 220%
Total Mfg. Cost	$141.30	

Apple Plug-in Peripherial Cards

Est. Average Mat'l	$26.26	
Lab +OH	7.70	($7.00/hr @220%)
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)
Total	$116.40	

FINANCIAL PLAN

APPLE COMPUTER

BALANCE SHEET

September Pro Forma

Assets			
Current Assets			
Cash	20916		
Accounts Receivable	170877		
Accounts Receivable other	1406		
Inventories	170731		
Deposits	2394		
Total Current Assets		366324	
Fixed Assets			
Equipment	49451		
Depr.	6000		
Net Fixed Assets		43451	
Other Assets		1605	
Total Assets			411380
Liabilities			
Accounts Payable	159359		
Customer Deposit	4290		
B of A Loan	150000		
Accrued Wages & Exp.	41919		
Sales Tax Payable	1300		
Total Liability		356868	
Equity & Retained Earnings			
Equity	5630		
R/E	48882		
Total Equity		54512	
Total Liabilities and Equity			411380

APPLE COMPUTER INC.
INCOME STATEMENT
1977

	Adjusted Total 1977	Year to Date Adjustments	Total 1977	Sept. 1977	Aug. 1977	July 1977	June 1977	May 1977	Apr. 1977	Mar. 1977	Feb. 1977	Jan. 1977
Gross Sales	756391		756391	141677	257492	198310	117789	22067	1000	862	6899	10295
Returns & Allowances	46011	39855	6156		4870	1286						
Net Sales	710380		750235	141677	252622	197024	117789	22067	1000	862	6899	10295
Std COS	350327		350327	70429	119962	90653	55032	6362	350	325	3968	3246
Other COS	291513		291513	29798	58007	39247	51838	46640	21681	32348	9544	2410
Total COS	641840		641840	100227	177969	129900	106870	53002	22031	32673	13512	5656
Oper Profit	68540		108395	41450	74653	67124	10919	-30935	-21031	-31811	-6613	4639
Est Taxes	19568	-17664	37322	18238	19084							
Net Profit	48882	22191	71073	23212	55569	67124	10919	-30935	-21031	-31811	-6613	4639

Apple Computer
Profit and Loss Statement (Pro Forma)
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	3860	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, Discount & Price Protect	27	32	39	51	61	72	278	94	112	114	140	167	1182
Net Sales	352	431	511	682	810	954	861	1255	1490	1509	1865	2216	12936
Std Cost of Sales	144	181	218	316	376	461	478	618	740	751	900	1049	6232
Manf	11	16	18	32	37	39	43	49	54	61	66	72	498
Manf 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›
Manuf Var	5	5	8	15	14	7	15	7	1	9	7	6	99
Mat'l Vart Scrap	7	9	11	16	19	23	24	31	37	38	45	52	312
Tooling	0	0	25	48	20	60	20	20	20	10	0	0	220
R&D	118	167	241	387	413	413	425	425	425	475	475	475	4439
Production Control	24	24	39	39	77	77	104	104	104	120	120	120	952
Other Costs	14	17	21	28	33	39	35	51	60	61	75	90	524
Inv Adj							64						64
Total Cost of Sales	184.2	231.1	311.0	462.6	511	639	688.9	779.9	910.9	928.5	1086.5	1286.5	7990.1
Gross Profit	167.8	199.9	200	219.4	299	315	172.1	475.1	579.1	580.5	778.5	929.5	49459
Mktg	216	202	202	483	465	355	513	455	573	485	545	535	5029
Admin	127	147	172	276	281	281	335	335	335	338	338	338	3303
Accting	23	23	23	36	58	58	81	81	85	109	109	109	795
Operating Profit	131.2	162.7	160.3	139.9	218.6	245.6	79.2	388	479.8	487.3	679.3	861.3	40332
Interest Exp	1	1	1	2	2	2	2	2	2	2	2	2	21.0
Taxes	58	72	70	62	96	109	34	171	211	214	299	379	17750
Net Profit	72.2	89.7	89.3	75.9	120.6	134.6	43.2	215	266.8	271.3	378.3	480.3	2237.2
Cap Equip	0	8	10	10	90	11	14	16	91	16	16	7	289
Inventory	266	349	438	665	823	1045	1141	1525	1813	1989	2484	2910	2910

Apple Computer
Sales Forecast by Product
FY 1978

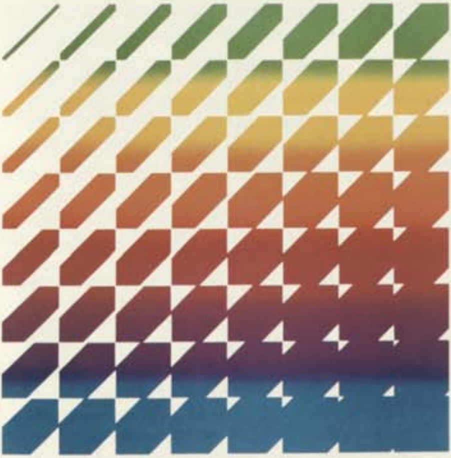
	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Total
Gross Apple II std $K	363	441	525	684	807	841	425						
# Units	330	420	500	720	850	990	500						
ASP $	1100	1050	1050	950	950	850	850						
Std Cost	136	173	206	296	350	407	160						
Gross Apple IIA $K							487	975	1137	1137	1137	1137	
# Units							750	1500	1750	1750	1750	1750	
ASP $							650	650	650	650	650	650	
Std Cost							240	480	560	560	560	560	
Gross Apple IIB $K											360	720	
# Units											1000	2000	
ASP											360	360	
Std Cost											141	283	
Misc													
4K Memory Gross $K	1	2	2	2	2	2	3	3	3	3	3	3	
Units	30	30	30	40	50	60	60	60	60	75	75	75	
ASP	50	50	50	50	40	40	40	40	40	35	35	35	
Std Cost	.6	.6	.6	.8	1.1	1.3	1.1	1.1	1.1	1.4	1.4	1.4	
16K Memory Gross $K	15	6	9	13	18	23	25	25	25	27	27	27	
Units	50	20	30	50	70	90	100	100	100	135	135	135	
ASP	300	300	300	250	250	250	250	250	250	200	200	200	
Std Cost	2.2	2.9	4.3	7.2	10.1	13	10	10	10	13.5	13.5	13.5	
Keyboard Board Gross $K		15	20	35	45	55	60	59	63	81	104	121	
Units		150	200	350	450	550	600	650	700	900	1150	1350	
ASP		100	100	100	100	100	100	90	90	90	90	90	
Std Cost		5	7	12	15	19	20	22	24	31	39	46	
Mini Floppy Gross $K						105	140	288	375	375	375	375	
Units						300	400	900	1250	1250	1250	1250	
ASP						350	350	320	300	300	300	300	
Std Cost						35	47	105	146	146	146	146	

Apple Computer
Funds Requirement
FY 1978

Emp		Oct	Nov	Dec	Jan	Feb	Mar	April	May	Jun	July	Aug	Sept
	Cash In	41	72	96	89	76	121	135	43	215	267	221	378
	Tax deferred	58	72	70	62	96	109	34	171	211	214	299	379
170	A/R	<182>	<84>	<87>	<183>	<183>	<138>	<155>	<113>	<210>	<253>	<21>	<382>
159	A/P	108	+ 79	79	188	57	132	70	105	154	35	167	176
179	Inventories	<87>	<83>	<89>	<227>	<158>	<222>	<96>	<384>	<368>	<96>	<495>	<495>
—	TAXES			<10>	<5>		<10>	<5>		<5>			<5>
—	Capital			<8>	<10>	<10>	<90>	<11>	<14>	<16>	<91>	<16>	<16>
	Fund Requirement	62K	<56>	<45>	86	122	108	28	192	16	<76>	<205>	<35>
150		212	156	111	197	319	427	455	647	663	587	382	347

Apple

Business Practicum:
Apple Account Penetration Strategies



Account Penetration Strategies

How should your selling strategy be changed when approaching a large company? How do you determine its needs? How can you turn apparent obstacles to your advantage? And how do you multiply your return once you've closed the initial sale?

Apple Account Penetration Strategies teaches both novice and experienced salespeople how to develop major business accounts. In addition to written and audio study materials, participants work extensively with videotape equipment as they role-play sales situations. The case studies used in APS are based on actual Apple sales histories.

The APS workshop provides first-hand experience with the entire major account selling cycle. Its ten modules are:

Prospecting. Identifying the most appropriate markets, companies, and prospects for Apple products. Finding the best sources of information on prospective accounts, and developing the most effective methods of contacting them. Prioritizing potential accounts.

Qualifying. Determining which companies represent the best potential for rapid closing and a high return on your effort.

Strategizing. Setting up an efficient cycle of sales activities to close a qualified account. Developing an account plan which involves key individuals in key activities, and anticipates obstacles and competition.

Organizing. Managing resources, time, and effort to maximize effectiveness. Balancing current and long-range efforts. Identifying, prioritizing, and accomplishing key activities.

Establishing. Demonstrating how the dealership, Apple, and Apple products meet the prospect's needs. Securing the time and interest of key individuals in the prospective company.

Surveying. Uncovering the specific problems and needs of the prospect that must be addressed in presenting a solution.

Offering Solutions. Illustrating — with demonstrations and presentations — how your products and services will meet the prospect's needs. Using evidence of prior success to support the suggested solution.

Overcoming Obstacles. Identifying and removing barriers such as financing, fear of change, competition, and internal politics. Using these "obstacles" to close the sale.

Closing. Making and executing plans for closing the sale as quickly as possible. Reconfirming the purchase commitment with key individuals, and making effective use of proposals.

Implementing. Insuring that the proposed results are delivered. Managing the computer installation so that additional sales are secured.

Apple Account Penetration Strategies
3 Days
$350. (US)

APS/Monitoring Skills

Once salespeople have acquired knowledge and skills, the next major concern is to direct and manage their efforts. Are they talking with the right people in their accounts? Are they able to sell the desired volumes in the planned time frame? Are their skills up to the required level? Do they really understand the products and how to demonstrate them? The effective sales manager must be able to answer these questions to eliminate any problems.

Designed primarily for managers of Outside Sales staffs, the APS/Monitoring Skills workshop is nevertheless very useful for any store manager. As with APS, it makes intensive use of role-playing sessions.

The segments of APS/Monitoring Skills are:

Defining the Sales Manager's Role. Exploring the manager's tasks and responsibilities. Determining the proper roles of manager and salesperson in selling to major accounts.

Evaluating Performance. Achieving top performance levels from the sales staff by setting standards and ensuring that those standards are being met.

Improving Individual Performance. Utilizing coaching and counseling sessions to help salespeople achieve their highest potentials.

Improving Group Performance. Organizing, motivating, and training the sales staff through group meetings and activities.

Team Building. Improving the efficiency and effectiveness of the sales team through planning, goal-setting, and effective use of resources. Recruiting appropriate staff members. Team operations as they relate to National Accounts will receive special attention.

APS/Monitoring Skills
1 ½ Days
$250. (US)

APS/Reinforcement Skills

Each of the ten modules of this seminar focuses in-depth on one of the subject areas of the basic Account Penetration Strategies workshop. Since APS/Reinforcement Skills is designed to be taught in-store by the sales manager, the manager must first complete APS and APS/Monitoring Skills.

APS/Reinforcement Skills is taught from a workbook; no audio or video equipment is required. Each module takes about 1 ½ hours to complete. This makes the series perfect for use as an on-going staff development program at sales meetings. Or, managers may work on a module with one salesperson having trouble with a specific current account. The subjects covered in APS/Reinforcement Skills are described under Account Penetration Strategies.

APS/Reinforcement Skills
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$140. (US)

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PURCHASE RECOMMENDATION

APPLE COMPUTER

Ulric Weil
(212) 974-4396
January 15, 1981

Contents

Tables

APPLE COMPUTER
(AAPL - OTC)

Recent Price	52-Week Price Range	Div	Yield	Earnings Per Share 1980A	1981E	1982E	Price/Earnings 1981E	1982E
30	38 - 22	--	--	$0.24	$0.68	$1.30	44.1	23.1

Common Stock: 54.6-million shares outstanding
Fiscal year ends September 30

SUMMARY AND INVESTMENT CONCLUSION

Apple is one of the leaders in the so-called "personal computer" market -- an area of burgeoning sales and earnings growth, in our view. In the Company's three-and-a-half-year existence, youthful management has demonstrated innovativeness and a degree of maturity not often found in quite well-established, medium-sized technology companies. We are confident that, with its product excellence (hardware and software) and strengthened distribution channels, Apple will be able to hold, if not expand, its present share (approximately 20%) of the rapidly developing, intensely competitive personal computer market, as measured in units shipped annually. In effect, this market's potential is so big -- millions of units worth billions of dollars each year -- that even the participation of such powerhouses as IBM, Hewlett-Packard, and Texas Instruments is unlikely to impair Apple's continued, profitable high growth.

Of course, as in any equity investment, there are risks: the advent of Japanese hardware might force United States vendors to shift their emphasis from hardware to software revenues; the commodity nature of the product itself could tempt some competitors to "buy" their way into the market through price cutting, thereby pressuring Apple's relatively high operating margins; the fact that Apple's operations are not integrated leaves the Company somewhat vulnerable to its dealers and suppliers; and top-executive defections are always a possibility in emerging growth companies. We think management is conscious of all these risks and is planning to reduce the Company's exposure wherever and whenever possible. In any case, we believe the consequences of these eventualities are containable, provided Apple's management maintains solid momentum in innovative product development (hardware and software) and adequate control over its distribution system. We note that, in accordance with the initial public offering, a significant number of presently restricted shares may be offered for sale in the public market, beginning March 12, 1981 (see the attached Prospectus, pages 5 and 6).

For the next couple of years, Apple's sales should continue to expand in excess of 100% a year -- an unsustainable longer term rate. Beyond fiscal 1983, the Company's growth is likely to settle down to about the 40% to 45% rate of the industry as a whole. Pretax margins may come under some pressure but should hold at close to 20% a year, even when IBM and others enter the market.

Still, Apple Computer will probably crack the $1-billion sales barrier in fiscal 1983, only six years after its founding -- ample evidence of the Company's vitality and the vigor of the market it serves. Thus, while Apple stock's present multiple of earnings is high by any rational standard, the indicated growth potential warrants our continued enthusiasm. We recommend purchase of the shares for long-term capital appreciation.

THE PERSONAL COMPUTER MARKET -- ITS SIZE AND STRUCTURE

Personal computers are small, easy-to-use, "desk-top" electronic data-processing machines. Via appropriate software packages, these systems are customized to serve the needs of very small businesses, a variety of professional workers (e.g., financial analysts, engineers, accountants, planners, farmers, and educators), and the curious or sophisticated middle- and upper-income individual at home or in the office. While the lines are blurring, the U.S. market for personal computers has been divided into three segments:

(1) The 5.3-million very small businesses -- those with fewer than 10 employees (for details by industry see Table 1) -- of which only approximately 3% have acquired their own computers: Quite a number of these enterprises employ outside service bureaus to prepare their payrolls and to handle their order entry/billing, inventory control, and accounts receivable. (Almost 70% of the businesses with approximately 200 workers already have in-house systems.) Until recently, most very small businesses -- and many of the 740,000 concerns with 10 to 250 employees (see Table 1) have not contemplated using in-house computers, because the cost of the available equipment was relatively high (more than $15,000, on a purchase basis, for hardware alone) and the systems, such as the IBM 5120, were not easy to use. The advent of true personal computers, like those offered by Apple, Commodore International Ltd., and Radio Shack (a division of Tandy), plus the development of appropriate, reasonably priced software packages have changed the economics of the market dramatically. Today, the owner of a very small business can purchase a desk-top computer for $4,000 to $5,000 (including easy-to-use software support). For larger (but still "small") businesses, personal computer systems retailing for $7,000 to $9,000 are being introduced (e.g., Apple III). Of course, the traditional vendors of small, general-purpose business computers (such as Basic Four, Burroughs, Data General, Digital Equipment, NCR, and even IBM) will have the unpleasant

experience of encroachment from below. These companies may have to adjust their prices, although the fact that they provide on-site support and maintenance limits their exposure.

Table 1

Number of Small and Very Small Enterprises, By Industry
(Thousand Units)

	Small(a)	Very Small(b)	Total
Manufacturing	106	152	258
Distribution	270	1,901	2,171
Banks	33	8	41
Insurance	7	148	155
Health Care	30	327	357
Professional Business Services	17	449	465
Government, Transportation, Utilities and Education	69	4	73
All Other	206	2,319	2,525
Total	737	5,308	6,045

(a) Typically Between 10 and 250 Employees
(b) Less than 10 Employees

Source: Quantum Science Corporation

Components may not add to totals because of rounding.

(2) The approximately 20-million professionals and middle managers (including 2.5-million self-employed people, frequently working out of their homes): Obviously, not every one of these "knowledge workers" needs the capabilities, or can justify the cost, of a personal computer. Probably, the majority can be adequately served by a $2,000 (often dumb) terminal, connected via a local network (coaxial cable or telephone lines) to a shared host computer that provides access to large data bases. Still, several million of these professionals, managers, and other knowledge workers can greatly improve their on-the-job performance by having their own dedicated personal computer (often at home) or at least by sharing a unit with one or two neighboring associates in the office. (See Table 2 for an illustration of possible knowledge worker productivity gains.) The day is not far off, in our view, when enlightened large corporations will order personal computers by the hundred, if not thousand, to enhance the output of their professional staff. Managements will take this step, even

though the personal computers -- just like typewriters, telephones, and copiers -- may be "idle" for a significant percentage of each working day.

Table 2

Knowledge Workers in Selected Categories -- 1978

	Total Number in Census (Thousands)	Number (a) (Thousands)	Average 1979 Annual Compensation (Incl. Supplements)
Managerial (incl. Farm)	11,582	11,582	$21,770
Professional/Technical	14,245	9,691	$19,320
Knowledge Workers	25,827	21,273	

(a) Excluding subcategories not significantly susceptible to productivity enhancements from the use of desktop computers

Source: Statistical Abstract of the United States, 1979

Cost/Benefit Analysis -- 1980 Prices

	Knowledge Workers
(1) Annual Compensation (incl. supplementals)	$20,000
(2) Share of Time Subject to Automation	70%
(3) Affected Compensation (1 X 2)	$14,000
(4) Performance Improvement	100%
(5) Productivity Gain (3 X 4)	$14,000
(6) Annual Equipment Cost*	$ 4,200
(7) Annual Cost/Benefit (5 - 6)	$ 9,800

*Purchase price of an appropriately configured desktop computer (including software)

Sources: U.S. Bureau of Labor Statistics; Morgan Stanley Research Estimates

(3) The consumer market, comprising tens of millions of middle-income (and up) adults and students: This huge segment consists of people using computers at home for a variety of personal activities, such as insurance, banking, income tax analysis, estate planning, self-education and tutoring, and document filing and retrieval. Except for the hobbyist submarket, which probably is already close to saturation, this segment is unlikely to be penetrated successfully until desk-top units, nearly as functional as Apple II, can be merchandized for no more than $1,000 per unit (including suitable software). When

that day comes, as it inevitably will, the worldwide "consumer" market will absorb many millions of such low-priced units. Until about 1983, however, we expect this to be the least vigorous of the three segments discussed here.

As far as actual market penetration is concerned, the curtain has barely gone up. According to the International Data Corporation (IDC), worldwide shipments in 1984 should reach one-and-a-half million units, worth almost $7-billion on an "if-sold" basis, compared with just under half-a-million units shipped in 1980, valued at close to $2-billion (see Table 3 for details of the IDC forecast). If, as we expect, Apple holds, if not improves, its present market share of about 20%, by 1984, the Company will operate at close to a $1.5-billion revenue rate compared with sales of $118-million reported in fiscal 1980. Other studies (e.g., those of Creative Strategies, A.D. Little, Input, and Quantum Science) are equally bullish on the prospects for personal computers. Generally, such forecasts support 40% to 45% trendline growth in shipments, valued as "if-sold" (i.e., on the basis of rising average systems prices to reflect a tilt in the mix toward higher function machines and richer configurations). To put it another way, we expect no significant unit-price erosion, except temporary declines. For, while the cost of semiconductors and related components continues to fall, that of certain other items, such as the power supply, frame, assembly, and testing, is increasing. We believe that most users will be content to pay a relatively constant unit price for the hardware in return for some incremental functionality (including more and better support systems).

Table 3

The Personal Computer Market

Key Characteristics By Major Segment in U.S.

	Shipments (Thousand Units) 1979	1984E	Growth Rate Change	Percent Installed Base - 1984 (Units)	Average Price(a)
Business/Professional	88	507	42%	55%	$ 4,500
Home/Hobbyist	70	207	24	27	1,500
Scientific	23	87	30	11	12,550
Education	19	48	20	7	2,000
Total U.S.	200	848	33	100%	4,412
Total Worldwide	298	1,519	39	N/A	4,510

(a) Average systems price is not expected to change noticeably over the five-year span

N/A = Not Available
Source: International Data Corporation

THE APPLE PRODUCT LINE

Currently, Apple markets two systems: the Apple II and the recently introduced Apple III. (In 1977, its first year of operation, the Company shipped approximately 200 units of Apple I, but this initial model was quickly discontinued.) The Apple II entered the market in 1978, but sales really took off in fiscal 1979, thanks to the Company's pioneering introduction of the floppy-disk subsystem. Up to then, the Apple II, with an optional, attached tape cassette device, was best suited for the hobbyist and entertainment markets and could not compete effectively in the very small business or the professional/knowledge workers markets. The latter two applications require random access to data storage and retrieval, not available with the slow, serial tape cassette devices. Such capability is, however, offered by today's fast and large-capacity (up to one megabyte) floppy disks. Accordingly, Apple II shipments in fiscal 1979 quadrupled from those of the prior year. Through October 31, 1980, the Company sold approximately 135,000 Apple II units, at an average value (to Apple) of approximately $1,500. The suggested retail price of the Apple II system ranges from just under $2,000 to more than $5,000, depending on configuration (i.e., memory size, number of floppy-disk subsystems, and optional printer attachment). Currently, Apple II units are being shipped at a rate of approximately 12,000 per month. The ratio of floppy-disk subsystems per processor shipped is approximately 1.4, i.e., users increasingly require multiple disk drives to enhance the throughput performance and versatility of the system.

Despite the recent introduction of the Apple III, a higher priced system with superior functionality to that of Apple II, we expect that the latter unit will continue to enjoy strong market acceptance. To ensure Apple II's continued viability, the Company is likely to offer a number of software and hardware improvements (e.g., an 80-column display) which will open up applications previously not well served by this product, e.g., word processing. Still, beyond the current fiscal year, the monthly shipment rate of Apple II is likely to plateau at 15,000 units per month.

The Apple III, an upward compatible, substantially improved system is priced at retail from $4,300 to $7,800, again depending on configuration. This latest product is clearly intended for the sophisticated professional and for small business applications (including word processing). In fact, Apple III is likely to be the vehicle with which the Company enters, in full force, the very small and small business market segments where Apple's presence has been quite limited. So far, software support for Apple III is somewhat scant. But the Company is busily developing in-house a significant number of business application packages which will be announced over the next 12 to 18 months.

The key differences between Apple III and Apple II are: the greater columnar width of the display screen (80 characters on Apple III versus 40 on Apple II); the large RAM memory (128K bytes versus 48K bytes); extra options for attaching peripherals; and a more compact design (i.e., a built-in disk drive as well as circuitry to install up to three additional external disk drives). The Company's ambitious delivery schedule for Apple III had to be delayed (as is not unusual in this industry) because of printed circuit board problems, but the new unit is now being shipped to dealers, with volume consignments slated to be underway next month.

Despite the current slow start-up, subject only to market demand, Apple should be able to ship approximately 25,000 Apple III systems in fiscal 1981; the following year, a rate of 9,000 Apples per month ought to be sustainable at an average sales value (to Apple) of $2,600 to $2,800 per unit.

Within 12 to 18 months, the Company may announce a new, larger system (probably with some designation other than Apple IV), which we expect to incorporate advanced features (including a hard disk drive with a 10 to 20 megabyte storage capacity) and broadened software support for ultra-easy use in the very small and small business segments. In other words, by fiscal 1983, Apple could begin to encroach upon the lower end of the product range offered today by the traditional, small business data processing vendors.

Longer term, Apple management would like also to address the mass consumer market for home computers. Two conditions are necessary, however, for the Company to realize this ambition: (1) Unit prices of a functionally meaningful machine will have to be no more than $1,000, i.e., costs of semiconductor components, microprocessors and peripherals (especially printers) must come down considerably while hardware failure rates will need to be even lower than at present; (2) A wide variety of easy-to-use, solution-oriented software packages will have to be available at relatively low prices. We doubt that this nirvana will be reached much before 1985. However, we understand that, in 1981, Radio Shack will enter in force this low-end segment of the personal computer market with the objective of gaining virtual control before other competitors (including the Japanese) are ready.

DESIGN AND MANUFACTURING -- HARDWARE AND SOFTWARE

As far as the hardware is concerned, there is little proprietary content in what, essentially, has to be an off-the-shelf, mass-producible, quasi-commodity product. Accordingly, simple economics determine the "make versus buy" decision, and Apple has opted for "buy" in most cases. Specifically, the Company procures the parts and subassemblies that make up its systems from several outside suppliers: the display tube from Sanyo; the basic disk subsystem (excluding proprietary electronics) from Seagate (formerly Shugart) and Alps (Japan); and the microprocessor from Synertek.

In other words, Apple's manufacturing operation consists of automated assembling and testing of Apple II and Apple III systems, whether in the Company's four U.S. locations (in California and Texas) or at the new Irish facility in County Cork. Subject to advance notice, supplier agreements allow Apple to assemble, in relatively short order, any reasonable range of quantities, be they of Apple II or of Apple III; thus, the Company's production is truly market-driven. Market demand, in turn, is a function of user acceptance of the Apple hardware (design, human factors, functionality) and, above all, of the availability of suitable software packages (operating systems, languages, and applications). In fact, vendor-developed application software is likely to become the key to product differentiation (if well planned and executed) and a prerequisite to longer term marketing success. We believe Apple's management understands this fundamental point and is setting its business priorities accordingly.

Systems software currently provided by the Company is easy to use, thanks to a complete set of accompanying documentation and simple-to-understand manuals. Apple's own applications software is still somewhat limited but is being increasingly augmented by packages from independent software houses (e.g., Visicalc from Software Arts Inc.). The Company already offers several utility packages, such as Apple Post and Apple Writer, and is in the process of developing a substantial number of business application packages for the Apple III. As for languages (the means whereby users can create their own programs if they are so inclined), Apple supports BASIC, FORTRAN, PASCAL, and PILOT (the latter is a language for computer-aided instructions). Thus, the Company is well on its way to providing a diversified menu of supporting software to permit a wide variety of professional and business users to apply Apple systems productively and cost effectively.

DISTRIBUTION CHANNELS

Apple markets its systems in North America through approximately 750 independent retail outlets and overseas through 20 independent foreign distributors, who, in turn, resell the machines to approximately 1,000 retail dealers. In the U.S., the retail stores are supervised and serviced by four Apple-owned regional support centers (with a further three to be added in 1981, including one in Canada), while the European retail outlets are served by a regional organization located in Holland. In addition to their supervisory and service functions, the centers provide dealer training, warehousing, marketing, and distribution. During fiscal 1980, foreign sales of Apple's products (including Canadian shipments) were 25% of total bookings, a percentage which the Company expects to increase noticeably over the next several years as the new, restructured Western European operation, headed by Thomas J. Lawrence (previously associated with Intel), gets going.

Besides its individual dealers, in the U.S. Apple has marketing arrangements with four independent retail chains, the largest of which is ComputerLand (118 franchised outlets). In fiscal 1980, ComputerLand accounted for approximately 14% of the Company's total sales. Apple sells to its dealers at a 34% to 35% discount from suggested list price (with a larger reduction on peripherals and add-on gear). However, dealers, on their own authority, may discount in response to conditions in their local markets.

Most other personal computer vendors -- including Ohio Scientific (a division of M/A-Com), Commodore International, and Cado -- also use distributors and retail dealers to avoid the cost of creating their own sales and service infrastructures. (At this early stage in the development of the personal computer market, such a distribution system is cost-effective and quite satisfactory.) Radio Shack, however, markets its line of personal computers through a base of 100 company-owned computer stores and 112 special departments in the Radio Shack electronics centers.

Apple's present distribution system is bound to be modified as the market broadens, competition intensifies, and new, more complex applications (as well as higher priced machines) are developed. Already, Apple is dealing directly with a large original equipment manufacturer (Bell & Howell) and more such OEM arrangements are likely in the future. Quite soon, we expect that Apple will establish a relatively small, national accounts sales force to deal directly with the Fortune 500 companies that may place volume orders via their corporate purchasing departments, with drop shipments to be made at dispersed geographical locations. Other innovative marketing approaches are likely, including the establishment of a few, Apple-owned retail stores in certain major metropolitan areas. And, to penetrate successfully the important small business market as well as distributed dataprocessing applications in larger companies, Apple probably will have to provide optional, separately priced, on-site maintenance -- initially, a costly undertaking.

Clearly, in a market which is not supply-constrained and where the hardware (if not the software) is a quasi-commodity product, cost-effective distribution is probably the real key to success. Apple management knows this too. Having created an ultra-efficient manufacturing operation, which can be tuned quickly to increase unit output in response to demand, Apple must be, and, we expect, will be, just as innovative in developing appropriate distribution channels.

COMPETITION

A market potentially as big, and developing as rapidly, as the personal computer segment is bound to attract competition from all sides. (For a product and feature/price comparison of the Big Three suppliers to this market see Table 4.)

Moving from the top down, IBM has indicated its determination to participate in the personal computer market. The Company's recently announced opening of office product retail stores in Philadelphia and Baltimore (following the opening of seven such outlets in Europe and South America) is evidence of IBM's intentions. We expect an IBM personal computer announcement by this fall.

Table 4

The Personal Computer Market

Comparison of Key Product Characteristics
(Present Major Vendors)

Salient Features	IBM Model 5120	Apple Computer Apple II	Apple Computer Apple III(1)	Radio Shack TRS-80 Model II	Radio Shack TRS-80 Model III	Commodore CMB 8032	Commodore CBM 8096(1)
Main Memory - Minimum Bytes	16K	16K	64K	32K	4K		
Maximum Bytes	64K	48K	128K	64K	48K	32K RAM	96K RAM
Languages	Basic APL	Assembly Basic Pascal Fortran	Assembly Basic Pascal Fortran	Assembly Basic Cobol Fortran	Assembly Basic Fortran coming	Basic Pascal	Basic Pascal
Data Base Management	BRADS	CCA	CCA	Profile II	No	Ozz	Ozz
Word Processing	Some	Some	Yes	Yes	Yes	Yes	Yes
Visicalc	No	Yes	Yes	Yes	Yes	Yes	Yes
"Useful System" Price for Business/Professional	\$12,000-15,000	\$2,500-4,500	\$4,500-8,000	\$4,777-8,800	\$2,500-5,000	\$4,500-5,500	No Price Yet Estimated to be Under Apple or Radio Shack Price

(1) First customer shipments slated for first quarter 1981

Xerox is in the process of inaugurating a group of retail stores. Although this corporation now distributes the Apple units, there may come a time when Xerox will market its own personal computer, obtained possibly via an acquisition. Control Data, also, is establishing a chain of company-owned retail outlets and has reached an OEM agreement with Ohio Scientific. Nippon Electric (the major Japanese telecommunications/computer vendor) demonstrated an attractive personal computer system at the National Joint Computer Conference held last May in Anaheim, California. As everyone should know by now, the Japanese excel in packaging small, compact electronic subsystems, and have the know-how to manufacture standard black boxes (such as personal computers) in huge volume at very low costs. Xerox's experience with the Ricoh-manufactured, small plain-paper copiers indicates what the Japanese are capable of when they set their mind to it. Another example is Sony's recent announcement of a 3½-inch microfloppy diskette compared with the 5¼-inch minifloppy U.S. standard. Microminiaturization, to allow small packaging, is important in developing appealing, consumer-oriented personal computers (and word processing units), and the Japanese excel in this skill.

In addition to the big boys (including Texas Instruments, Wang, and Hewlett-Packard), a host of smaller, specialized competitors are anxious to grab a piece of the pie, e.g., Cado, Convergent Technology, Cromemco, North Star Computers, and Vectorgraphics.

We have no intenion of enumerating all the other possible competitors, some of which may be quite large companies. Suffice it to say that the personal computer market has such vast potential that it can support additional, large and small participants without injury to any incumbent, provided that his products are good (quality and reliability), his software is broad and easy to use (systems, languages, and applications), and his field service is beyond reproach.

In fact, at this early stage in the development of the market, Apple will probably benefit from the entry of responsible competitors, such as Hewlett-Packard and IBM. Clearly, Apple does not have the resources to develop this huge market to its full potential, alone or even in combination with the other major participants, namely, Commodore International and Radio Shack. In an inflationary environment, with wages and salaries rising at a rate of approximately 10% a year, product prices can be held at current levels only if distribution costs can be kept from escalating. To hold down the latter expenses requires that, through better preconditioning (quasi-preselling), the time taken to "sell" a serious prospect must be cut from the present 3 to 5 hours. Thus, rather than fearing competition, Apple almost welcomes it; for responsible competitors with strong resources can help in the necessary training and education of prospects which, in turn, will reduce the sales costs for Apple and everyone else in the industry.

Service costs must not become an inhibiting factor; built-in reliability is the best way to ensure that they do not. Replace rather than repair --

the procedure followed at Apple's retail stores -- is a critical element in the Company's service strategy, although it requires adequate stocking of spare parts at each store. Where appropriate, the actual repair of failed modules is done at the regional support facilities. As the population of installed computers reaches the millions, even this type of repair service -- since it relies on people, and trained people at that -- may become intolerable from a cost and staffing point of view. On the other hand, personal computers carrying a price tag of several thousand dollars are not likely to become "throw-away items" as have the limited-function, hand-held electronic calculators.

We expect, therefore, that the personal computer vendors, including Apple, eventually will pursue a strategy of replace rather than repair at all levels of the distribution hierarchy. In effect, it will be cheaper to produce a new module, which is functionally up to date and contains the latest engineering changes, than to fix and upgrade a returned module. Only in this way will the world information processing industry avoid the overwhelming problem of finding enough technicians to service the future millions of installed personal computers, word processing systems, and intelligent terminals. The dilemma resembles that once facing the telephone industry, prior to the advent of automatic dialing. At that time, it was feared that an inadequate supply of switchboard operators would restrain the spread of telephone service to the four corners of the U.S., thus depriving whole segments of the population of the benefits of telephony.

BUSINESS AND FINANCIAL PROSPECTS

Our revenue and earnings projections for fiscal 1981 and 1982, compared with the three prior fiscal years, are shown in Table 5. Our forecast implies almost a tripling in growth of net sales in the current fiscal year and assumes a further doubling in fiscal 1982. The previously discussed, continuing high rate of Apple II deliveries and the attainment of almost double-digit monthly production rates on the new Apple III, which is just now beginning to be shipped, explains this sales buildup. We have also provided for revenue from add-ons to the existing installed base of Apple IIs and IIIs, i.e., in both fiscal 1981 and 1982, we have added 10% of the prior year's revenue to represent the value of another disk drive, more memory, or some other separately priced equipment feature. Finally, we have included an increment of 5% of hardware net sales to represent additional revenue from software packages and service fees. Interestingly, according to our revenue model, fiscal 1982 revenues from Apple III come close to matching expected sales of Apple II. Certainly in fiscal 1983, Apple III revenues should substantially exceed those from Apple II.

In fiscal 1980, gross margins should have been better than the prior year's level of close to 43%, in view of the much higher volumes. That they were not is largely because of (1) the repurchase of inventories held by the former international master distributor (Eurapple) and certain U.S. distributors (whose distribution rights Apple acquired or terminated during fiscal 1980) and (2) costs incurred in conjunction with the start-up of manufacturing in Dallas and Ireland. In fiscal 1981 and 1982, we expect gross margins to improve, as the design problems that delayed shipment of the Apple III are overcome and as mass production of that system provides economies of scale and learning curve benefits.

TABLE 5

APPLE COMPUTER

INCOME STATEMENT 1978 - 1982*

($ MILLIONS EXCEPT EPS)

	1978	1979	1980	1981E	1982E	PERCENTAGE CHANGE FY79/78	FY80/79	FY81/80	FY82/81
NET SALES	7.9	47.9	117.1	325	647	506.33	144.47	177.54	99.08
INTEREST INCOME	0	.1	.8	6.5	3.5		700.00	712.50	-46.15
REVENUE	7.9	48	117.9	331.5	650.5	507.59	145.63	181.17	96.23
COST OF GOODS SOLD	3.9	27.5	67.3	179	345	605.13	144.73	165.97	92.74
RESEARCH AND DEVELOPMENT	.6	3.6	7.3	20.5	41	500.00	102.78	180.82	100.00
MARKETING	1.3	4.1	12.1	34	70	215.38	195.12	180.99	105.88
GENERAL AND ADMINISTRATIVE	.5	2.6	6.8	23	51	420.00	161.54	238.24	121.74
INTEREST	0	.1	.2	.3	.5		100.00	50.00	66.67
TOTAL COST	6.3	37.9	93.7	256.8	507.5	501.59	147.23	174.07	97.62
PRETAX INCOME	1.6	10.1	24.2	74.7	143	531.25	139.60	208.68	91.43
NET INCOME	0.82	5.07	11.71	37.35	71.5	517.71	131.01	218.88	91.43
EPS	0.03	0.12	0.24	0.68	1.29	346.28	108.10	182.67	88.33
AVERAGE SHARES	31.5	43.6	48.4	54.6	55.5	38.41	11.01	12.81	1.65
TAX RATE	48.7	49.8	51.6	50	50	2.26	3.61	-3.10	0.00
PERCENT REVENUE ANALYSIS									
COST OF GOODS SOLD	49.37	57.41	57.47	55.08	53.32				
RESEARCH AND DEVELOPMENT	7.59	7.50	6.19	6.18	6.30				
MARKETING	16.46	8.54	10.26	10.26	10.76				
GENERAL AND ADMINISTRATIVE	0.06	0.05	0.06	0.07	0.08				
INTEREST	0	0.21	0.17	0.09	0.08				
PRETAX	20.25	21.04	20.53	22.53	21.98				
NET INCOME	10.39	10.56	9.93	11.27	10.99				

* FISCAL YEAR ENDS SEPTEMBER

E = MORGAN STANLEY RESEARCH ESTIMATES

We are holding our estimate of R&D expenditures at slightly over 6% of revenues in both fiscal years, although the Company would like to spend more on this activity, particularly on software development. The scarcity of experienced programmers, however, appears to preclude higher expenditures than we have projected. We expect marketing costs as a percent of revenue to increase over time, if, as we expect, Apple establishes small, national-account and dedicated-OEM sales forces and opens a number of company-owned retail stores in selected major metropolitan areas.

We assume general and administrative expenses, again as a percent of revenue, will increase, reflecting the fact of life that, as the Company moves toward the billion-dollar sales target, administrative overhead will almost inevitably become more of a burden.

In view of Apple's virtually debt-free balance sheet and management's intention to keep it that way, at least for the time being, interest expense should remain negligible throughout the period. Our projections result in a pretax margin gain in fiscal 1981 to 22.5% from the prior year's "depressed" level of 20.5%.

In fiscal 1982, we expect a further, albeit modest, improvement in the gross margin but are postulating a higher relative level of SG&A expenditures. The combined effect of these projections is a moderate margin decline to 22%. Our fiscal 1982 forecast assumes continued strong demand for personal computers and intensified competition from a number of major new participants, including IBM, Texas Instruments, and one or two Japanese vendors. In response, Apple may have to spend substantial funds to broaden its software offerings and strengthen its distribution system, by, among other things, establishing additional regional support centers. The Company may also have to make price concessions on the by-then-maturing Apple II. Longer term, we believe it will be difficult for the Company to maintain pretax margins above 20%.

With the personal computer market still in its infancy, forecasting orders beyond fiscal 1982 is a risky art. Unless demand continues on its strong upward course without interruptions, the entries of new, financially strong competitors will prove unsettling for some -- at least temporarily. Still, in fiscal 1982 compared with fiscal 1981, if all goes well (although it rarely does for long) the now-well-established Apple Computer should, and we expect will, almost double its revenues and net income. In other words, if market demand continues to mushroom in fiscal 1982, as we expect, Apple should earn $1.30 per share compared with our $0.68 per share estimate for fiscal 1981.

In fiscal 1983 and beyond, as the Company reaches and moves past the billion-dollar revenue mark, Apple's trendline revenue growth should slow to the personal computer industry's underlying rate of approximately 40% to 45% a year. Apple's earnings trend will be a function of revenue growth as well as of changes in its cost structure and tax rate. We are assuming further pressure on marketing costs, as worldwide competition continues to intensify and as R&D expenditures escalate in this dynamic, software-driven subindustry. Apple's effective tax rate, however, should drop a few percentage points, as foreign manufacturing in tax havens accounts for a higher proportion of total output. Accordingly, we are projecting the Company's earnings trendline growth rate at close to 40% a year, beginning in fiscal 1983.

FINANCIAL ANALYSIS

Apple's balance sheet is clean and likely to stay that way, although, a few years down the road, the Company may want to take down some long-term debt to improve its rate of return on equity and to take advantage of the tax deductibility of interest payments. In fact, a convertible bond issue might be of interest, since Apple does not pay a dividend and is not likely to do so in the foreseeable future. In recent years, companies with similar business and growth characteristics have used convertible debt instruments to their advantage. Following are a few, selected, key financial ratios:

Key Financial Ratios

	1979	1980	1981E	1982E
Debt to Capitalization	2%	27%	1%	1%
Return on Investment	84	52	41	38
Return on Equity	85	66	43	38

E = Morgan Stanley Research Estimates

Productivity per employee has improved substantially during the last three years, from $135,000 in fiscal 1978 to $176,000 in fiscal 1980. Because Apple does not conduct its own field marketing and service, revenue per employee is significantly higher than is typical for even very efficient, but more vertically integrated, companies. At the end of fiscal 1980, the Company's employment roster was as follows:

Marketing and Sales	198
Research and Product Development	152
Manufacturing	558
G&A	197
	1,105

As Apple approaches the billion-dollar revenue level, possibly in fiscal 1983, head-count will have to increase substantially, unless the Company continues to squeeze 25% annual productivity improvements out of its employees. This is management's avowed target, but, in what will then be a large company, such a goal will be increasingly difficult to achieve, in our view.

Our analysis of resources and applications of funds does not indicate any need for external financing (other than borrowing in local currencies to pay for expanding foreign operations). Our conclusion is based on the assumption that the present very tight control on accounts receivable and inventories can, and will be, continued, even though this, too, will be difficult to accomplish in a much bigger business with many more customer groups and distribution points. Currently, and for the last couple of years, Apple has enjoyed positive cash flow because of management's ability to:

(1) readily obtain needed components and subassemblies for any planned level of production;

(2) speedily manufacture (read: assemble and test) the desired end-products (presently Apple IIs, Apple IIIs, and related peripherals);

(3) quickly deliver to the regional support centers for reshipment to the dealers, as required;

(4) ride herd on the dealers for full payment within the stated 30-day grace period; and

(5) as far as possible, accomplish the first four steps before, itself, having to pay for the inventory obtained.

This neat system, as long as it works, obviously goes a long way toward producing positive cash flow. Apple has developed an excellent management information system (using Digital Equipment's DEC 11 Series computers) to control its machine inventory, all the way from production to the distributor's warehouse, until the unit is shipped to a designated dealer. Outstanding accounts receivable average 40 days -- an excellent performance in an industry where companies such as Digital Equipment show an average of 80 days.

Inventory turns are high, averaging two times the cost of sales last year and nearly three times in fiscal 1979. The lower ratio in fiscal 1980 resulted from a significant buildup in raw materials, purchased parts, and finished goods, reflecting the Apple III production startup and the repurchase of distributors' inventories. We expect that, in fiscal 1981, the inventory turnover ratio will return to the level achieved in fiscal 1979. All in all, as far as its financial controls and management are concerned, Apple looks very good.

LITIGATION AND FCC REGULATION

The Company faces a couple of problems which could trouble investors. First, two of Apple's former U.S. distributors, which the Company terminated, are suing for breach of contract. Management expects no adverse results from these suits, although legal expenses will have to be absorbed as long as the litigation continues.

Second, the FCC is imposing radio frequency emanation standards on computer equipment; these are particularly tough on personal computers. Apple is in the process of modifying the Apple II and expects to meet the renegotiated deadline (March 31, 1981). Apple III already complies.

RISK ASSESSMENT

We have already highlighted Apple's exposure to probably intensifying competition. In addition, investors should recognize the presence of risks relating to the nonproprietary, nonintegrated nature of the Company's product line as well as to the possibility of executive departures. As far as the product risk is concerned, investors may worry about the effect on results should one or two of Apple's major suppliers fail to meet their delivery commitments or if any of Apple's independent retail chains "pull out." The question naturally arises: Must Apple integrate backward and/or forward to protect itself (and its investors) and, if so, how quickly?

As we have already pointed out, we expect some forward integration (a few Apple-owned retail stores, for example). We also consider a moderate degree of backward integration quite likely, e.g., in-house design and manufacture of floppy, and eventually hard, disk-drive subsystems. These moves toward more product integration (especially on the software side) will reduce the indicated risks but will not eliminate them. By way of comparison, Radio Shack has a joint venture with Datapoint for the manufacture of floppy disks, and, we believe, is likely to extend the scope of its manufacturing agreement. Commodore International is substantially backward integrated, including in-house fabrication of CMOS chips.

As to possible executive departures -- this has happened at every one of a dozen emerging growth companies we follow, without leaving a permanent scar. Self-made, overnight multimillionaires sometimes want to pursue a different life-style once they have achieved certain basic goals. When a company has developed a cadre of qualified successors, the voluntary departure of one or another founder has not hurt the growth of the business. While we are not aware of any pending top executive departure at Apple, we are confident that the Company would be able to take such an occurrence in its stride.

"Plug-Compatible" Product "Klooging" together the various hardware components constituting a personal computer is a relatively simple task. Off-the-shelf microprocessors, keyboard/CRT devices, floppy disk subsystems, and serial printers are readily available from a number of U.S.-based or Japanese sources. Such "standard" hardware configurations can easily be adapted to run most of the available software packages (compilers, utilities, and applications).

While the independent software vendors (e.g., Personal Software, Microsoft and Software Arts) have every incentive to interface their products with most popular hardware offerings, this is not the case with the hardware manufacturers. The latter want the software packages developed in-house or "under contract" to run only on their own hardware, even when plug-compatible hardware (at the user interface level) exists. Through software licensing and/or copyrighting, these vendors seek to restrain "unauthorized" use of their software on others' plug-compatible hardware. But this is a difficult and, at best, an only partially successful undertaking. Thus, the risk inherent in the "commodity" nature of the hardware and the easy adaptability of most software to different hardware interfaces is not readily overcome. The real solution lies in continuous, productive development programs (hardware and software) for products that can be introduced quite quickly into the personal computer marketplace. Avenues we expect Apple to pursue are networking (the Apple-based Nestar system is one example), local clusters of work stations (Apple IIs) managed by a more powerful host (an Apple III or "IV") which is linked to a data-base et al.

Finally, vendors will need to have (1) a steady stream of new peripherals with associated software support and possibly specialized interfaces; (2) a wide variety of new software packages (upward compatible with current ones) offering better ease-of-use features and/or entirely new functions; and (3) quality after-sale maintenance services (replace-not-repair). Those who can meet these R&D and service/support challenges, and we are confident that Apple can, need not fear the almost inevitable emergence of the plug-compatible personal computer in all its manifestations (i.e., hardware and software).

Service and Technical Support Any high growth company such as Apple -- no matter how well-intentioned - finds it difficult, if not impossible, to maintain an infrastructure capable of sustaining the desired quality of field service and support. Technical people who can (and want to) be trained for this type of skilled work are hard to find -- certainly in the numbers required. Although Apple (like most other computer companies) is developing alternate strategies to reduce the labor content in the service and support function, periodic lapses in the service levels must be anticipated. Obviously, such occurrences often result in unfavorable publicity, even though, upon reflection, observers should recognize the virtual inevitability of such presumably temporary problems.

MANAGEMENT

The strong, experienced management team includes the following key executives:

A.C. Markkula, Jr.	Chairman of the board and executive vice president
Steven P. Jobs	Vice chairman of the board and vice president
Michael M. Scott	President, chief executive officer and director
Carl H. Carlson	Executive vice president - operations

Albert A. Eisenstat	Vice president, general counsel and secretary
Thomas M. Whitney	Executive vice president
Stephen G. Wozniak	Vice president
Kenneth R. Zerbe	Executive vice president - finance and administration

Mr. Markkula has been a director since March 1977 and has served as chairman of the board of directors since May 1977. In addition, he served as vice president - marketing from May 1977 through June 1980 and was promoted to executive vice president in June 1980. From 1971 to December 1976, he was marketing manager at Intel Corporation, a manufacturer of integrated circuits.

Mr. Jobs, a cofounder of the Company, has served as vice chairman of the board since August 1979 and as vice president since May 1977; he has been a director since March 1977. Prior to that time, he worked as an engineer for two years with Atari, a computer games manufacturer.

Mr. Scott has served as president since May 1977 and as a director since January 1978. From 1972 to January 1977 he was a director of manufacturing at National Semiconductor Corporation, a manufacturer of integrated circuits and computers.

Mr. Carlson joined the Company in September 1979 as vice president - operations and was promoted to executive vice president - operations in June 1980. From September 1978 until his employment by the Company he was president and a director of Basic Manufacturing, a subsidary of BTI Computer Systems, a minicomputer manufacturer. Prior to that time he was vice president of Computer Automation, a manufacturer of minicomputers for approximately three years.

Mr. Eisenstat joined the Company in July 1980 as vice president and general counsel and has also served as secretary of the Company since September 1980. From December 1978 to July 1980, he was senior vice president of Bradford National, a computer services firm serving the banking, securities, and health care industries. From December 1974 through December 1978, he was vice president and corporate counsel of Tymshare, an international computer timesharing and services company. In both of these positions, Mr. Eisenstat was responsible for legal and administrative duties.

Dr. Whitney joined the Company in October 1978 as an executive vice president. From July 1974 to October 1978, he was engineering manager for various divisions of Hewlett-Packard. In this position, he was in charge of managing hardware and software products development.

Mr. Wozniak, a cofounder of the Company, has served as vice president since March 1977, was secretary of the Company from March 1977 to

September 1980, he was a director of the company from March 1977 to January 1978. Prior to that time, he had been an engineer for Hewlett-Packard for three years.

Mr. Zerbe joined the Company in April 1979 as vice president - finance and administration, and served in that position until June 1980, at which time he was promoted to exeuctive vice president - finance and administration. From April 1976 to April 1979 he was senior vice president of finance and administration for American Microsystems, a manufacturer of semiconductors. Prior to that time he was senior vice president of finance at Fisher and Porter, a manufacturer of electronic process instrumentation.

Ulric Weil
(212) 974-4396
January 15, 1981

Morgan Stanley & Co. Incorporated managed or comanaged the most recent public offering, within the last three years, of the securities of Apple Computer, Hewlett-Packard, Ricoh, and Texas Instruments.

Morgan Stanley & Co. Incorporated makes a market in the securities of Apple Computer and Intel.

Morgan Stanley & Co. Incorporated has a trading position in the securities of Control Data, Digital Equipment, Hewlett-Packard, Intel, IBM, Ricoh, Texas Instruments, Wang, and Xerox.

Morgan Stanley & Co. Incorporated holds options in the securities of Control Data, Digital Equipment, Hewlett-Packard, IBM, Tandy, Texas Instruments, Wang, and Xerox.

Copies of this report, delivered until March 12, 1981, are being accompanied by a copy of the Prospectus relating to a recent public offering of the common stock of Apple Computer, Inc., for which Morgan Stanley & Co. Incorporated acted as comanager.

MORGAN STANLEY

1251 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(212) 974-4000

PROSPECTUS

4,600,000 Shares

Apple Computer, Inc.

COMMON STOCK

Of the 4,600,000 shares of Common Stock offered hereby, 4,000,000 shares are being sold by the Company and 600,000 outstanding shares are being sold by the Selling Shareholders as set forth under "Selling Shareholders". The Company will not receive any part of the proceeds from the sale of shares by the Selling Shareholders. Prior to this offering there has been no public market for the Common Stock. See "Underwriters" for a discussion of the factors to be considered in determining the public offering price.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE $22 A SHARE

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)	Proceeds to Selling Shareholders
Per Share	$22.00	$1.30	$20.70	$20.70
Total(3)	$101,200,000	$5,980,000	$82,800,000	$12,420,000

(1) See "Underwriters" herein for information on indemnification provided by the Company and the Selling Shareholders.

(2) Before deduction of expenses payable by the Company estimated at $661,600.

(3) The Company has granted to the Underwriters an option, exercisable within 30 days of the date hereof, to purchase up to 400,000 additional shares at the price to public less underwriting discounts and commissions, for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total price to public, underwriting discounts and commissions, and proceeds to Company will be $110,000,000, $6,500,000 and $91,080,000, respectively. See "Underwriters".

The shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein and subject to approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that delivery of the certificates for the shares will be made on or about December 22, 1980 at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N.Y., against payment therefor in New York funds.

MORGAN STANLEY & CO. *Incorporated* **HAMBRECHT & QUIST**

December 12, 1980

No person is authorized in connection with any offering made hereby to give any information or to make any representation other than as contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, by the Selling Shareholders or by any Underwriter. This Prospectus is not an offer to sell, or a solicitation of any offer to buy, by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Until March 12, 1981 (90 days after the commencement of the offering), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Prospectus.

THE COMPANY

Apple Computer, Inc. designs, develops, produces, markets and services microprocessor-based personal computer systems for individual use in solving computing problems commonly encountered in business, education, science, engineering and in the home. Products manufactured and distributed by Apple are sold in the United States and Canada through approximately 800 independent retail computer stores, and internationally through 21 independent distributors which resell to approximately 1,000 retail dealers. Apple's products are primarily serviced in the United States and Canada by approximately 700 of the retail stores and in other countries by independent retail dealers.

THE OFFERING

Security Offered	4,600,000 shares of Common Stock(1) 4,000,000 shares by the Company(1) 600,000 shares by the Selling Shareholders
Shares to be Outstanding	54,215,332 shares(1)
Use of Proceeds	To repay short-term bank debt and to increase working capital
NASDAQ symbol	AAPL

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	January 3, 1977 (inception) to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Income Statement Data:				
Revenues	$773,977	$7,883,486	$47,938,981	$117,901,543
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share(2)	Less than $.01	$.03	$.12	$.24
Shares used to calculate per share data(2)	16,640,000	31,544,000	43,620,000	48,412,000

	September 26, 1980 Actual	As Adjusted(1)(3)
Balance Sheet Data:		
Current assets	$54,106,215	$128,394,615
Current liabilities	37,780,128	29,930,128
Total assets	65,350,341	139,638,741
Non-current obligations under capital leases	670,673	670,673
Shareholders' equity	25,948,540	108,086,940

(1) Does not include up to 400,000 shares which may be sold by the Company to the Underwriters to cover over-allotments.

(2) The number of shares and all data presented on a per share basis in this Prospectus have been adjusted, except where otherwise indicated, to reflect stock splits. See Note 1 of Notes to Consolidated Financial Statements.

(3) Adjusted to reflect completion of the offering (assuming no exercise of the over-allotment option) and the anticipated use of proceeds by the Company.

THE COMPANY

Apple Computer, Inc. designs, develops, produces, markets and services microprocessor-based personal computer systems for individual use in solving computing problems commonly encountered in business, education, science, engineering and in the home.

The Company's principal product is the Apple II personal computer system. Apple II systems in typical configurations may be sold for suggested retail prices as low as $1,850 and up to $5,000 or more with the addition of memory and peripherals necessary to perform more complex computing tasks. As of October 31, 1980, Apple had sold approximately 131,000 Apple II computer mainframes. In May 1980 the Company announced the introduction of the Apple III, and commenced limited shipments to retail customers in late November 1980. See "Business—Products". The Apple III is intended for more sophisticated professional and business applications than the Apple II. Suggested retail pricing for Apple III systems ranges from $4,300 to up to $7,800.

In addition to the system and applications software developed by the Company, approximately 100 independent vendors have developed applications software for use in connection with Apple computers. The Company also offers peripheral equipment, some of which is manufactured by others, including video monitors, disk drives and printers. In addition, Apple computers can utilize many peripherals manufactured and marketed by other companies.

The Company's computer systems are distributed in the United States and in Canada by approximately 800 independent retail computer stores and internationally through 21 independent distributors which resell to approximately 1,000 retail outlets. Approximately 700 of the retail outlets located in the United States and Canada are also authorized to act as service centers for Apple products.

Apple was incorporated in California on January 3, 1977. Its principal offices are located at 10260 Bandley Drive, Cupertino, California 95014, and its telephone number at that address is (408) 996-1010. The Company's Standard Industrial Classification (SIC) code is 3573. Unless the context otherwise indicates, the terms "Apple" and "Company" as used herein refer to Apple Computer, Inc. and its subsidiaries.

USE OF PROCEEDS

The principal purposes of the offering are to increase the Company's equity capital base, to finance growth and to provide a public market for the Company's Common Stock. The net proceeds from the sale of the shares of Common Stock offered by the Company are estimated to be $82,138,400 (or $90,418,400 if the Underwriters' over-allotment option is exercised in full). Of such net proceeds, approximately $7,850,000 will be used to repay short-term bank indebtedness incurred for working capital purposes and the balance will be used primarily to finance accounts receivable and inventory and for other general corporate purposes, including capital expenditures. The Company anticipates that it will use the proceeds for these purposes over the next 15 months. Pending such uses, a portion of the proceeds may be invested in short-term money market obligations.

The Company's growth has resulted in increased working capital needs. The Company expects that its working capital needs will continue to increase in the future and may be accelerated depending upon such factors as the introduction of new products, the expansion of the market for its products and possible changes in distribution channels and methods for certain of its products. In order to finance these needs the Company may utilize its bank line of credit which expires in January 1981. The bank line currently provides for borrowings, under certain conditions, of up to $20,000,000. See Note 5 of Notes to Consolidated Financial Statements. The Company is currently in the process of renegotiating its existing bank line. Depending upon developments in the Company's business and upon capital market conditions, the Company may also finance its working capital needs through the sale of additional securities. The Company does not have any present plans for increased borrowings under its existing bank line or for sales of additional securities.

The Company estimates that its capital expenditures during the fiscal year ending September 25, 1981 will be approximately $11,000,000.

The Company will not receive any proceeds from the shares of Common Stock being sold by the Selling Shareholders.

CAPITALIZATION

The following table sets forth the capitalization of the Company at September 26, 1980 and as adjusted to give effect to the sale of the Common Stock offered hereby (assuming the over-allotment option is not exercised) and the application of the proceeds therefrom:

	Outstanding	As Adjusted
Short-term debt:		
Notes payable to bank(1)	$ 7,850,000	$ —
11% note due February 15, 1981(2)	1,250,000	1,250,000
Current obligations under capital leases	253,870	253,870
Total short-term debt	$ 9,353,870	$ 1,503,870
Non-current obligations under capital leases	$ 670,673	$ 670,673
Shareholders' equity:		
Preferred stock, 5,000,000 shares authorized, none outstanding or as adjusted	—	—
Common stock, 160,000,000 shares authorized, 48,396,928 shares outstanding; 52,396,928 shares as adjusted(3)	11,428,438	93,566,838
Common stock to be issued in business combination(4)	920,210	920,210
Retained earnings (1)	17,605,867	17,605,867
Less: Notes receivable from shareholders(5)	(4,005,975)	(4,005,975)
Total shareholders' equity	25,948,540	108,086,940
Total capitalization	$26,619,213	$108,757,613

(1) The notes are secured by a pledge of the Company's receivables and inventory. See Note 5 of Notes to Consolidated Financial Statements.

(2) See Note 2 of Notes to Consolidated Financial Statements.

(3) Excludes (i) 1,818,404 shares issued through November 30, 1980 upon exercise of stock options, (ii) 8,215,168 shares reserved for issuance at November 30, 1980 pursuant to options granted or to be granted under the Company's stock option plans and (iii) 1,000,000 shares reserved for issuance pursuant to the Company's Employee Stock Purchase Plan. See "Stock Option Plans" and "Employee Stock Purchase Plan" under "Management" and Note 8 of Notes to Consolidated Financial Statements.

(4) See Note 3 of Notes to Consolidated Financial Statements.

(5) See Note 8 of Notes to Consolidated Financial Statements.

See "Business—Property" and Notes 6 and 7 of Notes to Consolidated Financial Statements for information concerning the Company's obligations under leases.

DIVIDENDS

Apple has not paid any cash dividends on its Common Stock, and its Board of Directors intends to retain, for the foreseeable future, the Company's earnings for use in the development of the business. The Company's bank line of credit agreement prohibits it from declaring or paying dividends without the consent of the bank. See Note 5 of Notes to Consolidated Financial Statements.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have outstanding 54,215,332 shares of Common Stock (assuming no exercise of the over-allotment option) based upon shares outstanding at November 30, 1980. Of these shares, the 4,600,000 shares sold in the offering made hereby will be freely tradeable without restrictions or registration under the Securities Act of 1933, as amended (the "Act"). Of the remaining shares, approximately 7,138,164 shares were issued by the Company in reliance upon the "intrastate offering" exemption under the Act (the "Intrastate Shares") and approximately 42,477,168 shares were issued in private transactions in reliance upon the "private placement" exemption under the Act (the "Restricted Shares"). The Intrastate Shares may be generally sold to residents of the State of California in certain transactions at any time and in the open market at various times, in reliance upon Section 4(1) of the Act, following the nine-month period commencing upon Apple's registration under the Act of shares reserved for issuance under its stock option plans, which registration is described more fully below. Subject to the agreements with 18 officers, directors and major shareholders described below, 31,753,231 of the Restricted Shares will be eligible for sale in the open market in reliance upon Rule 144 under the Act beginning 90 days after the date of this Prospectus. In general, under Rule 144, a person (or persons whose shares are aggregated) who has beneficially owned his or her Restricted Shares for at least two years, including persons who may be deemed "affiliates" of the Company, as that term is defined under the Act, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Company's Common Stock (equal to approximately 542,153 shares) or the average weekly trading volume in the over-the-counter market during the four calendar weeks preceding such sale. A person who is deemed not to have been an affiliate of the Company at any time during the 90 days preceding a sale by such person, and who has beneficially owned his or her Restricted Shares for at least three years, would be entitled to sell such shares under Rule 144 without regard to the volume limitations described above. Furthermore, holders of an aggregate of 11,136,248 Restricted Shares (excluding 600,000 shares sold by the Selling Shareholders) are entitled to certain registration rights. See "Description of Securities—Outstanding Registration Rights".

The Company intends to file a registration statement under the Act to register the 9,215,168 shares of Common Stock reserved under the Company's stock option plans and Employee Stock Purchase Plan. Such registration statement is expected to be filed shortly after the date of this Prospectus and to become effective as promptly as practicable thereafter. Shares issued upon exercise of outstanding stock options after the effective date of such registration statement generally will be available for sale in the open market. As of November 30, 1980, options to purchase a total of 5,652,600 shares of Common Stock were outstanding under the stock option plans.

Subject to market conditions and other factors, the Company may file another registration statement on a date not less than four months after the date of this Prospectus covering the sale of such amount of the 7,138,164 Intrastate Shares as may be requested by the holders. However, the Company has agreed that the number of Intrastate Shares included in such registration statement will not exceed 500,000 shares without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist as to the amount and method of offering.

The Selling Shareholders have agreed that they will not, without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist, offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any of the Company's Common Stock owned by them upon completion of the offering (an aggregate of 3,775,816 shares) for a period of 90 days from the date of this Prospectus.

Eighteen officers, directors and major shareholders of the Company holding an aggregate of 32,026,443 shares of the Company's Common Stock have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist, they will not offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any shares of Common Stock for a period of nine months after the date of this Prospectus, except for sales occurring more than 90 days after the date of this Prospectus of amounts of Common Stock not exceeding 10% of the total number of shares of Common Stock held by the person for whose account such shares are sold on the date of this Prospectus at cash prices of not less than 150% of the public offering price of the shares offered hereby.

Prior to this offering, there has been no market for the Common Stock of the Company, and no precise predictions can be made of the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of the Common Stock of the Company in the public market could adversely affect prevailing market prices.

DILUTION

The net tangible book value of the Company at September 26, 1980 was \$20,122,644, or \$.42 per share. Without taking into account any changes in such net tangible book value after September 26, 1980, other than to give effect to the sale by the Company of 4,000,000 shares of Common Stock and the use of proceeds therefrom, the pro forma net tangible book value of the Company at September 26, 1980 would have been \$102,261,044, or \$1.95 per share. This represents an immediate increase in net tangible book value of \$1.53 per share to existing shareholders and an immediate dilution of \$20.05 per share to new investors. The following table illustrates the dilution of a new investor's equity in a share of Common Stock at September 26, 1980:

Public offering price(1)		\$22.00
Net tangible book value, before offering(2)	\$ .42	
Increase attributable to payments by new investors	1.53	
Pro forma net tangible book value, after offering		1.95
Dilution to new investors(3)		\$20.05

(1) Offering price before deduction of underwriting discounts and commissions and offering expenses.

(2) Net tangible book value per share is determined by dividing the number of shares of Common Stock outstanding into the tangible net worth of the Company (tangible assets less liabilities).

(3) Dilution is determined by subtracting net tangible book value per share after the offering from the amount of cash paid by a new investor for a share of Common Stock.

The following table summarizes the number of shares purchased from the Company as of November 30, 1980, the total consideration paid and the average price per share paid by the investors purchasing new shares and by existing shareholders:

	Shares Purchased	Percent of Total Shares	Consideration Paid	Percent of Total Consideration Paid	Average Price Per Share
New investors	4,000,000	7.4%	\$ 88,000,000	82.4%	\$22.00
Existing shareholders	50,215,332	92.6	18,813,575	17.6	.37
	54,215,332	100.0%	\$106,813,575	100.0%	1.97

The above calculations do not give effect to the exercise of the Underwriters' over-allotment option.

As of November 30, 1980, there were outstanding options to purchase 5,652,600 shares of Common Stock, of which options to purchase 481,688 shares were held by officers and directors of the Company or their affiliates. The exercise prices of the outstanding options ranged from \$.09 to \$8.00 per share with a weighted average price of \$1.77 per share. For the life of the options, the holders thereof will have the opportunity to profit from a rise in the market price of the Company's Common Stock, with a resulting dilution in the interests of existing shareholders. The holders of these options may exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital by the sale of Common Stock on terms more favorable than those provided for in the options. See "Management—Stock Option Plans".

SELECTED FINANCIAL DATA

The following tables summarize certain selected consolidated financial data and are qualified in their entirety by the more detailed Consolidated Financial Statements included herein.

	January 3, 1977 (inception) to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Net sales	$ 773,977	$ 7,856,360	$47,867,186	$117,125,746
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share	Less than $.01	$.03	$.12	$.24
Common and common equivalent shares used in the calculation of earnings per share	16,640,000	31,544,000	43,620,000	48,412,000
Total assets	$ 555,482	$ 4,340,790	$21,170,979	$ 65,350,341
Non-current obligations under capital leases	$ —	$ —	$ 203,036	$ 670,673

The following table contains certain selected unaudited quarterly consolidated financial data which includes all adjustments which the management of the Company considers necessary for a fair presentation thereof.

	Three Months Ended December 28, 1979	March 28, 1980	June 27, 1980	September 26, 1980
Net sales	$19,539,963	$23,549,425	$32,569,197	$41,467,161
Net income	$ 2,647,084	$ 2,787,351	$ 2,735,076	$ 3,528,472
Earnings per common and common equivalent share	$.056	$.058	$.056	$.071

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Apple has experienced significant increases in net sales and net income during each of its fiscal years, reflecting the growth in the personal computer market as well as continued market acceptance of Apple's products. The Company has not made significant changes in prices for its products during the fiscal years. In addition, economies of scale and certain production cost efficiencies have offset the effects of inflation.

Net sales in fiscal 1977 occurred primarily in the fourth fiscal quarter and consisted principally of sales of the basic Apple II mainframe computer. During the 1977 fiscal year marketing expenses consisted principally of advertising and product promotion expenditures in order to generate future sales.

The 1978 fiscal year was the Company's first full year of operations. During the fiscal year, the Company organized a product distribution network through the appointment of independent distributors. This expanded distribution system contributed significantly to the increase in sales. The expenses associated with developing this distribution network, together with increased advertising and product promotion expense, resulted in significant increases in marketing expenses. In fiscal 1978, research and development expenses increased substantially as the Company hired additional technical personnel and concentrated on the development of its Disk II Floppy Disk Subsystem and system software. In addition, advances in semiconductor technology enabled Apple to increase the memory capacity of its computer systems. These advances contributed to the development of new product applications during the year, and resulted in shifting the market for Apple's products away from the computer hobbyist.

Net sales in fiscal 1979 increased approximately five-fold over fiscal 1978, due to a number of factors. The availability of the Company's Disk II Floppy Disk Subsystem expanded the capabilities of Apple's personal computers to accomplish more useful applications, thus broadening the market for its products. Although the Company was not supplying a significant amount of applications software for use with its systems at this time, many other firms began to market software and peripheral products for use with the Apple II. In addition, in fiscal 1979 Apple introduced its products to the educational market, which contributed to the increased awareness of the personal computer. Cost of sales in fiscal 1979 increased to approximately 57% of net sales, primarily reflecting increased prices for certain semiconductor devices and increased staffing, training and support costs to manage expanded manufacturing facilities. Marketing expenses continued to be comprised primarily of advertising and promotion costs; however, marketing expenses decreased as a percentage of sales in fiscal 1979 to 8% of sales, compared to 16% of sales in fiscal 1978, principally due to the increased volume of business. Research and development activities in fiscal 1979 included the initial development expense for personal computer systems addressing new markets and applications and for new peripheral accessories.

Net sales in fiscal 1980 more than doubled that of fiscal 1979, reflecting the expansion of the Company's market to include use of Apple computers by persons without prior computer experience as well as by persons with such experience. Factors contributing to this expansion included the Company's introduction of its own software application packages and new peripheral devices to expand the computer's applications. Costs and expenses in fiscal 1980 were significantly affected by the termination of the Company's independent distribution arrangements and by the start-up of manufacturing facilities in Dallas, Texas and County Cork, Ireland. Apple's purchases of inventory from certain of the distributors which it had terminated during the year, which purchases were at costs higher than the Company's manufacturing costs, and certain other costs associated with such terminations increased costs and expenses by approximately 2.4% of fiscal 1980 net sales. Start-up costs for Apple's new manufacturing facilities increased costs and expenses by approximately .6% of net sales. Marketing expenses increased to approximately 10% of net sales compared to 8% of net sales in fiscal 1979, reflecting increases in advertising expenses and the added costs of the Company's establishing its own sales organization to serve the retail computer stores after termination of its distributors in March 1980. Such increased costs included the hiring of additional personnel and warehousing costs and sales commissions. Some of these costs were in addition to the warehousing costs and sales commissions paid to the former distributors during the start-up period. These costs of establishing the Company's regional distribution facilities were offset by the Company's ability to sell its products directly to retail dealers at prices which were higher than the Company had charged its former distributors. Apple anticipates that continued expenditures will be made to expand its sales organization to serve not only existing markets, but other markets as it introduces new product applications.

During fiscal 1980 the Company's quarterly results were affected by the aforementioned factors. The termination of the Company's distribution arrangements late in the second fiscal quarter also affected earnings for the subsequent two fiscal quarters and resulted in a shift in some sales from the second to the third quarter. The repurchase of inventory from the Company's former distributors and certain other costs associated therewith increased costs and expenses in the third and fourth fiscal quarters by 4.4% and 3.4% of net sales in such quarters, respectively. Start-up costs associated with new manufacturing facilities occurred principally in the fourth quarter. The Company's performance in the third and fourth quarters was also affected by costs associated with the development and introduction of the Apple III system, which will first be sold to retail customers in late November 1980.

Liquidity

The Company's ability to generate cash adequate to meet its needs ("liquidity") results from the sale of inventory and the collection of accounts receivable and periodic bank borrowings and the sale of Common Stock. The Company's liquidity is improved by the tax benefit recognized upon the exercise of employee stock options, because income taxes payable are reduced by approximately 50% of the difference between the option exercise prices and the fair value of the shares at the time of exercise. These sources of liquidity are reduced by the Company's payments of accounts payable, income taxes payable and, periodically, notes payable to banks.

The Company's accounts receivable have increased in each fiscal year, reflecting the growth in sales. During the 1980 fiscal year the Company improved its liquidity by reducing the number of days sales in accounts receivable, thereby increasing the availability of cash. This improvement resulted from the Company's domestic sale of products directly to the retail dealers. Such direct sales were on collection terms more favorable than the terms previously extended to distributors. However, there is no assurance that the Company will maintain these collection terms on a long-term basis as market factors and competitive conditions change.

During the 1980 fiscal year the Company's liquidity was negatively affected by an increase in inventory as a percentage of cost of sales resulting principally from increased levels of finished goods inventory. This increase was principally due to the Company's carrying finished goods inventories at its regional distribution centers for direct sales to its retail dealers. In addition, inventory levels increased as a result of the Company's purchasing materials and parts for production of the Apple III, which production commenced later than the Company's anticipated schedule due to certain technical difficulties. As production and sales of the Apple III increase, the level of manufacturing inventory for this product as a percentage of cost of sales is expected to decrease.

At September 26, 1980 the Company's material unused sources of liquidity consisted principally of approximately $2,000,000 of government securities and approximately $4,650,000 of currently available borrowings under its bank line of credit. See Note 5 of Notes to Consolidated Financial Statements. Except for the sale of Common Stock offered by this Prospectus, the Company does not anticipate a material change in the nature of its liquidity needs or available sources of liquidity.

Capital Resources

The Company's capital resource commitments at September 26, 1980 principally consisted of lease obligations and the Company's commitment to establish facilities in Ireland under an agreement with the Irish Development Authority. See Note 7 of Notes to Consolidated Financial Statements. The Company intends to finance these commitments from working capital generated from its internal and external sources of liquidity.

BUSINESS

Introduction

The Company designs, develops, produces, markets, and services microprocessor-based personal computer systems for individual use in a variety of computing applications. The Company's computer systems are generally composed of a computer mainframe and peripherals, operating software to control the system and applications software to solve problems. In addition, supplemental circuit boards and optional accessories can be added to enable the computer to perform additional or different tasks.

Computer systems powerful enough to solve meaningful computing problems but priced low enough to be used by one person resulted from significant technical and manufacturing advances within the semiconductor and magnetic memory industries over the past ten years. These advances included the development of increasingly powerful microprocessor and memory circuits and significant reductions in the cost of these circuits. Similar developments occurred in magnetic storage as costs per unit of storage declined and capacities increased both for floppy (flexible) and rigid disks.

These advances and the introduction of a growing number of applications software packages resulted in the development of markets and applications for personal computer systems. Penetration of these markets has and will continue to require effective product marketing and distribution as well as the continuing development of easy-to-use software.

In 1976, two of the Company's founders designed, developed and assembled the Apple I, a microprocessor-based computer consisting of a single printed circuit board. In April 1977 the Company introduced the Apple II computer mainframe which was similar to the Apple I but incorporated additional circuitry and a keyboard, and was packaged in a plastic housing. Although many of the early personal computers, including Apple's products, were purchased by hobbyists who were highly knowledgeable technicians, the Company believes that such purchases currently constitute a small and decreasing percentage of personal computer sales.

In 1978 and 1979, the Apple II was improved with the addition of a more powerful disk operating system which facilitated the use of optional floppy disk storage in place of less efficient cassette tape storage. These enhancements increased the power and speed of the Apple II and facilitated the development of applications software. Independent firms began supplying a variety of applications software and peripheral equipment for use with the Apple II, for such applications as small business accounting, text editing, portfolio analysis, laboratory data collection and teaching. The development of this software and equipment contributed to the growth of the low-cost personal computer market by increasing the variety of applications for which personal computers could be used. Today, the Company's systems are used by persons without prior computer experience as well as by persons with prior computer experience in business, education, scientific and engineering applications and, to a lesser extent, in the home.

In anticipation of market growth, in 1977 Apple commenced the development of a distribution network of independent regional distributors and local retail outlets. In 1980, Apple terminated its arrangements with its domestic distributors and commenced distribution of its products directly to retail stores in order to improve the management of the channels of distribution and to gain better access to end-users. See "Marketing" and "Litigation". Apple products are currently sold through approximately 800 independent retail outlets in the United States and Canada and internationally through 21 distributors which resell to approximately 1,000 retail dealers. Products are serviced in the United States and in Canada by approximately 700 of the retail stores and internationally by retail dealers.

Products

The Company's computer systems combine the Apple II mainframe or Apple III with a variety of software programs and peripheral accessories, depending upon the complexity of the system and the computing tasks to be performed.

Apple II

The Company's principal computer system is based on the Apple II computer mainframe, first introduced in 1977. Packaged in a five-inch high, 12-pound case are the basic units of a computer, including a microprocessor, random access main memory, read only control memory, a typewriter-style keyboard and a power supply. In addition, the Apple II system circuitry provides an interface with various external devices, including a video display and specialized input controls for games. The basic Apple II mainframe can provide output to a black and white or color video monitor (including a television set) and can display 40 characters per line or graphics in up to 16 colors. It can also generate sounds and music through a built-in speaker. The Apple II provides eight plug-in slots for optional circuit boards which control and interface with such peripheral devices as disk drives, printers and a graphics tablet. The Apple II can be furnished with main memory ranging from 16K bytes to 48K bytes (a byte is a unit of data, such as a letter or integer, and K is a symbol for approximately 1,000).

The suggested retail price of the Apple II mainframe ranges from $1,195 to $1,395, depending on main memory size. Complete Apple II systems, including various peripheral devices and software packages, typically range in suggested retail price from $1,850 to over $5,000. Apple sold approximately 570, 7,600, 35,100 and 78,100 Apple II computer mainframes during the period ended September 30, 1977 and during the fiscal years ended September 30, 1978, September 30, 1979 and September 26, 1980, respectively. As of October 31, 1980 the Company had sold approximately 131,000 Apple II computer mainframes.

Apple III

The Company announced the Apple III computer system in May 1980, with the first shipments originally scheduled for the summer of 1980. However, the Company encountered delays in meeting its production schedule, and demonstration units were first shipped to dealers in September 1980. Limited deliveries of Apple III to retail customers took place in late November 1980. The Apple III is intended for a range of applications requiring more computing speed and power than the Apple II and includes a number of features which are optional accessories for the Apple II, as well as other features not available on the Apple II. The Apple III incorporates a built-in disk drive as well as the circuitry to control up to three additional external disk drives. It offers built-in interface circuitry for both a thermal printer and a letter-quality impact printer, for an enhanced typewriter-style keyboard with a numeric key pad and for full upper and lower case display capability with a text display of 80 characters per line. Apple III is furnished with main memory capacity of 96K bytes and can be expanded to 128K bytes.

The Apple III is designed principally for business applications, including preparing detailed budgets, performing complex pricing analyses, long-term scheduling, calculating investment returns, maintaining mailing lists and word processing. The suggested retail prices for the Apple III computer system range from approximately $4,300 to over $7,800 depending upon main memory size and peripherals.

Due to the recent introduction of the Apple III, the utility of and market acceptance for the product have not yet been demonstrated by significant sales or end-user applications. In addition, the development of extensive applications packages for the Apple III might be required before the Company can expect to sell the product in significant volume.

Software

Of major importance to the usefulness, simplicity and flexibility of an Apple computer system is the availability of a variety of system software and applications packages.

System software is a set of programs supplied by Apple that enable the user to supervise the computer's resources. With these programs the user can maintain and manipulate files, execute existing programs and use programming languages to develop new applications. Programming languages enable the user to instruct the computer to perform specific tasks. Apple offers the user a variety of programming languages, each having advantages for particular applications. The programming languages offered for the Apple II include two versions of the popular BASIC (an easy-to-use beginners language), FORTRAN (useful for work in mathematics, engineering and the sciences), Pascal (generally used by professional computer programmers for complex programs) and PILOT (used for the development of computer-aided instruction in education). The Apple III has an improved operating system for faster data retrieval and storage and will initially offer the Apple Business BASIC programming language and, in April 1981, will offer Pascal. In addition, the Apple III has a special emulation capability which permits it to run most programs designed for the Apple II.

Applications packages are programs written in one of the programming languages and are designed to accomplish specific tasks, such as bookkeeping, text editing and financial modeling. Although some of these programs are designed and developed by Apple, the Company believes that most of the applications packages which are available for Apple's computers are developed independently and supplied by approximately 100 independent vendors.

Among the principal software packages for the Apple II developed and marketed directly by the Company are the following:

APPLE POST™	—a mailing list system for entering, editing, storing and printing names, addresses and telephone numbers which, when attached to a compatible printer, will also print mailing labels, addresses and telephone lists.
APPLE WRITER™	—a basic word processing system providing the capability to write, revise, edit and print text.
DOW JONES SERIES PORTFOLIO EVALUATOR	—assists in portfolio analysis by enabling the user to store stock portfolios and to access stock quotations and other information via telephone connection to the Dow Jones News Retrieval System.
SHELL GAMES	—various programs designed as educational aids.

The software packages for the Apple II developed by independent vendors and marketed by Apple under royalty agreements include:

APPLE PLOT™	—a system for preparing, revising and printing charts and graphs.
CASHIER™	—a small retail store management system designed to maintain customer/vendor files, monitor and order inventory and generate invoices and management reports.
CONTROLLER™	—an accounting system designed to maintain accounts receivable, accounts payable and general ledger records for a small business.

In addition, the Company believes that one of the applications packages frequently used with the Apple II, which is developed and marketed by an independent vendor, is a financial modeling system enabling a user to manipulate and express relationships between rows and columns of numbers in applications such as financial modeling and forecasting. A new version of this applications package is being marketed directly by the Company in connection with the Apple III.

Peripherals

Apple's computer systems are used with a variety of peripheral products such as video monitors, disk drives, printers and graphics tablets. Apple's computers incorporate standard interfaces permitting the use of peripherals designed and manufactured by others as well as those offered by Apple.

One of the principal peripheral accessories manufactured and offered by Apple is its Disk II Floppy Disk Subsystem, which increases the capability of the computer through the use of 5¼-inch flexible or floppy disks for data storage. The Disk II, introduced in June 1978, provides file memory capacity of up to 143K bytes of data, increases data retrieval speed and provides random access to stored data, permitting the computer system to accommodate many additional applications.

Other peripheral accessories manufactured and offered by Apple include a graphics tablet (to create and display pictorial information electronically, such as architectural renderings, schematics, mechanical shapes and fine arts), a thermal printer (used for quiet printing of text or graphics) and interface circuit boards (used to exchange data between Apple computers and other computers, printers or accessories). Apple also markets peripheral products including impact printers and video monitors manufactured by others.

Users of Apple computer systems also have a choice of a wide variety of other peripheral accessories designed and offered by independent companies. These peripherals include medium-speed printers for home and business applications requiring letter-quality output; modems which provide a data communications link utilizing a telephone network to access timesharing services, computerized bulletin boards or other computers; music synthesizers; and portable power units that allow Apple systems to be operated in automobiles and elsewhere.

Marketing

The first personal computers were sold principally by mail order to hobbyists. However, with the growth in the number of computer retail stores since 1976, most personal computers have been distributed through retail outlets, reflecting the economics of distributing and servicing a moderate cost product to a highly diverse market. The Company believes that the introduction of higher priced and more complex personal computers, such as the Apple III, may require the Company to expand its distribution channels or establish additional marketing arrangements, such as a direct sales force. Certain of these steps could involve significant investments and additional costs. See "Use of Proceeds". In addition, the development of an experienced and expanded marketing organization will require the addition of qualified personnel, who are in great demand.

Distribution Channels

Apple's products are sold in the United States and Canada through approximately 800 independent retail outlets. Sales to the retail stores are made directly by the Company's sales organization and through independent sales representatives on a commission basis. The retail outlets are generally computer stores which range from sole proprietorships to franchises of retail store chains. These stores typically handle a variety of computer-related products, including competitive computer systems. Approximately 210 of the retail outlets consist of franchised outlets of four independent retail chains. To a lesser extent, Apple also markets its products to end-users and original equipment manufacturers through its own direct sales force and through independent sales representatives.

Prior to March 1980, Apple distributed its products in the United States and Canada primarily through five independent distributors which purchased the products for resale to the retail outlets. The distributors also were responsible for warehousing products as well as selecting, training and monitoring the retail dealers. In February 1980, Apple elected to terminate these distribution arrangements and distribute its products from newly established Company-owned regional support centers directly to the retail stores. This decision was made in order to improve the Company's ability to ensure adequate inventory of products at the distribution centers, to assist in the direct training of the retail dealers and to gain better access to end-users of personal computers. See Notes 2 and 10 of Notes to Consolidated Financial Statements and "Litigation". However, there can be no assurance that this change will improve the distribution of the Company's products.

Apple's regional support centers are located in Sunnyvale and Irvine, California; Charlotte, North Carolina; and Dallas, Texas. The Company plans to establish additional support centers in Boston and Chicago and in Toronto, Canada during 1981. In addition to distributing Apple products to the retail stores, the regional centers also are responsible for warehousing Apple's products and providing credit, service training and service support. See "Service and Support".

The largest retail chain distributing Apple products during the 1980 fiscal year was ComputerLand with 108 franchised outlets offering Apple products in the United States. The Company has entered into a volume purchase agreement with ComputerLand, expiring on March 24, 1981, which is subject to automatic extension unless terminated upon 90 days notice by either party. Under the agreement, the Company sells its products directly to ComputerLand. ComputerLand resells such products to its franchised outlets and is responsible for centralized purchasing as well as selecting, training and monitoring its franchised dealers. Sales of Apple products to ComputerLand accounted for approximately 14% of the Company's net sales for the 1980 fiscal year. No other retail chain or store accounted for more than 3% of net sales during the 1980 fiscal year.

Retail dealers typically purchase the Company's products on an as-needed basis. The Company, in turn, currently ships to retailers shortly after order receipt. For this reason and because the nature of their business frequently results in retail dealers changing delivery schedules and order rates, the Company's backlog of orders as of any particular period may not be representative of the Company's actual sales for any succeeding period.

Prior to August 1980, foreign sales were made primarily to an independent distributor, Eurapple, located in the United States, under an agreement providing for exclusive rights to distribute Apple's products in certain foreign countries. Foreign sales were made by Eurapple to other independent distributors primarily located in Europe and, to a lesser extent, in the Far East, the Middle East, Australia, the Philippines and South Africa. In August 1980, Apple acquired Eurapple's distribution rights and currently sells its products directly to 21 independent foreign distributors. Sales to Eurapple in fiscal 1980 prior to such date accounted for approximately 17% of the Company's net sales for fiscal 1980. See Note 2 of Notes to Consolidated Financial Statements. The foreign distributors resell the products to approximately 1,000 retail dealers.

In September 1980 Apple established a center for sales, marketing, service, dealer training, warehousing and distribution in Zeist, Netherlands to serve the European market. In addition, the Company expects to manufacture a substantial portion of its products for sale in Europe at its recently opened facility in County Cork, Ireland.

During the 1979 and 1980 fiscal years, foreign sales of Apple's products, including sales in Canada, were approximately 24% and 25%, respectively, of net sales for such periods. Since August 1980 sales to the foreign distributors generally have been made in local currencies and are subject to the risks of exchange rate fluctuations. Restrictive tariff and export control policies are potential risks of foreign sales, but the Company has experienced no material problems to date.

The Company has not directly financed, rented, or leased any of its computer systems nor is any such program presently contemplated. The Company, however, has entered into agreements with ITT Diversified Credit Corporation ("ITT") and United States Leasing Corporation ("USLC") to provide inventory financing for retail dealers and third-party leasing arrangements for commercial end-user customers, respectively. The ITT agreement is terminable by the Company upon 10 days written notice to ITT and obligates the Company to repurchase factory-sealed Apple products from ITT in the event of certain defaults in the dealer's obligations. The USLC leasing plan offers commercial end-user customers three and four-year leases with fixed purchase options and permits users to add additional equipment to their leases. The agreement between the Company and USLC continues until October 31, 1981 and provides for automatic renewal for an additional one-year period unless terminated by either party. Both of the foregoing agreements were entered into by the Company in

June 1980 and, to date, only a small amount of the Company's products have been leased or financed under such agreements.

Service and Support

Apple's products are serviced in the United States and Canada by approximately 700 retail dealers and four Company-owned service centers. The authorized retail dealers are trained to replace and exchange most system components at the retail store. These dealers are required to enter into dealer service agreements pursuant to which they purchase service kits containing spare parts, components, manuals and diagnostic programs. Although certain of these dealers offer maintenance and service of entire systems, including peripheral products manufactured by others, the Company relies upon the manufacturers of such peripheral products (including any warranties offered by such manufacturers) for assistance in maintenance. The cost of this dealer service to the customer is set by the dealer for products not under warranty. To date, approximately 90% of all repair work and diagnostic testing on Apple products has been provided by dealers.

Company-performed service principally consists of more extensive repairs not provided by the authorized retail dealers. This service is performed at the four United States regional support centers and at Zeist, Netherlands using extensive diagnostic instrumentation and repair equipment.

Apple typically offers a 90-day full parts and labor warranty for its products and, since January 1980, has offered an extended limited warranty at a price of $195 for each year of coverage. Since January 1980, approximately 5% of the purchasers of Apple systems entered into extended service agreements. Liabilities under both warranty programs have been nominal to date; however, no assurance can be given that this trend will continue for existing as well as new and more complex systems which may be introduced to the market.

Although the Company currently anticipates utilizing its existing service procedures for its Apple III systems, such service, as well as service on future products, may require greater technical expertise than that currently used in dealer service and end-users of the Apple III and future products may require on-site service. In addition, the continued growth of Apple's distribution network will require the Company to establish other Company-owned service centers and to inventory spare parts in different geographic locations in order to provide prompt service and warranty repair. Such steps could involve significant investments and additional costs.

Advertising and Promotion

The expansion of the personal computer market will require a continued orientation effort directed at informing individuals of the means by which the computer may be utilized to enhance personal efficiency and productivity. Towards this end, the Company is committed to an extensive advertising and promotional effort. During the fiscal years ended September 30, 1978 and 1979 and September 26, 1980, the Company spent $573,000, $2,011,000 and $4,469,000, respectively, for advertising.

Apple supports the advertising campaigns of its retail dealers by reimbursing them for up to 3% of their dollar purchases from Apple for advertising costs actually incurred which comply with certain standards set by Apple. Apple also provides dealers, at its own expense, with a variety of support materials including point-of-sale posters, demonstration models and brochures. Sales seminars are also conducted to assist dealers in selling Apple products.

Apple advertises its products through radio commercials, newspaper advertisements, in business, professional, consumer and trade periodicals, and through participation in industry shows and seminars. The Company also promotes its products through direct mailings to retail dealers and end-users and through various Company publications including *The Apple Magazine*, each issue of which features a major product application area, such as finance, business, science or education.

Competition

The personal computer market is highly competitive and has been characterized by rapid technological advances in both hardware and software development, which have substantially increased the capabilities and applications of personal computers. The principal competitive factors in the personal computer market are product quality and reliability, relative price/performance, marketing and distribution capability, service and support, the availability of hardware and software accessories, corporate reputation, and ease of understanding and operation of the system. The Company believes it competes favorably with respect to all of these factors, however, the Company's reliance upon independent retail dealers for product distribution may not provide the market penetration of Radio Shack (a subsidiary of Tandy Corporation), which sells through a large number of company-owned retail stores and distribution outlets. In addition, Commodore International Ltd. has broader international retail distribution than the Company. The Company may also be at a competitive disadvantage because it purchases integrated circuits and other component parts utilized in its computers from outside vendors, while certain of its competitors manufacture such parts. In addition, a substantial portion of the peripheral equipment used with Apple's systems is purchased from outside vendors while certain competitors design and manufacture their own peripheral equipment.

Apple, Radio Shack and Commodore are believed to be the principal manufacturers of personal computers with system prices below $5,000, which category includes most Apple II systems. The Company believes that it has the second largest installed base of such systems in the United States. Apple experiences competition for its higher priced systems (which include the Apple III) from a number of concerns including Radio Shack, Cromemco Incorporated, North Star Computers, Inc., Ohio Scientific, Inc. and Vector Graphics Inc.

The Company expects intense competition from several substantially larger firms which have entered or are expected to enter the personal computer market, including Hewlett-Packard Company, IBM, Texas Instruments and various Japanese manufacturers, all of which have considerably greater financial, marketing, and technological resources than the Company. In addition, depending upon the successful completion of pending and proposed product development efforts, the Company anticipates competing more directly with the foregoing concerns and other large domestic and foreign manufacturing concerns, such as Xerox Corporation, Exxon Corporation and Wang Laboratories, Inc. in such areas as the office automation and information processing segments of the business and office market. No assurance can be given that the Company will have the financial resources, marketing, distribution and service capability, depth of key personnel, or technological knowledge to compete successfully in these markets.

Manufacturing

The Company's manufacturing operations consist principally of the purchase, assembly and test of the materials and components comprising its products at facilities located in Dallas, Texas; Cupertino, San Jose and Los Angeles, California; and, since October 1980, in County Cork, Ireland. The principal materials and components used in the production of Apple's products include semiconductors, plastic and metal parts, and certain electro-mechanical subassemblies purchased from independent suppliers. Although most are standard parts, certain items, such as metal and plastic parts and circuit boards are fabricated or assembled by independent vendors to Apple's specifications. In addition, Apple manufactures certain components such as disk drives and keyboards. Apple strives to qualify multiple sources of supply for all of its materials and subassemblies. Certain components, such as power supplies, integrated circuits and plastic housings are obtained from single sources, although the Company believes other sources for such parts are available. To date, the Company has not experienced any significant production problems or delays due to shortages in material or components.

Quality control and final system testing and inspection are performed by Apple at its production facilities. In the testing process, the Company utilizes its own computers with specialized software to perform diagnostic testing to isolate and identify defective components. As part of the final testing process, all systems are subjected to a four day continuous "burn-in" to provide assurance of electronic and mechanical functions.

Apple anticipates that as it develops more complex products it may be required to use custom integrated circuits. There can be no assurance that the required custom circuits will be readily available or available from more than one source.

FCC Regulation

In October 1979 and April 1980, the Federal Communications Commission ("FCC") adopted orders imposing radiofrequency emanation standards on computing equipment. The specifications set forth in those regulations are designed to reduce radiofrequency interference with communications, including television and radio reception. The regulations distinguish between computing devices marketed for use primarily in a commercial, industrial or business environment (designated Class A) and computing devices marketed for use primarily in a residential environment (designated Class B).

The Company believes that its Apple II system will be subject to regulations imposed on Class B devices. Personal computers classified as Class B devices which are manufactured after January 1, 1981 must be certificated as being in compliance with the FCC specifications for such devices and be appropriately labelled. The Company has completed the engineering design work to modify the Apple II system to comply with the regulations and has ordered the necessary parts to permit production of the redesigned system by the required January 1, 1981 date. Because the Company was uncertain as to its ability to meet this production schedule for the redesigned system, the Company filed a request with the FCC for a 90 day extension, which has been granted. If the Company is unable to meet its planned modification and production schedule within the extended period, the Company could be precluded from selling non-complying products in the United States until such modifications are completed. However, the Company does not believe this risk to be significant.

The Company has been advised that its Apple III computer systems will be classified as Class A devices. Class A devices first manufactured prior to October 1, 1981 must meet Class A specifications by October 1, 1983. All Class A devices first produced after October 1, 1981 must comply with Class A specifications at the time of their manufacture. Since the specifications for Class A devices are less strict than the equivalent standards for Class B devices, and since the time in which compliance must occur is longer, the Company expects the Apple III to satisfy applicable FCC specifications.

Research and Development

The personal computer industry is subject to rapid technological change, and the ability of the Company to operate successfully depends upon, among other things, its ability to adapt to such change. The Company maintains a continuing program of research and development. This program focuses upon the development of personal computer systems to address new markets and applications, the development of peripheral accessories and the development of software packages designed to further enhance the user's productivity.

During the fiscal years ended September 30, 1978 and 1979 and September 26, 1980, the Company spent approximately \$600,000, \$3,600,000, and \$7,300,000, respectively, for research and product development. All of the Company's research and development costs are expensed as incurred.

Patents and Licenses

The Company currently holds four U.S. patents and has filed applications for four additional U.S. patents relating to certain aspects of the Company's computer and peripheral systems. The Company is also seeking patent protection in certain major foreign countries. However, the Company believes that the ownership of patents is not presently a significant factor in its business and that its success does not depend on the ownership of patents, but primarily on the innovative skills, technical competence and the marketing abilities of its personnel.

In addition, the Company has a registered trademark in the United States for "Apple", the Apple silhouette and the Apple color logo.

Because of the technological changes in the computer industry with current extensive patent coverage and the rapid rate of issuance of new patents, certain components of the Company's products may involve infringement of existing patents. If any such infringements do exist, the Company believes, based upon industry practice, that any necessary licenses or rights under patents may be obtained on terms which would not have a material adverse effect on the Company. The Company has entered into a patent cross-licensing agreement with Hewlett-Packard.

Litigation

In June 1980, High Technology, Inc., a former distributor of the Company's products which was terminated by the Company, filed an action against the Company in the United States District Court for the Eastern District of Missouri. High Technology's president and an affiliated company are also plaintiffs. The complaint alleges, among other things, violations of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,750,000 in damages, as well as alleging treble damages, punitive damages and claiming attorneys' fees and costs. The Company has denied the material allegations of the complaint and has counterclaimed for the amount due for goods sold and delivered by the Company to High Technology, for breach of the distributorship agreement between the Company and High Technology and for tortious interference with the Company's business relationships with dealers.

The Company is also a defendant in an action filed in May 1980 and currently pending in the United States District Court for the Western District of Washington brought by Omega Northwest, Inc., another terminated distributor of the Company's products. The complaint alleges breach of contract, violations of the Washington Franchise Investment Protection Act and state antitrust law and defamation. Omega seeks treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The Company has answered the complaint denying its material allegations and has counterclaimed for Omega's unpaid indebtedness to the Company and for fraud. The Company will be filing a motion to dismiss and for summary judgment on all but the defamation claim.

Discovery in both of these legal actions is at an early stage. Based upon the proceedings which have taken place to date and upon review of the Company's records, and discussion with Company personnel, the Company and its special litigation counsel, Fenwick, Stone, Davis & West, are of the opinion that there is no substantial likelihood that the plaintiffs in either case will establish a material liability of the Company on any of the claims asserted.

Employees

At September 26, 1980, the Company employed approximately 1,015 full time employees, including 198 in marketing and sales; 152 in research, product development and related engineering; 558 in manufacturing; and 107 in general management and administration.

Many of the Company's employees are highly skilled, and the Company's continued success will depend in part on its ability to attract and retain such employees, who are in great demand. At times the Company, along with most other computer manufacturers, experiences difficulty in hiring and retaining experienced personnel.

The Company has never had a work stoppage and no domestic employees are represented by a labor organization. The Company's production employees in County Cork, Ireland are represented by the Irish Transport and General Workers' Union. The Company considers its employee relations to be good.

Property

The following table sets forth information concerning the Company's principal facilities:

Location	Square Feet	Lease Expiration
Manufacturing		
Cupertino, CA (3 locations)	69,100	11/83 to 6/89
San Jose, CA	34,640	5/86
Sunnyvale, CA (2 locations)	46,717	3/81 to 6/85
Garden Grove, CA	20,680	8/84
Newbury Park, CA	6,490	8/83
Carrollton, TX	100,000	7/85
County Cork, Ireland	41,500	Owned
	321,127	
Distribution		
Sunnyvale, CA	31,000	12/82
Irvine, CA	31,645	8/86
Charlotte, NC	29,160	9/85
Carrollton, TX	39,388	7/85
Zeist, Netherlands	29,329	5/81
	160,522	
Administration and Research and Development		
Cupertino, CA (7 locations)	103,314	12/80 to 12/90
Cupertino, CA	3,000	Owned
	106,314	

In addition the Company leases facilities aggregating approximately 20,000 square feet for regional sales offices. See Note 7 of Notes to Consolidated Financial Statements for information regarding the Company's obligations under leases.

The Company has commenced expansion of its Ireland facility to include an additional 42,000 square feet of manufacturing space, with construction anticipated to be completed in July 1981. The Company also intends to lease additional office facilities aggregating approximately 130,000 square feet in Cupertino, California, which are currently under construction and anticipated to be completed in August 1981.

The Company presently utilizes approximately 60% of its manufacturing space capacity. Manufacturing and production operations utilize one work shift a day, five days a week. The Company believes that its existing facilities and equipment are well maintained, in good operating condition and adequate for its present level of operations.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company and their ages are as follows:

Name	Position	Age
A. C. Markkula, Jr.	Chairman of the Board and Executive Vice President	38
Steven P. Jobs	Vice Chairman of the Board and Vice President	25
Michael M. Scott	President, Chief Executive Officer and Director	37
Ann S. Bowers	Vice President—Human Resources	42
Carl H. Carlson	Executive Vice President—Operations	52
Gene P. Carter	Vice President—Sales	46
John D. Couch	Vice President	33
Albert A. Eisenstat	Vice President, General Counsel and Secretary	50
Frederick M. Hoar	Vice President—Corporate Communications	54
Frederick Rodney Holt	Vice President	46
Thomas M. Whitney	Executive Vice President	41
Stephen G. Wozniak	Vice President	30
Kenneth R. Zerbe	Executive Vice President—Finance and Administration	45
Peter O. Crisp*	Director	48
Arthur Rock*	Director	54
Philip S. Schlein*	Director	46
Henry E. Singleton*	Director	63

*Member of Audit Committee and Compensation Committee.

All directors hold office until the annual meeting of shareholders of the Company next following their election, or until their successors have been elected and qualified. Officers serve at the discretion of the Board of Directors. Pursuant to the requirements of a common stock purchase agreement entered into by the Company in January 1978, Mr. Crisp was appointed as a director in substitution for Mr. Henry S. Smith in October 1980. See "Certain Transactions". The Company has entered into an employment agreement with Carl H. Carlson which expires in September 1981.

There are no family relationships between any directors or executive officers of the Company.

Mr. Markkula has been a director since March 1977 and has served as Chairman of the Board of Directors since May 1977. In addition, he served as Vice President—Marketing from May 1977 through June 1980, and was promoted to Executive Vice President in June 1980. From 1971 to December 1976, he was Marketing Manager at Intel Corporation, a manufacturer of integrated circuits.

Mr. Jobs, a co-founder of the Company, has served as Vice Chairman of the Board since August 1979 and as Vice President since May 1977, and has been a director since March 1977. Prior to that time, he worked as an engineer for two years with Atari, Inc., a computer games manufacturer.

Mr. Scott has served as President since May 1977 and as a director since January 1978. From 1972 to January 1977, he was a director of manufacturing at National Semiconductor Corporation, a manufacturer of integrated circuits and computers.

Ms. Bowers joined the Company in July 1980 as Vice President—Human Resources. From October 1976 through June 1980, she served as an independent personnel management consultant to high technology growth firms. Prior to that time she served as Director of Personnel at Intel Corporation for over six years.

Mr. Carlson joined the Company in September 1979 as Vice President—Operations and was promoted to Executive Vice President—Operations in June 1980. From September 1978 until his employment by the Company, he was President and a director of Basic Manufacturing, Inc., a subsidiary of BTI Computer Systems, a mini-computer manufacturer. Prior to that time, he was Vice President of Computer Automation, Inc., a manufacturer of mini-computers, for approximately three years.

Mr. Carter joined the Company in August 1977 as National Sales Manager and in December 1978 was elected Vice President—Sales. Prior to that time he was Director of Microprocessor Marketing at National Semiconductor Corporation.

Mr. Couch joined the Company as Product Manager in October 1978 and was promoted to Vice President in April 1979. For more than five years prior to that time he held various engineering management positions at Hewlett-Packard Company, a manufacturer of business computers, during which time he was responsible for software development for the HP-3000 family of computers.

Mr. Eisenstat joined the Company in July 1980 as Vice President and General Counsel and has also served as Secretary of the Company since September 1980. From December 1978 to July 1980, he was Senior Vice President of Bradford National Corporation, a computer services firm serving the banking, securities, and health care industries. From December 1974 through December 1978, he was Vice President and Corporate Counsel of Tymshare, Inc., an international computer timesharing and services company. In both of these positions, Mr. Eisenstat was responsible for legal and administrative duties.

Mr. Hoar joined the Company in July 1980 as Vice President—Corporate Communications. From March 1980 until his employment with the Company, he was Vice President—Public Affairs and Communications at Syntex Corporation, a pharmaceutical company. For more than five years prior to that time he was Vice President—Communications for Fairchild Camera & Instrument Corporation, a semiconductor manufacturer.

Mr. Holt joined the Company as an engineer in February 1977 and became Vice President—Engineering in March 1978. From January 1976 until January 1977, Mr. Holt was a senior project engineer with Atari, Inc. From January 1975 until January 1976, he was a senior project engineer for Coherent, Inc., a laser optics firm.

Dr. Whitney joined the Company in October 1978 as an Executive Vice President. From July 1974 to October 1978, he was Engineering Manager for various divisions of Hewlett-Packard Company. In this position, he was in charge of managing hardware and software products development.

Mr. Wozniak, a co-founder of the Company, has served as Vice President since March 1977, was Secretary of the Company from March 1977 to September 1980 and was a director of the Company from March 1977 to January 1978. Prior to that time, he had been an engineer for Hewlett-Packard Company for three years.

Mr. Zerbe joined the Company in April 1979 as Vice President—Finance and Administration, and served in that position until June 1980, at which time he was promoted to Executive Vice President—Finance and Administration. From April 1976 to April 1979, he was Senior Vice President of Finance and Administration for American Microsystems, Inc., a manufacturer of semiconductors. Prior to that time, he was Senior Vice President of Finance at Fisher and Porter Co., a manufacturer of electronic process instrumentation.

Mr. Crisp was appointed to the Board of Directors in October 1980. Since 1969, Mr. Crisp has been a general partner of Venrock Associates, a limited partnership that invests in technology-based companies. See "Certain Transactions". Mr. Crisp is also a director of Crum and Forster, Eastern Air Lines, Inc., Evans & Sutherland Computer Corp., Itek Corporation and Thermo Electron Corporation.

Mr. Rock was appointed to the Board of Directors in October 1980 and was one of the early investors in the Company. He has been the general partner of Arthur Rock & Associates, a venture capital concern, since 1969 and a limited partner of Hambrecht & Quist, one of the Representatives of the Underwriters, since January 1980. Mr. Rock is also a director of Intel Corporation and Teledyne, Inc. See "Certain Transactions" and "Underwriters".

Mr. Schlein was appointed to the Board of Directors in June 1979. He has been President and Chief Executive Officer of Macy's California, a division of R. H. Macy & Co., Inc. since January 1974. Mr. Schlein is also a director of that corporation.

Dr. Singleton was appointed to the Board of Directors in October 1978. He has been Chairman of the Board and Chief Executive Officer of Teledyne, Inc., an insurance and electronics company, for twenty years and also serves as a director of Unicoa Corp., a publicly-held subsidiary of Teledyne, Inc.

Remuneration

The following table sets forth certain information as to each of the five most highly compensated executive officers or directors of the Company whose aggregate direct remuneration exceeded $50,000, and as to all officers and directors as a group, during the fiscal year ended September 26, 1980.

Individuals or Persons in Group	Capacities in Which Served	Cash and Cash Equivalent Remuneration: Salaries and Bonuses(1)	Cash and Cash Equivalent Remuneration: Securities and Personal Benefits(2)
Michael M. Scott	President and Chief Executive Officer	$ 135,182	$ 12,362
Gene P. Carter	Vice President—Sales	80,091	206,895
John D. Couch	Vice President	81,253	646,734
Frederick Rodney Holt	Vice President	78,554	128,148
Thomas M. Whitney	Executive Vice President	104,750	2,342,819
All Officers and Directors as a group (16 persons)		$1,473,912	$3,419,703(3)

(1) Includes bonuses paid in January 1980 for services rendered in the fiscal year ended September 30, 1979 and bonuses accrued for all officers and directors as a group during the fiscal year ended September 26, 1980. Such accrued bonuses have not been allocated among participants in the bonus plan and therefore are not included in the individual amounts shown in the table. See "Key Employee Bonus Plan".

(2) Includes (i) automobile allowances; (ii) $3,272,488 representing the difference between the exercise price of options exercised by certain officers during fiscal 1980 and the fair value on the date of exercise; and (iii) $106,464 representing the difference between the rate of interest on certain officers' and directors' notes to the Company and the average rate of interest (12.4%) at which the Company borrowed money in fiscal 1980.

(3) Includes benefits paid to a former director who resigned in October 1980.

See "Certain Transactions" for information concerning indebtedness of certain officers to the Company.

Key Employee Bonus Plan

The Board of Directors of the Company has adopted a bonus plan for management for the fiscal year ending September 25, 1981. The bonus pool is determined by a formula based on annual sales and pre-tax profit margins, before adjustment for certain items. Eligible employees include the president, the vice-presidents, directors of operations, other key employees and certain other employees. Ninety percent of the bonus pool is available for award to individuals in certain categories. These categories are assigned weighted distribution values, which values are then used to determine the maximum dollar amount of bonuses available for individuals in such categories. Each individual is automatically awarded 70% of his or her maximum bonus determined pursuant to the weighted formula, and the remaining 30% is awarded at the discretion of the president. The remaining 10% of the total bonus pool is available for award at the discretion of the president to individuals not included in the categories referred to above. A similar bonus plan has been in effect in each of Apple's two prior fiscal years. In fiscal 1980, an aggregate of $554,000 was available as a bonus pool for distribution under the plan.

Profit Participation Plan

The Company adopted a Profit Participation Plan for fiscal 1980 under which distributions are made by the Company to employees in amounts of up to an aggregate of three percent of pre-tax earnings, depending upon the Company's pre-tax profits for each calendar quarter, before adjustment for certain items. Distributions under the Profit Participation Plan are made by the Company on a quarterly basis within 30 days after the end of the quarter and are allocated among eligible participants in the proportion that their base salary for the quarter bears to the aggregate of all base salaries of participating employees in that quarter. All persons employed on a regular basis for at least 30 hours per week with a minimum of six months of service with the Company, with the exception of corporate officers and directors of operations, are eligible to participate in the Profit Participation Plan. For fiscal 1980, approximately $379,000 was provided under the Profit Participation Plan.

Stock Option Plans

The Company had a 1978 Stock Option Plan (the "1978 Option Plan") which was terminated by the Board in December 1979. In addition, the Company has a 1980 Stock Option Plan (the "1980 Option Plan"), adopted by the Board of Directors and approved by the shareholders in December 1979, under which a total of 3,200,000 shares of Common Stock were reserved for issuance, and a 1981 Stock Option Plan (the "1981 Option Plan"), adopted by the Board of Directors in October 1980 and approved by the shareholders in November 1980, under which 1,500,000 shares of Common Stock are reserved for issuance. Each of these plans is administered by the Board of Directors, which has authority to determine optionees, the number of shares to be covered by each option, the time at which each option is exercisable, the exercise price of the options granted, the method of payment and certain other terms of the options. The exercise prices of options granted under the 1978 Option Plan and 1980 Option Plan have been determined by the Board to be not less than the fair value of the shares at the respective dates of grant. The 1981 Option Plan provides that the exercise prices of options granted thereunder shall not be less than the fair market value of the shares at the date of grant, as determined by the Board. Any options which are cancelled or not exercised within the option period become available for future grants. As of November 30, 1980, options to purchase a total of 5,652,600 shares were outstanding to employees under the Company's stock option plans. No options have been granted under the 1981 Option Plan.

The following table sets forth information as to all options to purchase Common Stock under the stock option plans which were granted to or exercised by certain officers and all officers and directors as a group during the fiscal year ended September 26, 1980, and information as to unexercised options held by such persons as of November 30, 1980.

	Gene P. Carter	John D. Couch	F. Rodney Holt	Thomas M. Whitney	All Directors and Officers as a Group (7 Persons)
Options Granted:					
Number of shares	—	—	—	160,000	435,000
Average exercise price per share	—	—	—	$1.31	$2.78
Options Exercised:					
Number of shares	160,000	320,000	106,656	1,120,000	1,906,656
Aggregate purchase price	$ 15,000	$127,500	$ 19,998	$ 300,000	$ 724,998
Aggregate fair value on date of exercise	$210,000	$765,000	$139,986	$2,620,000	$3,997,486
Unexercised Options:					
Number of shares	—	—	106,688	—	481,688
Average exercise price per share	—	—	$.19	—	$2.39

See "Shares Eligible for Future Sale" and "Description of Securities—Outstanding Registration Rights" for information concerning the registration of shares reserved under the stock option plans.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in October 1980 and approved by the shareholders in November 1980. A total of 1,000,000 shares of Common Stock are reserved for issuance under the Purchase Plan. The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1954, as amended, is implemented by one offering during each six-month period and is administered by the Board of Directors of the Company or by a committee appointed by the Board. Employees are eligible to participate if they are customarily employed by the Company for at least 20 hours per week and more than five months per year. The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions (which may not exceed 10% of an employee's compensation) at the lower of 85% of the fair market value of the Common Stock as determined by the Board of Directors at the beginning or at the end of each six-month offering period. Employees may end their participation in the offering at any time during the offering period and participation ends automatically on termination of employment with the Company. To date, no shares have been offered or sold to employees pursuant to the Purchase Plan.

Key Employee Stock Purchase Plan

In December 1979, the Board of Directors and shareholders of the Company adopted a Key Employee Stock Purchase Plan which was terminated by the Board of Directors in October 1980. A total of 800,000 shares of Common Stock was initially reserved for issuance under the plan, of which 798,000 shares have been issued. Consideration for the shares, which were sold at fair value as determined by the Board of Directors, was payable in cash or by a promissory note. The purchase agreements under the plan provide the Company with an option to repurchase the shares at the original sales price in the event of termination of the participants' employment within specified time periods.

1980 Stock Option Financial Assistance Program

In December 1979, the Board of Directors and shareholders adopted a Financial Assistance Program for the purpose of assisting optionees under the stock option plans of the Company in acquiring shares by providing loan guarantees of bank loans to such optionees. Optionees holding options exercisable during calendar year 1980 are eligible for participation in the program. The Company will provide a guaranty to the bank in an amount not to exceed the aggregate purchase price of the shares plus 23% of the difference between the aggregate purchase price of the shares and their market price on the date of exercise, as determined by the Board of Directors. The shares issued upon exercise of the option must be pledged to the Company as collateral to secure its guaranty. The aggregate amount to be guaranteed by the Company pursuant to the program shall not exceed $8,000,000. At November 30, 1980 the Company had outstanding guarantees of approximately $3,899,585 under the program, representing the outstanding amount on loans made to 101 optionees for the purchase of an aggregate of 2,331,423 shares of the Company's Common Stock upon the exercise of the options. Messrs. Carter, Couch and Whitney are the only officers currently participating in this program. This plan was terminated by the Board of Directors, effective at the end of November 1980.

CERTAIN TRANSACTIONS

Steven P. Jobs, Stephen G. Wozniak and A. C. Markkula, Jr. may be considered "promoters" of the Company within the meaning of the rules and regulations promulgated under the Securities Act of 1933, as amended. In March 1977 the Company sold and issued to Messrs. Jobs and Wozniak 8,320,000 shares of Common Stock each for an aggregate purchase price of $2,654.48 each; and in November 1977 the Company sold and issued 8,320,000 shares of Common Stock to Mr. Markkula for $91,000. The shares issued to Mr. Markkula were paid for in cash. The shares issued to Messrs. Jobs and Wozniak were issued in exchange for certain designs and assets relating to Apple's first products, which were valued at their then current value by Messrs. Jobs, Wozniak and Markkula acting in their capacities as directors of the Company.

In a private placement in January 1978 the Company sold an aggregate of 5,520,000 shares of Common Stock at a purchase price of $.09 per share for an aggregate purchase price of $517,500 to a group of private investors. Of these shares, 640,000 were purchased by Mr. Arthur Rock, a director of the Company, and 3,200,000 were purchased by Venrock Associates, a venture capital limited partnership of which Mr. Henry S. Smith, a former director of the Company, and Mr. Peter O. Crisp, a director of the Company, are general partners. Mr. Smith and his successor, Mr. Crisp, were elected to the Board of Directors pursuant to a common stock purchase agreement and related letter agreement with certain major shareholders executed in connection with such private placement, which documents provide that, so long as Venrock Associates is a holder of at least 5% of the outstanding shares of Common Stock of the Company, at least one person nominated by Venrock Associates is to be elected to the Board. In addition, Venrock Associates purchased 22,222 shares of Preferred Stock, Series A, from the Company in a private placement in September 1978 at a purchase price of $9.00 per share for an aggregate purchase price of $199,998. These shares were subsequently converted, in accordance with their terms, into 711,104 shares of Common Stock (giving effect to subsequent stock splits).

The following table sets forth the number of shares of Common Stock which were sold to and the price paid therefor by officers and directors of the Company other than the promoters:

Name	Shares	Price per Share	Date of Purchase
Michael M. Scott	1,280,000	$ .01	11/77
	1,920,000	.09(1)	8/78
Carl H. Carlson	200,000(2)	1.31(1)	10/79
	100,000(2)	1.31(1)	10/80
Gene P. Carter	160,000	.09	6/78
	160,000(2)	.09	1/79
	40,000(4)	1.31(5)	12/79
	160,000(2)	.09(3)	2/80
	160,000(2)	.09(3)	11/80
John D. Couch	80,000(2)	.09(1)	10/78
	80,000(2)	.09(3)	2/80
	160,000(2)	.09(1)	4/80
	80,000(2)	1.31(1)	4/80
Albert A. Eisenstat	160,000(4)	2.75(1)	7/80
Frederick Rodney Holt	800,000	.01	11/77
	960,000	.09(1)	8/78
	106,656(2)	.19(3)	2/80
	106,656(2)	.19	11/80
Thomas Whitney	320,000(2)	.09(1)	10/78
	320,000(2)	.09(3)	2/80
	640,000(2)	.09(1)	4/80
	160,000(2)	1.31(1)	4/80
Kenneth R. Zerbe	800,000	.31(1)	5/79
	100,000(4)	2.75(1)	7/80
Arthur Rock	640,000	.09	1/78
Philip S. Schlein	32,000	.31	7/79
	80,000(4)	2.75(6)	4/80
Henry E. Singleton	1,120,000	.09	9/78
	80,000(4)	2.75(6)	4/80

(1) Payment was made by a 6% promissory note due five years from its date and secured by the shares purchased.

(2) Represents shares issued upon exercise of options under the Company's stock option plans.

(3) Payment was made with the proceeds of a bank loan guaranteed by the Company.

(4) Represents shares purchased under the 1980 Key Employee Stock Purchase Plan. See "Management—Key Employee Stock Purchase Plan".

(5) Payment was made by a 7% promissory note due five years from its date and secured by the shares purchased.

(6) Payment was made by a 7% promissory note due four years from its date and secured by the shares purchased.

The purchase price for the shares sold in each of the foregoing transactions was equal to the fair value of the shares at the respective dates of sale or option grant, as determined by the Company's Board of Directors.

Of the amounts payable by officers and directors of the Company with respect to the notes described in the table, Messrs. Carlson, Couch, Whitney and Zerbe have repaid $7,875, $1,500, $1,875 and $50,000, respectively, and Mr. Scott has repaid all of his notes in full. At November 1, 1980, all other amounts described in the foregoing table remained outstanding. Also, Messrs. Carter, Couch, Holt and Whitney were extended loans in an aggregate amount of $563,020 during fiscal 1980 by a bank under the 1980 Stock Option Financial Assistance Program, repayment of which was guaranteed by the Company. Mr. Holt has subsequently repaid this note in full. See "Management—1980 Stock Option Financial Assistance Program".

During fiscal 1979, the Company extended a $100,000 cash loan to Kenneth R. Zerbe at an interest rate of 6%. This loan was repaid prior to September 26, 1980. In addition, the Company extended loans during fiscal 1980 and 1981 in aggregate amounts of $443,900, $124,200, and $107,812 at an interest rate of 6% to Thomas Whitney, John Couch, and Carl Carlson, respectively, for tax payment purposes.

It is the current policy of the management of the Company that the Company not extend or guarantee loans or accept notes from officers, directors or employees of the Company in connection with the purchase of shares of the Company or the payment of tax liabilities associated therewith without the approval of a majority of the disinterested, outside members of the Board of Directors. Such policy will be in effect for at least two years from the date hereof.

On August 6, 1980, Hambrecht & Quist, one of the Representatives of the Underwriters, purchased for its own account and the account of certain of its affiliates 40,000 shares of the Company's Common Stock from an employee of the Company at $5.44 per share for an aggregate purchase price of $217,600. The $5.44 per share purchase price was arrived at as a result of arm's-length negotiations between the parties. Mr. Rock, a director of the Company, is a limited partner of Hambrecht & Quist. See "Underwriters".

CERTAIN SHAREHOLDERS

The following table sets forth information, as of November 30, 1980, with respect to all shareholders known by the Company to be the beneficial owners of more than 5% of its outstanding Common Stock and share ownership by directors and by all officers and directors as a group.

Name and Address	Shares of Common Stock Beneficially Owned: Number of Shares	Percent of Total
Venrock Associates 30 Rockefeller Plaza New York, NY	3,801,822	7.6%
Steven P. Jobs	7,542,448	15.0
A. C. Markkula, Jr.	7,029,448(1)	14.0
Stephen G. Wozniak	3,989,231(2)	7.9
Michael M. Scott	2,810,232(3)	5.6
Peter O. Crisp	3,801,822(4)	7.6
Henry E. Singleton	1,200,000	2.4
Arthur Rock	640,000(5)	1.3
Philip S. Schlein	112,000	0.2
All Officers and Directors as a group (17 persons)	32,026,443(6)(7)	63.8

(See footnotes on following page)

(Footnotes from preceding page)

(1) Includes (i) 6,971,095 shares held of record by Armas Clifford Markkula and Linda Kathryn Markkula, Trustees of the Arlin Trust U/D/T dated May 29, 1980, which shares are beneficially owned by Mr. Markkula, and (ii) 58,353 shares held of record by trusts for the benefit of Mr. Markkula's wife and minor children, as to which he disclaims beneficial ownership.

(2) Excludes (i) 1,248,000 shares held of record by Mr. Wozniak's wife, from whom he is separated, and (ii) an aggregate of 128,000 shares held of record by Mr. Wozniak's parents and siblings. Mr. Wozniak disclaims beneficial ownership of these shares.

(3) Excludes 100,000 shares to be sold by Mr. Scott. See footnote (7).

(4) Represents shares held of record by Venrock Associates, a venture capital limited partnership. As a general partner of Venrock Associates, Mr. Crisp may be deemed to share voting and investment power as to all of such shares.

(5) Includes 12,800 shares held of record by the Marie R. Getchel Trust, for which Mr. Rock acts as trustee and exercises voting and investment power.

(6) Includes (i) 2,250 shares held of record by Mr. Couch's children, as to which shares he disclaims beneficial ownership; (ii) 101,540 shares held by a trustee in an irrevocable trust for Mr. Holt; (iii) 100,000 shares held by Mr. Carlson and his wife as trustee for a trust for their benefit; and (iv) 4,000 shares held of record by Mr. Whitney's children, as to which shares he disclaims beneficial ownership. Excludes 119,944 shares owned by Mr. Henry S. Smith, a former director of the Company who resigned in October 1980.

(7) Excludes 100,000, 150,000, 50,000 and 50,000 shares to be sold by Messrs. Scott, Carlson, Zerbe and Carter, respectively, to an individual investor, Mr. Charles O. Finley, and a company affiliated with Mr. Finley in private transactions pursuant to agreements entered into in November 1980. The investors represented that the shares are being acquired for investment. The closings for such sales are to take place on or by the fifth business day following the date of this Prospectus at a price per share equal to the public offering price less 15%. These shares were sold by the aforementioned officers in reliance upon the "private placement" exemption under the Act and are consequently subject to the restrictions upon resale applicable to privately placed securities thereunder.

As indicated in footnote (7) to the table set forth above, four officers of the Company are selling an aggregate of 350,000 shares to Mr. Charles O. Finley and his affiliated company. These officers have agreed to sell these shares principally to raise cash to pay income taxes and to diversify their investments. In the course of entering into these agreements, Mr. Finley requested assistance in obtaining from the Underwriters allocations of the shares offered hereby. Messrs. Scott and Zerbe subsequently wrote letters to Morgan Stanley & Co. Incorporated ("Morgan Stanley"), one of the Representatives of the Underwriters, requesting that Morgan Stanley attempt to accommodate Mr. Finley to the extent consistent with Morgan Stanley's business practices and applicable law. Morgan Stanley declined to afford Mr. Finley any special consideration in the public offering of the shares offered hereby. An attorney representing Mr. Finley and his affiliated company has threatened to sue Messrs. Scott, Zerbe and Carlson on behalf of these prospective purchasers for allegedly failing to use their best efforts and good offices to assist them in obtaining a substantial block of the shares offered hereby.

By virtue of their beneficial ownership of 15.0%, 14.0% and 5.6% of the outstanding shares of Common Stock, respectively, and positions with the Company (See "Management—Executive Officers and Directors"), Messrs. Jobs, Markkula and Scott may be deemed to be "parents" of the Company within the meaning of the rules and regulations promulgated under the Securities Act of 1933, as amended.

SELLING SHAREHOLDERS

The following table sets forth information, as of November 30, 1980, with respect to the beneficial ownership of the Company's Common Stock by Selling Shareholders:

Name or Identity of Group	Shares Owned		Shares to Be Sold	Shares to Be Owned After Sale	
	Number	Percent		Number	Percent(1)
Broventure Company, Inc.	200,000	.4%	5,000	195,000	.4%
Continental Illinois Venture Corporation	1,792,000	3.6	224,000	1,568,000	2.9
Fifty-Third Street Ventures, Inc.	240,000	.5	40,000	200,000	.4
First Century Partnership	380,952	.8	100,000	280,952	.5
Hellman, Gal Investment Associates	600,000	1.2	100,000	500,000	.9
Hixon Venture Company	362,864	.7	51,000	311,864	.6
Xerox Corporation	800,000	1.6	80,000	720,000	1.3
Total	4,375,816	8.7%	600,000	3,775,816	7.0%

(1) Assuming no exercise of the over-allotment option to purchase up to an aggregate of 400,000 shares from the Company.

First Century Partnership, one of the Selling Shareholders, is a private limited investment partnership for which Smith Barney Capital Corporation acts as investment advisor. Smith Barney Capital Corporation is a subsidiary of Smith Barney, Harris Upham & Co. Incorporated ("Smith Barney"), which is one of the Underwriters. See "Underwriters". First Century Partnership acquired 380,952 shares of Common Stock of the Company pursuant to a common share purchase agreement dated August 9, 1979. Such shares were acquired at a purchase price of $1.3125 per share for an aggregate of $499,999.50 in a private transaction from a group of sellers consisting of the Company and nine selling shareholders, some of whom were also officers and directors of the Company.

DESCRIPTION OF SECURITIES

The Company's authorized capital stock consists of 160,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

Common Stock

Holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders, except that holders are entitled to cumulate their votes in the election of directors. The holders of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor and subject to the prior dividend rights of holders of the Preferred Stock, if any (see "Dividends"). Upon liquidation or dissolution of the Company, subject to prior liquidation rights of the holders of the Preferred Stock, if any, the holders of Common Stock are entitled to receive pro rata all assets remaining available for distribution to shareholders. The Common Stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares. All of the outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be outstanding upon completion of this offering will be fully paid and nonassessable.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred Stock, none of which is presently outstanding. The Board of Directors is authorized to determine the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, liquidation preferences and sinking fund terms on any series of Preferred Stock, the number of shares constituting any such series and the designation thereof. The Company has no present plans to issue any such shares.

Outstanding Registration Rights

The holders of an aggregate of 11,736,248 shares of Common Stock, at September 26, 1980, sold by the Company pursuant to Common Stock Purchase Agreements dated January 31, 1978 and August 9, 1979, and Common Stock issued upon conversion of Preferred Stock, Series A, sold by the Company pursuant to Preferred Stock Purchase Agreements dated August 25, 1978 and September 6, 1978, or their transferees (collectively, the "Holders") are entitled to certain rights with respect to the registration thereof under the Securities Act of 1933, as amended (the "Act"). Such Holders may request that the Company file a registration statement under the Act with respect to such Common Stock, and the Company shall use its best efforts to effect such registration, provided that the aggregate proposed offering price of the shares proposed to be registered is at least $4 million for the first registration of securities by the Company and $3 million for subsequent registrations, or the number of shares proposed to be registered is 3,200,000 shares, and subject to certain other conditions. The original purchasers under the four agreements have the sole and exclusive right to request the first such demand registration and the Company is only required to effect two such registrations. Furthermore, whenever the Company proposes to register any of its securities under the Act either for its own account or on account of other security holders exercising certain registration rights, the Company is required, each such time, to notify each Holder of the proposed registration, and include all Common Stock which such Holder may request to be included in such registration; provided, among other things, that the Company has the right to limit the number of such shares being registered according to a certain schedule.

Holders of (i) options which have been granted under the 1978 Stock Option Plan or the 1980 Stock Option Plan and which are exercisable and (ii) Common Stock of the Company issued upon exercise of such options (collectively, the "Option Shares") are entitled to certain registration rights pursuant to the Option Agreements entered into with the Company. All expenses of such registrations are to be borne by the Company with the exception of transfer taxes, brokerage fees and other costs incurred directly by the optionee. The Company intends to file a registration statement on Form S-1 to register the issuance of shares of Common Stock to employees upon exercise of stock options issued under the Company's stock option plans. Such registration statement is expected to become effective shortly after the date of this Prospectus. Shares of Common Stock issued upon the exercise of stock options after the effective date of such registration statement will generally be freely tradable without any further registration requirement.

Subject to market conditions and other factors, the Company may file another registration statement on a date not less than four months after the date of this Prospectus covering the sale of such amount of the Option Shares as may be requested by the holders. The Company has agreed that the number of such Option Shares included in such registration statement will not exceed 500,000 shares without the written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist as to the amount and method of offering.

Transfer Agent and Registrar

The First National Bank of Boston is the Transfer Agent and Registrar of the Company's Common Stock.

Reports to Shareholders

The Company intends to furnish its shareholders with annual reports containing audited financial statements and to distribute quarterly reports containing unaudited financial information for the first three quarters of each fiscal year.

UNDERWRITERS

Under the terms and subject to the conditions contained in an Underwriting Agreement dated the date hereof, the Underwriters named below have severally agreed to purchase, and the Company and the Selling Shareholders have severally agreed to sell to them, shares of the Company's Common Stock which in the aggregate equal the number of shares set forth opposite the name of such Underwriter below.

Name	Number of Shares
Morgan Stanley & Co. Incorporated	725,250
Hambrecht & Quist	725,250
ABD Securities Corporation	17,500
Advest, Inc.	17,500
Algemene Bank Nederland N.V.	17,500
Arnhold and S. Bleichroeder, Inc.	17,500
Associated European Capital Corporation	4,100
Atlantic Capital Corporation	34,700
Bache Halsey Stuart Shields Incorporated	71,500
Bacon, Whipple & Co.	34,700
Baer Securities Corporation	4,100
Robert W. Baird & Co. Incorporated	34,700
Baker, Watts & Co.	4,100
Banque Nationale de Paris	17,500
Baring Brothers & Co., Limited	4,100
Basle Securities Corporation	34,700
Bateman Eichler, Hill Richards Incorporated	34,700
George K. Baum & Company, Incorporated	4,100
Bear, Stearns & Co.	71,500
Sanford C. Bernstein & Co., Inc.	17,500
William Blair & Company	34,700
Blunt Ellis & Loewi Incorporated	17,500
Blyth Eastman Paine Webber Incorporated	71,500
Boettcher & Company	17,500
J. C. Bradford & Co., Incorporated	17,500
Brean Murray, Foster Securities Inc.	4,100
Alex. Brown & Sons	34,700
Bruns, Nordeman, Rea & Co.	4,100
Burgess & Leith Incorporated	4,100
Cazenove Incorporated	8,150
The Chicago Corporation	8,150
Collett & Company, Inc.	4,100
County Bank Limited	17,500
Cowen & Co.	8,150
Craigie Incorporated	4,100
Crédit Commercial de France	17,500
Crowell, Weedon & Co.	17,500
Dain Bosworth Incorporated	34,700
Daiwa Securities America Inc.	17,500
Dataquest Securities, Incorporated	4,100
Davenport & Co. of Virginia, Inc.	4,100
Davis, Skaggs & Co., Inc.	4,100
R. G. Dickinson & Co.	4,100
Dillon, Read & Co. Inc.	71,500
Dominion Securities Inc.	8,150
Donaldson, Lufkin & Jenrette Securities Corporation	71,500
Drexel Burnham Lambert Incorporated	71,500
F. Eberstadt & Co., Inc.	34,700
A. G. Edwards & Sons, Inc.	34,700
Elkins & Co.	8,150

Name	Number of Shares
Eppler, Guerin & Turner, Inc.	17,500
EuroPartners Securities Corporation	17,500
Fahnestock & Co.	8,150
Ferris & Company, Incorporated	4,100
The First Boston Corporation	71,500
First Harlem Securities Corporation	4,100
First Manhattan Co.	4,100
First of Michigan Corporation	17,500
First Southwest Company	4,100
Robert Fleming Incorporated	17,500
Folger Nolan Fleming Douglas Incorporated	17,500
Foster & Marshall Inc.	17,500
Goldman, Sachs & Co.	71,500
Gruntal & Co.	4,100
Herzfeld & Stern	8,150
Hill Samuel & Co. Limited	17,500
J. J. B. Hilliard, W. L. Lyons, Inc.	17,500
Howard, Weil, Labouisse, Friedrichs Incorporated	17,500
E. F. Hutton & Company Inc.	71,500
Interstate Securities Corporation	8,150
Janney Montgomery Scott Inc.	17,500
Johnson, Lane, Space, Smith & Co., Inc.	4,100
Johnston, Lemon & Co. Incorporated	17,500
Josephthal & Co. Incorporated	4,100
Kidder, Peabody & Co. Incorporated	71,500
Kleinwort, Benson Incorporated	17,500
Cyrus J. Lawrence Incorporated	17,500
Lazard Frères & Co.	71,500
Legg Mason Wood Walker, Incorporated	17,500
Lehman Brothers Kuhn Loeb Incorporated	71,500
Lepercq, de Neuflize & Co. Incorporated	4,100
Manley, Bennett, McDonald & Co.	4,100
McDonald & Company	34,700
Merrill Lynch, Pierce, Fenner & Smith Incorporated	71,500
Montgomery Securities	17,500
Moore & Schley, Cameron & Co.	4,100
Morgan Grenfell & Co. Limited	17,500
Morgan, Keegan & Company, Inc.	4,100
Moseley, Hallgarten, Estabrook & Weeden Inc.	34,700
Neuberger & Berman	8,150
New Court Securities Corporation	34,700
Newhard, Cook & Co. Incorporated	4,100
The Nikko Securities Co. International, Inc.	17,500
Nomura Securities International, Inc.	34,700
The Ohio Company	8,150
Sal. Oppenheim Jr. & Cie.	4,100
Oppenheimer & Co., Inc.	34,700
Parker/Hunter Incorporated	8,150

Name	Number of Shares	Name	Number of Shares
Pictet International Ltd.	8,150	Smith Barney, Harris Upham & Co. Incorporated	71,500
Pierson, Heldring & Pierson N.V.	8,150	Société Générale de Banque S.A.	17,500
Piper, Jaffray & Hopwood Incorporated	34,700	Somers, Grove & Co., Inc.	4,100
Pitfield, Mackay & Co., Inc.	4,100	Stephens Inc.	17,500
Prescott, Ball & Turben	34,700	Sutro & Co. Incorporated	17,500
Rauscher Pierce Refsnes, Inc.	34,700	Thomson McKinnon Securities Inc.	34,700
Robertson, Colman, Stephens & Woodman	8,150	Tucker, Anthony & R. L. Day, Inc.	34,700
The Robinson-Humphrey Company, Inc.	34,700	Underwood, Neuhaus & Co., Incorporated	8,150
Rodman & Renshaw, Inc.	4,100	Vereins- und Westbank Aktiengesellschaft	8,150
Wm. C. Roney & Co.	4,100	Burton J. Vincent, Chesley & Co.	4,100
Rotan Mosle Inc.	34,700	Warburg Paribas Becker Incorporated	71,500
L. F. Rothschild, Unterberg, Towbin	71,500	Wertheim & Co., Inc.	71,500
Salomon Brothers	71,500	Westdeutsche Landesbank Girozentrale	17,500
Scherck, Stein & Franc, Inc.	4,100	Wheat, First Securities, Inc.	34,700
Schneider, Bernet & Hickman, Inc.	4,100	Dean Witter Reynolds Inc.	71,500
J. Henry Schroder Wagg & Co. Limited	17,500	Wood Gundy Incorporated	17,500
Scott & Stringfellow, Inc.	4,100	Yamaichi International (America), Inc.	17,500
Shearson Loeb Rhoades Inc.	71,500	Total	4,600,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock are subject to the approval of certain legal matters by counsel and to certain other conditions including the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission and that there has been no material adverse change (not in the ordinary course of business) in the condition of the Company and its subsidiaries, taken as a whole, from that set forth in the Registration Statement. The nature of the Underwriters' obligations is such that they are committed to take and pay for all of the shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any are taken.

The Underwriters propose to offer part of the shares directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price which represents a concession of $.70 a share under the public offering price. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $.25 a share to other Underwriters or to certain other dealers.

The Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to 400,000 additional shares of Common Stock at the public offering price set forth on the cover page hereof less the underwriting discounts and commissions. The Underwriters may exercise such option to purchase solely for the purpose of covering over-allotments, if any, incurred in the sale of the shares of Common Stock offered hereby. To the extent such option to purchase is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to 4,600,000.

The Representatives of the Underwriters have informed the Company that the Underwriters do not expect sales to discretionary accounts to exceed 5% of the total number of shares of Common Stock offered hereby and that the Representatives do not intend to confirm sales to any accounts over which they exercise discretionary authority.

In August 1980, Hambrecht & Quist, one of the Representatives of the Underwriters, entered into an agreement to purchase for its own account and the accounts of certain of its affiliates 40,000 shares of Common Stock of the Company from an employee of the Company at $5.44 per share for an aggregate purchase price of $217,600. See "Certain Shareholders" for further information with regard to this transaction and for information as to shares owned by Mr. Arthur Rock, a director of the Company and a limited partner of Hambrecht & Quist.

Smith Barney, one of the Underwriters, is a limited partner in First Century Partnership, one of the Selling Shareholders. Smith Barney and employees of Smith Barney hold an aggregate partnership interest of approximately 4.2% in First Century Partnership, and an individual who is a Senior Vice President and member of the Board of Directors of Smith Barney is the sole general partner of First Century Partnership. In addition, Smith Barney Capital Corporation, a subsidiary of Smith Barney, acts as investment advisor to First Century Partnership. See "Selling Shareholders".

L. F. Rothschild, Unterberg, Towbin, one of the Underwriters, purchased 190,472 shares of Common Stock of the Company for the accounts of certain of its partners and employees pursuant to a common share purchase agreement dated August 9, 1979. Such shares were acquired at a purchase price of $1.3125 per share for an aggregate of $249,994.50 in a private transaction from a group of sellers consisting of the Company and nine selling shareholders, some of whom were also officers and directors of the Company. In addition, in September 1980, L. F. Rothschild, Unterberg, Towbin also purchased, for the accounts of certain of its partners and employees, 13,000 shares of the Common Stock of the Company from two officers of the Company, Messrs. Markkula and Carter, at a purchase price per share of $4.125 for an aggregate of $53,625.

The Company, the Selling Shareholders and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

Each Selling Shareholder has agreed not to offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any shares of Common Stock owned by such Selling Shareholder on the date hereof for a period of 90 days after the date of the initial public offering of the shares offered hereby without the consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist.

Pricing of the Offering

Prior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price for the Common Stock has been determined by negotiation among the Company, the Selling Shareholders and the Representatives of the Underwriters. Among the factors considered in determining the initial public offering price were the sales, earnings and certain other financial and operating information of the Company in recent periods, the future prospects of the Company and its industry in general and the price-earnings ratios, price-book value ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to those of the Company.

LEGAL OPINIONS

The validity of the shares offered hereby will be passed upon for the Company and the Selling Shareholders by Wilson, Sonsini, Goodrich & Rosati, a Professional Corporation, 2 Palo Alto Square, Palo Alto, California, and for the Underwriters by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York. Davis Polk & Wardwell will rely as to all matters of California law on Wilson, Sonsini, Goodrich & Rosati.

EXPERTS

The consolidated financial statements and schedules included in this Prospectus and elsewhere in the Registration Statement have been examined by Arthur Young & Company, certified public accountants, to the extent and for the periods indicated in their report with respect thereto, and are included herein in reliance upon such reports and upon the authority of such firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and such Common Stock, reference is hereby made to such Registration Statement, exhibits and schedules.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Apple Computer, Inc.

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. at September 26, 1980 and September 30, 1979 and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended September 26, 1980 and for the period from January 3, 1977 (inception of the Corporation) through September 30, 1977. Our examinations were 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 consolidated financial position of Apple Computer, Inc. at September 26, 1980 and September 30, 1979 and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 26, 1980 and for the period from January 3, 1977 (inception of the Corporation) through September 30, 1977, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

San Jose, California
October 31, 1980

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF INCOME

	January 3, 1977 (Inception of Corporation) to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Revenues (Note 1):				
Net sales	$773,977	$7,856,360	$47,867,186	$117,125,746
Interest income	—	27,126	71,795	775,797
	773,977	7,883,486	47,938,981	117,901,543
Costs and expenses (Notes 1 and 10):				
Cost of sales	403,282	3,959,959	27,450,412	67,328,954
Research and development	75,520	597,369	3,601,090	7,282,359
Marketing	162,419	1,290,562	4,097,081	12,109,498
General and administrative	76,176	485,922	2,616,365	6,819,352
Interest	5,405	2,177	69,221	209,397
	722,802	6,335,989	37,834,169	93,749,560
Income before taxes on income	51,175	1,547,497	10,104,812	24,151,983
Provision for taxes on income (Note 4)	9,600	754,000	5,032,000	12,454,000
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share (Note 1)	$ *	$.03	$.12	$.24
Common and common equivalent shares used in the calculation of earnings per share	16,640,000	31,544,000	43,620,000	48,412,000

*Less than $.01.

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	September 30, 1979	September 26, 1980
Current assets:		
Cash and temporary cash investments (Note 5)	$ 562,800	$ 362,819
U.S. Government securities, at cost, which approximates market	—	2,110,710
Accounts receivable, net of allowance for doubtful accounts of $617,763 ($400,000 in 1979) (Note 5)	9,178,311	17,441,066
Inventories (Notes 1 and 5):		
Raw materials and purchased parts	6,348,810	19,709,562
Work-in-process	2,985,794	3,773,615
Finished goods	768,113	10,708,443
	10,102,717	34,191,620
Total current assets	19,843,828	54,106,215
Property, plant and equipment, at cost (Note 1):		
Land and buildings	—	242,851
Machinery, equipment and tooling	404,127	2,688,787
Leasehold improvements	384,186	710,556
Office furniture and equipment	321,718	1,673,225
	1,110,031	5,315,419
Less accumulated depreciation and amortization	209,824	1,311,256
Net property, plant and equipment	900,207	4,004,163
Leased equipment under capital leases, net of accumulated amortization of $205,358 ($32,627 in 1979) (Note 6)	195,764	774,988
Cost in excess of net assets of purchased business, net of accumulated amortization of $13,193 (Note 3)	—	514,592
Reacquired distribution rights, net of accumulated amortization of $90,022 (Note 2)	—	5,311,304
Other assets	231,180	639,079
	$21,170,979	$65,350,341

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1979	September 26, 1980
Current liabilities:		
Notes payable to bank (Note 5)	$ —	$ 7,850,000
Note payable (Note 2)	—	1,250,000
Accounts payable (Note 5)	5,410,879	14,495,143
Accrued liabilities	1,720,459	5,795,945
Income taxes payable	1,879,432	7,474,170
Deferred taxes on income (Note 4)	2,051,000	661,000
Current obligations under capital leases (Note 6)	21,823	253,870
Total current liabilities	11,083,593	37,780,128
Non-current obligations under capital leases (Note 6)	203,036	670,673
Deferred taxes on income (Note 4)	204,000	951,000
Commitments and contingencies (Notes 5, 7, and 10)		
Shareholders' equity (Notes 1 and 8):		
Common stock, no par value:		
160,000,000 shares authorized, 48,396,928 shares issued and outstanding (43,305,632 in 1979)	4,297,729	11,428,438
Common stock to be issued in business combination (Note 3)	—	920,210
Retained earnings (Note 5)	5,907,884	17,605,867
	10,205,613	29,954,515
Less notes receivable from shareholders	(525,263)	(4,005,975)
Total shareholders' equity	9,680,350	25,948,540
	$21,170,979	$65,350,341

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(See Note 8)

	Convertible Preferred Stock		Common Stock		Common Stock Subscribed		Common Stock to Be Issued	Retained Earnings	Notes Receivable From Shareholders	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 3, 1977 (inception of the Corporation)	—	$ —	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Issuance of common shares to founders	—	—	16,640,000	5,309	—	—	—	—	—	5,309
Common shares subscribed	—	—	—	—	10,480,000	114,625	—	—	—	114,625
Net income	—	—	—	—	—	—	—	41,575	—	41,575
Balance at September 30, 1977	—	—	16,640,000	5,309	10,480,000	114,625	—	41,575	—	161,509
Issuance of common shares previously subscribed	—	—	10,480,000	114,625	(10,480,000)	(114,625)	—	—	—	—
Issuance of common shares to investors and employees	—	—	6,256,064	586,506	—	—	—	—	—	586,506
Issuance of common shares to officers and directors	—	—	4,000,000	375,000	—	—	—	—	(375,000)	—
Issuance of convertible preferred shares	78,222	703,998	—	—	—	—	—	—	—	703,998
Net income	—	—	—	—	—	—	—	793,497	—	793,497
Balance at September 30, 1978	78,222	703,998	37,376,064	1,081,440	—	—	—	835,072	(375,000)	2,245,510
Issuance of common shares under stock option plan	—	—	1,026,464	181,205	—	—	—	—	(53,250)	127,955
Issuance of common shares to officers and investors	—	—	2,400,000	2,331,086	—	—	—	—	(250,000)	2,081,086
Repayments of notes receivable from shareholders	—	—	—	—	—	—	—	—	152,987	152,987
Issuance of common shares upon conversion of convertible preferred shares	(78,222)	(703,998)	2,503,104	703,998	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	5,072,812	—	5,072,812
Balance at September 30, 1979	—	—	43,305,632	4,297,729	—	—	—	5,907,884	(525,263)	9,680,350
Issuance of common shares under stock option plans	—	—	4,293,296	4,831,209	—	—	—	—	(1,399,100)	3,432,109
Issuance of common shares to officers and directors under key employee stock purchase plan	—	—	798,000	2,299,500	—	—	—	—	(2,299,500)	—
Repayments of notes receivable from shareholders	—	—	—	—	—	—	—	—	217,888	217,888
Shares to be issued in business combination (Note 3)	—	—	—	—	—	—	920,210	—	—	920,210
Net income	—	—	—	—	—	—	—	11,697,983	—	11,697,983
Balance at September 26, 1980	—	$ —	48,396,928	$11,428,438	—	$ —	$920,210	$17,605,867	$(4,005,975)	$25,948,540

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	January 3, 1977 (Inception of Corporation) to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Sources of working capital:				
Working capital provided from operations:				
Net income	$ 41,575	$ 793,497	$ 5,072,812	$11,697,983
Charges to operations not requiring the current use of working capital:				
Depreciation and amortization	8,057	33,056	201,338	1,377,378
Deferred income taxes—non-current portion	—	29,000	175,000	747,000
Total working capital provided from operations	49,632	855,553	5,449,150	13,822,361
Issuance of common shares, net of notes receivable from shareholders	5,309	586,506	2,209,041	3,454,109
Common shares subscribed	114,625	—	—	—
Issuance of convertible preferred shares	—	703,998	—	—
Issuance of common shares upon conversion of preferred shares	—	—	703,998	—
Payments on notes receivable from shareholders	—	—	152,987	195,888
Non-current obligations under capital leases	—	—	228,391	751,955
Working capital provided from business combination:				
Non-current assets acquired	—	—	—	(607,455)
Common shares to be issued	—	—	—	920,210
Working capital provided from business combination	—	—	—	312,755
Total sources of working capital	169,566	2,146,057	8,743,567	18,537,068
Applications of working capital:				
Additions to property, plant and equipment	58,894	250,877	800,260	4,125,718
Acquisition of equipment under capital leases	—	—	228,391	751,955
Reacquisition of distribution rights	—	—	—	5,401,326
Additions to other assets	1,364	27,533	202,283	407,899
Reduction in non-current obligations under capital leases	—	—	25,355	284,318
Conversion of preferred shares to common stock	—	—	703,998	—
Total applications of working capital	60,258	278,410	1,960,287	10,971,216
Increase in working capital	$109,308	$1,867,647	$ 6,783,280	$ 7,565,852
Changes in components of working capital:				
Increases (decreases) in current assets:				
Cash and temporary cash investments	24,420	750,909	$ (212,529)	$ (199,981)
U.S. Government securities	—	—	—	2,110,710
Accounts receivable	178,648	1,201,239	7,798,424	8,262,755
Inventories	182,188	1,637,831	8,282,698	24,088,903
Prepaid taxes on income	3,400	64,600	(68,000)	—
Common stock subscriptions receivable	114,625	(114,625)	—	—
	503,281	3,539,954	15,800,593	34,262,387
Increases (decreases) in current liabilities:				
Notes payable to bank	150,000	(150,000)	—	7,850,000
Note payable	—	—	—	1,250,000
Accounts payable	200,494	795,854	4,414,531	9,084,264
Accrued liabilities	32,379	267,771	1,420,309	4,075,486
Income taxes payable	11,100	758,682	1,109,650	5,594,738
Deferred taxes on income	—	—	2,051,000	(1,390,000)
Current obligations under capital leases	—	—	21,823	232,047
	393,973	1,672,307	9,017,313	26,696,535
Increase in working capital	$109,308	$1,867,647	$ 6,783,280	$ 7,565,852

See accompanying notes.

APPLE COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Apple Computer, Inc. and all of its subsidiaries, after elimination of significant intercompany accounts and transactions. Minority interests in subsidiaries are immaterial.

Provision for doubtful accounts

Provisions for doubtful accounts were \$10,000, \$125,000, \$326,000 and \$330,000 in 1977, 1978, 1979 and 1980, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out (FIFO) basis. Market is replacement cost for raw materials and purchased parts and estimated net realizable value for work-in-process and finished goods.

Property, plant and equipment

Depreciation and amortization is being provided using principally declining balance methods over estimated useful lives as follows:

	Estimated Life
Buildings	30 years
Machinery, equipment and tooling	3-7 years
Leasehold improvements	Life of lease or four years, whichever is less
Office furniture and equipment	3-5 years

Stock splits

In April 1979, May 1980 and September 1980 the Company increased its authorized common shares from 5,000,000 to 160,000,000 and declared two four-for-one stock splits and a two-for-one stock split. Numbers of common shares and per share amounts for all periods presented reflect the effects of the stock splits.

Fiscal year

In fiscal 1980, the Company changed from a September 30 fiscal year-end to a fiscal year ending on the last Friday in September.

Earnings per common and common equivalent share

Earnings per share were computed using the weighted average number of common shares outstanding and common shares issuable upon the exercise of outstanding options (assuming the proceeds would be used to purchase treasury stock at the average fair value during the year). In 1978 and 1979, the calculation included the common shares issuable upon conversion of the preferred stock.

The Company has restated earnings per share for 1979 to reflect the retroactive application of Financial Accounting Standards Board Interpretation No. 31, which requires that the tax benefit attributable to unexercised stock options be considered as part of the proceeds under the treasury stock method. The effect of the restatement was to increase earnings per share in 1979 by \$.01.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Investment tax credits

The Company accounts for investment tax credits using the flow-through method.

Industry segment and geographic information

The Company designs, develops, produces, markets and services personal computer systems. One customer, ComputerLand, accounted for approximately 17% of consolidated revenues in fiscal 1978 and 14% of consolidated revenues in fiscal 1979 and 1980. Sales to certain distributors accounted for more than 10% of revenues prior to changes in distribution arrangements (see Notes 2 and 3). The Company has had no significant foreign operations. Export sales including sales in Canada, made primarily through the Company's former distributor of products in foreign countries (see Note 2), comprise 14%, 24% and 25% of total consolidated sales in 1978, 1979 and 1980, respectively.

2. Product distribution arrangements

Until March 1980, the Company's products were sold primarily through distributors. Effective in March 1980, the Company cancelled all domestic distribution agreements in accordance with their terms and began selling directly to domestic dealers. Concurrent with the cancellations, the Company repurchased approximately $1,300,000 of Apple inventory and offset the amount against amounts owing to the Company by the distributors.

In August 1980 the Company reacquired, for approximately $5,400,000, the exclusive rights to distribute its products in certain foreign countries. The rights, which were to expire in September 1984, were acquired from a distributor and are being amortized using the straight-line method over four years. In connection with the purchase the Company issued an 11%, $1,250,000 promissory note payable February 15, 1981. The Company also repurchased, for approximately $2,800,000, the distributor's Apple inventory and offset the amount against amounts owing to the Company.

3. Business combination

Effective June 30, 1980, the Company agreed to purchase all of the outstanding common stock of a former distributor of Apple products, OB1. The purchase price, $920,210, is to be paid by the issuance of the Company's common stock. The actual number of common shares to be issued (estimated by the Company to be 115,000) is dependent upon the outcome of negotiations currently in progress. The resulting cost in excess of the net OB1 assets acquired, $527,785, is being amortized on the straight-line method over ten years. The effect of this acquisition on sales and income is immaterial.

4. Taxes on income

The provision for taxes on income consists of the following:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
State:				
Current	$5,000	$151,000	$ 555,000	$ 2,205,000
Deferred (prepaid)	(400)	(11,000)	360,000	(272,000)
	4,600	140,000	915,000	1,933,000
Federal:				
Current	8,000	642,000	2,186,000	10,893,000
Deferred (prepaid)	(3,000)	(28,000)	1,931,000	(372,000)
	5,000	614,000	4,117,000	10,521,000
Provision for taxes on income	$9,600	$754,000	$5,032,000	$12,454,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. The sources of these differences and the tax effect of each are as follows:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Bad debt, warranty and advertising provisions	$(1,600)	$(86,000)	$1,961,000	$(2,642,000)
Inventory items capitalized for financial reporting	—	—	—	810,000
Income of Domestic International Sales Corporation	—	39,000	292,000	1,136,000
Other	(1,800)	8,000	38,000	52,000
Total deferred (prepaid) taxes	$(3,400)	$(39,000)	$2,291,000	$ (644,000)

The total provision for taxes on income differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for the differences and the tax effect of each are as follows:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Computed expected tax, net of surtax exemption	$11,100	$729,500	$4,681,000	$11,091,000
California franchise tax, net of federal benefit	2,400	73,000	490,000	1,044,000
Investment tax credits	(5,600)	(25,000)	(77,000)	(197,000)
Other	1,700	(23,500)	(62,000)	516,000
Provision for taxes on income	$ 9,600	$754,000	$5,032,000	$12,454,000

5. Bank credit arrangements

At September 26, 1980, $7,850,000 was payable to a bank under a $20,000,000 line of credit which expires in January 1981. The agreement allows the Company to borrow up to $15,000,000 based upon acceptable receivables and an additional $5,000,000 based upon certain items of inventory. The interest rate is the bank's prime rate plus ¼%. Any amounts due to the bank under the inventory line ($1,850,000 at September 26, 1980) may be converted, at the Company's option, to a term loan payable in 48 monthly installments beginning March 1, 1981 at the bank's prime rate plus ¾%.

Letters of credit of $3,442,169 outstanding at September 26, 1980 further reduce availability of the $15,000,000 portion of the line of credit. Acceptances payable of $946,892 and $1,113,580 at September 26, 1980 and September 30, 1979, respectively, for goods received under the letters of credit but not yet paid by the bank are classified with accounts payable. Additional borrowings at September 26, 1980 are limited, based upon the definition of the borrowing base in the agreement, to approximately $1,500,000 and $3,150,000 under the receivable and inventory portions of the line, respectively.

Borrowings are secured by the Company's receivables and inventory. The agreement contains provisions prohibiting payment of any cash dividends without bank authorization and requiring maintenance of specified levels of working capital and tangible net worth. In accordance with the agreement, the Company has paid a $112,500 commitment fee to the bank.

The inventory line requires the Company to either maintain compensating balances equal to $250,000 plus ten percent of the average daily outstanding balance under the line or to pay fees in lieu of the compensating balances for periods in which the required balances are not maintained.

Amounts paid to the bank under this provision are immaterial. The compensating balance requirement does not legally restrict the use of cash.

6. Obligations under capital leases

Obligations under capital leases represent the present value of future rental payments to be made to a bank under agreements for lease of data processing equipment. Upon payment of the required rentals, the Company has the option to either extend the leases or purchase the equipment at the then fair value. The equipment is being depreciated using the double declining balance method over the terms of the leases (3-7 years). These leases were entered into pursuant to a $2,000,000 lease line of credit with a bank.

Following is a schedule by year of future minimum lease payments under the capital lease obligations together with the present value of the net minimum lease payments as of September 26, 1980:

Fiscal years ending September:	
1981	$ 343,000
1982	343,000
1983	305,000
1984	48,000
1985	48,000
Later years	48,000
Total minimum lease payments	1,135,000
Less amount representing interest	210,000
Present value of net minimum lease payments	$ 925,000

7. Commitments

Lease commitments

The Company operates in leased facilities and also leases certain automobiles. Rent expense was $8,000, $61,000, $358,000 and $1,810,000 in fiscal 1977, 1978, 1979 and 1980, respectively. Aggregate minimum annual lease commitments are $2,672,000, $2,678,000, $2,489,000, $2,140,000, $1,739,000 and $2,208,000 in fiscal 1981, 1982, 1983, 1984, 1985 and 1986-1990, respectively.

Loan guarantees

The Company is the guarantor of $1,018,567 of bank loans as of September 26, 1980 to employees who have exercised options to date during calendar year 1980 under the Company's stock option plans (see Note 8). Employees are required to pledge as collateral the common shares obtained upon exercise. The bank loans are limited to the purchase price of the common shares plus 23% of the difference between the aggregate purchase price and the fair value of the shares as of the date of exercise.

Foreign facilities

During fiscal 1980, the Company signed a grant agreement with the Industrial Development Authority of Ireland (IDA), an Irish government agency, whereby the Company agreed to establish an industrial undertaking for the production and development of personal computer systems and committed itself to purchase or construct land, buildings, machinery, and equipment before July 31, 1983, at a cost of approximately $16,000,000. As of September 26, 1980, the IDA had not yet signed the grant agreement and the amount of the grant, if any, had not yet been determined.

8. Capital stock

Preferred stock authorized

The Company has authorized 1,000,000 shares (increased by the Board of Directors to 5,000,000 shares in October 1980) of preferred stock which may be issued from time to time in one or more series. The Board of Directors is authorized to fix the number and designation of any such series and to determine the rights, preferences, privileges and restrictions granted to or imposed upon any such series.

Stock option plans

In July 1978, the Board of Directors adopted a nonqualified stock option plan (1978 plan) under which options for a total of 11,025,600 shares of common stock were available for grant to officers, directors, employees and contractors at the discretion of the Board of Directors. Option prices were to be at fair value as determined by the Board of Directors, but not less than \$.03 per share. Options granted under the 1978 plan become exercisable over varying periods and expire seven years after the grant date. This plan was terminated in December 1979. Subsequent cancellations are not available for regrant and 49,856 options available for grant at the termination date were rescinded.

In December 1979, the Board of Directors adopted a nonqualified stock option plan for fiscal 1980 (1980 Plan) under which options for a total of 3,200,000 shares of common stock may be granted to officers, directors, employees and contractors. Options granted under the 1980 plan have been granted at no less than fair value as determined by the Board of Directors, become exercisable over varying periods, and expire eight years after grant date. Proceeds and income tax benefits of \$66,349 and \$3,391,714 in 1979 and 1980, respectively, realized by the Company as a result of transactions under these plans have been credited to shareholders' equity; no charges have been made to income in connection with these plans.

Information with respect to stock options is summarized as follows:

	Available for Grant	Outstanding Options: Number	Aggregate Price	Price Per Share
Initial authorization under the plan—fiscal year 1978	8,000,000	—	\$ —	\$ —
Balance at September 30, 1978	8,000,000	—	—	—
Authorized increase	2,000,000	—	—	—
Options granted	(11,621,600)	11,621,600	2,850,150	\$ .09–\$1.31
Options exercised	—	(1,026,464)	(114,856)	\$ .09–\$ .81
Options cancelled	1,530,656	(1,530,656)	(146,999)	\$ .09–\$ .31
Balance at September 30, 1979	(90,944)	9,064,480	2,588,295	\$ .09–\$1.31
Authorized increases, net of rescission	4,175,744			
Options granted	(2,765,800)	2,765,800	6,775,725	\$1.31–\$6.00
Options exercised	—	(4,293,296)	(1,439,495)	\$ .09–\$2.75
Options cancelled	33,600	(356,012)	(187,221)	\$ .19–\$1.31
Balance at September 26, 1980	1,352,600	7,180,972	\$7,737,304	\$ .09–\$6.00
Options exercisable at:				
September 30, 1979		267,200	\$ 200,500	\$ .09–\$1.31
September 26, 1980		227,924	\$ 96,553	\$ .09–\$2.75

In October 1980, the Board of Directors adopted the 1981 Stock Option Plan, subject to shareholder approval, under which 1,500,000 shares of common stock are reserved for issuance. This plan is similar to the Company's 1978 and 1980 option plans.

Key employee stock purchase plan

In December 1979, the Board of Directors adopted a stock purchase plan to encourage stock ownership by certain officers, directors and key employees of the Company. The Company has reserved 800,000 common shares for issuance under the plan. The purchase price of shares sold pursuant to this plan was the fair value at the date of sale, as determined by the Board of Directors. At September

26, 1980, 798,000 shares of common stock had been issued under this plan. Certain of the shares sold under this plan are subject to repurchase by the Company at the original sale price if the employees leave the employ of the Company within specified periods of time.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted, subject to shareholder approval, an Employee Stock Purchase Plan under which 1,000,000 shares of Common Stock were reserved for issuance. This plan provides that substantially all employees may purchase stock at 85% of its fair market value at certain specified dates. Purchases are limited to 10% of an employee's compensation.

Notes receivable from shareholders

The notes receivable arose from the sale by the Company of its common stock to directors, officers and employees and from the exercise of stock options by officers and employees under the Company's stock option plans. The notes receivable relating to exercise of stock options include both the proceeds from the exercise and up to 23% of the difference, if any, between the aggregate exercise price and the fair value of the shares as of the exercise date.

The notes receivable are secured by a pledge of the shares issued, less the pro-rata release by the Company of pledged shares based on the percentage of the principal amount of the notes paid. There were 4,179,000 common shares pledged as collateral at September 26, 1980.

The notes bear interest at 6% and 7% and are payable on various dates through July 1985.

9. Employee incentive plans

Profit participation plans

The Company has a profit participation plan originally adopted effective October 1978 which covers all fulltime employees, except corporate officers and certain key employees, who have been employed for at least six months. Distributions under the plan are based upon pretax profits, as defined, for each calendar quarter. The amount of the distribution can vary from zero to three percent, depending upon the pretax profit percentage for each calendar quarter, and is payable to all eligible participants within 30 days after the end of the quarter. For the years ended September 30, 1979 and September 26, 1980, approximately $263,000 and $379,000, respectively, were provided under the plan.

Key employee bonus plans

The Company has a bonus plan originally adopted effective October 1978 for officers and certain key employees. The amount of the distribution can vary from zero to seven percent of pretax profits, depending upon annual sales and pretax profits, as defined. Payments under the plan shall be made by January 15 of the year following the fiscal year in which the distribution is accrued. For the years ended September 30, 1979 and September 26, 1980, approximately $456,000 and $554,000, respectively, were provided under the plan.

10. Litigation

In June 1980, a former distributor (High Technology, Inc.) filed suit against the Company alleging, among other things, violation of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,750,000 in damages, as well as alleging treble damages, punitive damages, and claiming attorneys' fees and costs. Another former distributor (Omega Northwest, Inc.) filed suit against the Company in May 1980 seeking treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The complaint alleges breach of contract, violations of state franchise protection and state antitrust acts, and defamation. In the opinion of the Company's management, the outcome of the litigation will result in no material loss to the Company. Refer to "Litigation" section of the Prospectus for a more complete description of this pending litigation.

30, 1980, 700,000 shares of common stock had been issued under the plan. Certain of the shares sold under this plan are subject to repurchase by the Company at the original sale price if the employees leave the employ of the Company within specified periods of time.

Employee Stock Purchase Plan

In October 1980 the Board of Directors adopted, subject to shareholder approval, an Employee Stock Purchase Plan under which 1,000,000 shares of Common Stock were reserved for issuance. This plan provides that substantially all employees may purchase stock at 85% of its fair market value at certain specified dates. Purchases are limited to 10% of an employee's compensation.

Notes receivable from shareholders

The notes receivable arose from the sale by the Company of its common stock to directors, officers and employees and from the exercise of stock options by officers and employees under the Company's stock option plans. The notes receivable relating to exercise of stock options include both the proceeds from the exercise and up to 25% of the difference, if any, between the aggregate exercise price and the fair value of the shares as of the exercise date.

The notes receivable are secured by a pledge of the shares issued, and the shares are released by the Company as pledged shares based on the percentage of the principal amount of the note paid. There were 4,122,000 common shares pledged as collateral at September 26, 1980.

The notes bear interest at 6% and 7% and are payable in various dates through July 1985.

9. Employee incentive plans

Profit participation plans

The Company has a profit participation plan originally adopted effective October 1978 which covers all fulltime employees except corporate officers and certain key employees, who have been employed for at least six months. Distributions under the plan are based upon pretax profits, as defined, for each calendar quarter. The amount of the distribution can vary from zero to three percent, depending upon the pretax profit percentage for each calendar quarter, and is payable to all eligible participants within 30 days after the end of the quarter. For the years ended September 30, 1979 and September 26, 1980, approximately $0,000 and $179,000, respectively, were provided under the plan.

Key employee bonus plans

The Company has a bonus plan originally adopted effective October 1978 for officers and certain key employees. The amount of the distribution can vary from zero to seventy percent of a person's salary depending upon annual sales and pretax profits, as defined. Payments under the plan shall be made by January 15 of the year following the fiscal year in which the distribution is earned. For the years ended September 30, 1979 and September 26, 1980, approximately $0,000 and $0,000, respectively, were provided under the plan.

10. Litigation

In June 1980, a former distributor (High Technology, Inc.) filed suit against the Company alleging, among other things, violations of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,700,000 in damages, as well as alleging treble damages, punitive damages, and claiming attorneys' fees and costs. Another former distributor (Omega Northwest, Inc.) filed suit against the Company in May 1980 seeking treble damages in an unspecified amount, injunctive relief and attorneys' fees and costs. The complaint alleges breach of contract, violations of state franchise protection laws and other acts and declarations. In the opinion of the Company and counsel, the outcome of the litigation will result in no material loss to the Company. Reference is made to "Litigation" elsewhere in the Prospectus for a more complete description of this pending litigation.

PRELIMINARY PROSPECTUS
Issued November 6, 1980

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

4,500,000 Shares

Apple Computer, Inc.

COMMON STOCK

Of the 4,500,000 shares of Common Stock offered hereby, 4,000,000 shares are being sold by the Company and 500,000 outstanding shares are being sold by the Selling Shareholders as set forth under "Selling Shareholders". The Company will not receive any part of the proceeds from the sale of shares by the Selling Shareholders. Prior to this offering there has been no public market for the Common Stock. It is currently anticipated that the initial public offering price will be in the range of $14 to $17 per share. See "Underwriters" for a discussion of the factors to be considered in determining such offering price.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)	Proceeds to Selling Shareholders
Per Share	$	$	$	$
Total(3)	$	$	$	$

(1) See "Underwriters" herein for information on indemnification provided by the Company and the Selling Shareholders.

(2) Before deduction of expenses payable by the Company estimated at $.

(3) The Company has granted to the Underwriters an option, exercisable within 30 days of the date hereof, to purchase up to 400,000 additional shares at the price to public less underwriting discounts and commissions for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total price to public, underwriting discounts and commissions, and proceeds to Company will be $, $ and $, respectively. See "Underwriters".

The shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein and subject to approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that delivery of the certificates for the shares will be made on or about December , 1980 at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N.Y., against payment therefor in New York funds.

MORGAN STANLEY & CO. ***HAMBRECHT & QUIST***
Incorporated

December , 1980

No person is authorized in connection with any offering made hereby to give any information or to make any representation other than as contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, by the Selling Shareholders or by any Underwriter. This Prospectus is not an offer to sell, or a solicitation of any offer to buy, by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Until March , 1981 (90 days after the commencement of the offering), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Prospectus.

THE COMPANY

Apple Computer, Inc. designs, develops, produces, markets and services microprocessor-based personal computer systems for individual use in solving computing problems commonly encountered in business, education, science, engineering and in the home. Products manufactured and distributed by Apple are sold in the United States and Canada through approximately 750 independent retail computer stores, and internationally through 20 independent distributors which resell to approximately 1,000 retail dealers. Apple's products are primarily serviced in the United States and Canada by approximately 650 of the retail stores and in other countries by independent retail dealers.

THE OFFERING

Security Offered	4,500,000 shares of Common Stock(1) 4,000,000 shares by the Company(1) 500,000 shares by the Selling Shareholders
Shares to be Outstanding	52,396,928 shares (1)
Use of Proceeds	To repay short-term bank debt and to increase working capital.
Proposed NASDAQ symbol	

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	January 3, 1977 (inception) to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Income Statement Data:				
Revenues	$773,977	$7,883,486	$47,938,981	$117,901,543
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share(2)	Less than $.01	$.03	$.12	$.24
Shares used to calculate per share data(2)	16,640,000	31,544,000	43,620,000	48,412,000

	September 26, 1980 Actual	As Adjusted(1)(3)
Balance Sheet Data:		
Current assets	$54,106,215	$
Current liabilities	37,780,128	29,930,128
Total assets	65,350,341	
Non-current obligations under capital leases	670,673	670,673
Shareholders' equity	25,948,540	

(1) Does not include up to 400,000 shares which may be sold by the Company to the Underwriters to cover over-allotments.

(2) The number of shares and all data presented on a per share basis in this Prospectus have been adjusted, except where otherwise indicated, to reflect stock splits. See Note 1 of Notes to Consolidated Financial Statements.

(3) Adjusted to reflect completion of the offering (assuming no exercise of the over-allotment option) and the anticipated use of proceeds by the Company.

THE COMPANY

Apple Computer, Inc. designs, develops, produces, markets and services microprocessor-based personal computer systems for individual use in solving computing problems commonly encountered in business, education, science, engineering and in the home.

The Company's principal product is the Apple II personal computer system. Apple II systems in typical configurations may be sold for suggested retail prices as low as \$1,850 and up to \$5,000 or more with the addition of memory and peripherals necessary to perform more complex computing tasks. As of October 31, 1980, Apple had sold approximately 135,000 Apple II computer mainframes. In May 1980 the Company announced the introduction of the Apple III, which is expected to be delivered to retail customers starting in late November 1980. See "Business—Products". The Apple III is intended for more sophisticated professional and business applications than the Apple II. Suggested retail pricing for Apple III systems is expected to begin at \$4,300 and range up to \$7,800.

In addition to the system and applications software developed by the Company, approximately 170 independent vendors have developed applications software for use in connection with Apple computers. The Company also offers peripheral equipment, some of which is manufactured by others, including video monitors, disk drives and printers. In addition, Apple computers can utilize many peripherals manufactured and marketed by other companies.

The Company's computer systems are distributed in the United States and in Canada by approximately 750 independent retail computer stores and internationally through 20 independent distributors which resell to approximately 1,000 retail outlets. Approximately 650 of the retail outlets located in the United States and Canada are also authorized to act as service centers for Apple products.

Apple was incorporated in California on January 3, 1977. Its principal offices are located at 10260 Bandley Drive, Cupertino, California 95014, and its telephone number at that address is (408) 996-1010. The Company's Standard Industrial Classification (SIC) code is 3573. Unless the context otherwise indicates, the terms "Apple" and "Company" as used herein refer to Apple Computer, Inc. and its subsidiaries.

USE OF PROCEEDS

The principal purposes of the offering are to increase the Company's equity capital base, to finance growth and to provide a public market for the Company's Common Stock. The net proceeds from the sale of the shares of Common Stock offered by the Company are estimated to be \$ (or \$ if the Underwriters' over-allotment option is exercised in full). Of such net proceeds, approximately \$ will be used to repay short-term bank indebtedness incurred for working capital purposes and the balance will be used primarily to finance accounts receivable and inventory and for other general corporate purposes. Pending such uses, a portion of the proceeds may be invested in short-term money market obligations.

The Company's growth has resulted in increased working capital needs. The Company expects that its working capital needs will continue to increase in the future and may be accelerated depending upon such factors as the introduction of new products, the expansion of the market for its products and possible changes in distribution channels and methods for certain of its products. In order to finance these needs the Company may utilize its bank line of credit which expires in January 1981. The bank line currently provides for borrowings, under certain conditions, of up to \$20,000,000. See Note 5 of Notes to Consolidated Financial Statements. The Company is currently in the process of renegotiating its existing bank line. Depending upon developments in the Company's business and upon capital market conditions, the Company may also finance its working capital needs through the sale of additional securities. The Company does not have any present plans for increased borrowings under its existing bank line or for sales of additional securities.

The Company will not receive any proceeds from the shares of Common Stock being sold by the Selling Shareholders.

CAPITALIZATION

The following table sets forth the capitalization of the Company at September 26, 1980 and as adjusted to give effect to the sale of the Common Stock offered hereby (assuming the over-allotment option is not exercised):

	Outstanding	As Adjusted
Short-term debt:		
Notes payable to bank(1)	$ 7,850,000	$ —
11% note due February 15, 1981(2)	1,250,000	1,250,000
Current obligations under capital leases	253,870	253,870
Total short-term debt	$ 9,353,870	$ 1,503,870
Non-current obligations under capital leases	$ 670,673	$ 670,673
Shareholders' equity:		
Preferred stock, 5,000,000 shares authorized, none outstanding or as adjusted	—	—
Common stock, 160,000,000 shares authorized, 48,396,928 shares outstanding; 52,396,928 shares as adjusted(3)	11,428,438	
Common stock to be issued in business combination(4)	920,210	920,210
Retained earnings (1)	17,605,867	17,605,867
Less: Notes receivable from shareholders	(4,005,975)	(4,005,975)
Total shareholders' equity	25,948,540	
Total capitalization	$26,619,213	$

(1) See Note 5 of Notes to Consolidated Financial Statements.

(2) See Note 2 of Notes to Consolidated Financial Statements.

(3) Excludes (i) 10,033,572 shares reserved for issuance pursuant to options granted or to be granted under the Company's stock option plans and (ii) 1,000,000 shares reserved for issuance pursuant to the Company's Employee Stock Purchase Plan. See "Stock Option Plans" and "Employee Stock Purchase Plan" under "Management" and Note 8 of Notes to Consolidated Financial Statements.

(4) See Note 3 of Notes to Consolidated Financial Statements.

See "Business—Property" and Notes 6 and 7 of Notes to Consolidated Financial Statements for information concerning the Company's obligations under leases.

DIVIDENDS

Apple has not paid any cash dividends on its Common Stock, and its Board of Directors intends to retain, for the foreseeable future, the Company's earnings for use in the development of the business. The Company's bank line of credit agreement prohibits it from declaring or paying dividends without the consent of the bank. See Note 5 of Notes to Consolidated Financial Statements.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have outstanding 52,396,928 shares of Common Stock (assuming no exercise of the over-allotment option). Of these shares, the 4,500,000 shares sold in the offering made hereby will be freely tradeable without restrictions or registration under the Securities Act of 1933, as amended (the "Act"). Of the remaining shares, approximately 5,319,760 shares were issued by the Company in reliance upon the "intrastate offering" exemption under the Act (the "Intrastate Shares") and approximately 42,577,168 shares were issued in private transactions in reliance upon the "private placement" exemption under the Act (the "Restricted Shares"). The Intrastate Shares may be generally sold to residents of the State of California in certain transactions at any time and in the open market at various times, in reliance upon Section 4(1) of the Act, following the nine-month period commencing upon Apple's registration under the Act of shares reserved for issuance under its stock option plans, which registration is described more fully below. Subject to the agreements with 18 officers, directors and major shareholders described below, 34,572,024 of the Restricted Shares will be eligible for sale in the open market in reliance upon Rule 144 under the Act beginning 90 days after the date of this Prospectus. In general, under Rule 144, a person (or persons whose shares are aggregated) who has beneficially owned his or her Restricted Shares for at least two years, including persons who may be deemed "affiliates" of the Company, as that term is defined under the Act, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Company's Common Stock (equal to approximately 523,969 shares) or the average weekly trading volume in the over-the-counter market during the four calendar weeks preceding such sale. A person who is deemed not to have been an affiliate of the Company at any time during the 90 days preceding a sale by such person, and who has beneficially owned his or her Restricted Shares for at least three years, would be entitled to sell such shares under Rule 144 without regard to the volume limitations described above. Furthermore, holders of an aggregate of 11,236,248 Restricted Shares (excluding 500,000 shares sold by the Selling Shareholders) are entitled to certain registration rights. See "Description of Securities—Outstanding Registration Rights".

The Company intends to file a registration statement under the Act to register the 11,033,572 shares of Common Stock reserved under the Company's stock option plans and Employee Stock Purchase Plan. Such registration statement is expected to become effective shortly after the date of this Prospectus, and shares issued upon exercise of outstanding stock options after the effective date of such registration statement generally will be available for sale in the open market. As of November 1, 1980, options to purchase a total of 7,080,588 shares of Common Stock were outstanding under the stock option plans.

Subject to market conditions and other factors, the Company may file another registration statement on a date not less than four months after the date of this Prospectus covering the sale of such amount of the 5,319,760 Intrastate Shares as may be requested by the holders. However, the Company has agreed that the number of Intrastate Shares included in such registration statement will not exceed 500,000 shares without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist as to the amount and method of offering.

The Selling Shareholders have agreed that they will not, without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist, offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any of the Company's Common Stock owned by them upon completion of the offering (an aggregate of 3,494,864 shares) for a period of 90 days from the date of this Prospectus.

Eighteen officers, directors and major shareholders of the Company holding an aggregate of 32,581,654 shares of the Company's Common Stock have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist, they will not offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any shares of Common Stock for a period of nine months after the date of this Prospectus, except for sales occurring more than 90 days after the date of this Prospectus of amounts of Common Stock not exceeding 10% of the total number of shares of Common Stock held by the person for whose account such shares are sold on the date of this Prospectus at cash prices of not less than 150% of the public offering price of the shares offered hereby.

Prior to this offering, there has been no market for the Common Stock of the Company, and no precise predictions can be made of the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of the Common Stock of the Company in the public market could adversely affect prevailing market prices.

DILUTION

The net tangible book value of the Company at September 26, 1980 was $20,122,644, or $.42 per share. Without taking into account any changes in such net tangible book value after September 26, 1980, other than to give effect to the sale by the Company of 4,000,000 shares of Common Stock and the use of proceeds therefrom, the pro forma net tangible book value of the Company at September 26, 1980 would have been $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing shareholders and an immediate dilution of $ per share to new investors. The following table illustrates the dilution of a new investor's equity in a share of Common Stock at September 26, 1980:

Public offering price(1)		$
Net tangible book value, before offering(2)	$ .42	
Increase attributable to payments by new investors		
Pro forma net tangible book value, after offering		
Dilution to new investors(3)		$

(1) Offering price before deduction of underwriting discounts and commissions and offering expenses.

(2) Net tangible book value per share is determined by dividing the number of shares of Common Stock outstanding into the tangible net worth of the Company (tangible assets less liabilities).

(3) Dilution is determined by subtracting net tangible book value per share after the offering from the amount of cash paid by a new investor for a share of Common Stock.

The following table summarizes the number of shares purchased from the Company, the total consideration paid and the average price per share paid by the investors purchasing new shares and by existing shareholders:

	Shares Purchased	Percent of Total Shares	Consideration Paid	Percent of Total Consideration Paid	Average Price Per Share
New investors	4,000,000	7.6%	$	%	$
Existing shareholders	48,396,928	92.4	11,428,438		.24
	52,396,928	100.0%	$	%	$

The above calculations do not give effect to the exercise of the Underwriters' over-allotment option.

As of September 26, 1980, there were outstanding options to purchase 7,180,972 shares of Common Stock, of which options to purchase 848,344 shares were held by officers and directors of the Company or their affiliates. The exercise prices of the outstanding options ranged from $.09 to $6.00 per share with a weighted average price of $1.08 per share. For the life of the options, the holders thereof will have the opportunity to profit from a rise in the market price of the Company's Common Stock, with a resulting dilution in the interests of existing shareholders. The holders of these options may exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital by the sale of Common Stock on terms more favorable than those provided for in the options. See "Management—Stock Option Plans".

SELECTED FINANCIAL DATA

The following tables summarize certain selected consolidated financial data and are qualified in their entirety by the more detailed Consolidated Financial Statements included herein.

	January 3, 1977 (inception) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Net sales	$ 773,977	$ 7,856,360	$47,867,186	$117,125,746
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share	Less than $.01	$.03	$.12	$.24
Common and common equivalent shares used in the calculation of earnings per share	16,640,000	31,544,000	43,620,000	48,412,000
Total assets	$ 555,482	$ 4,340,790	$21,170,979	$ 65,350,341
Non-current obligations under capital leases	$ —	$ —	$ 203,036	$ 670,673

The following table contains certain selected unaudited quarterly consolidated financial data which includes all adjustments which the management of the Company considers necessary for a fair presentation thereof.

	Three Months Ended December 28, 1979	March 28, 1980	June 27, 1980	September 26, 1980
Net sales	$19,539,963	$23,549,425	$32,569,197	$41,467,161
Net income	2,647,084	2,787,351	2,735,076	3,528,472
Earnings per common and common equivalent share	.056	.058	.056	.073

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Apple has experienced significant increases in net sales and net income during each of its fiscal years, reflecting the growth in the personal computer market as well as continued market acceptance of Apple's products.

Net sales in fiscal 1977 occurred primarily in the fourth fiscal quarter and consisted principally of sales of the basic Apple II mainframe computer. During the 1977 fiscal year marketing expenses consisted principally of advertising and product promotion expenditures in order to generate future sales.

The 1978 fiscal year was the Company's first full year of operations. During the fiscal year, the Company organized a product distribution network through the appointment of independent distributors. This expanded distribution system contributed significantly to the increase in sales. The expenses associated with developing this distribution network, together with increased advertising and product promotion expense, resulted in significant increases in marketing expenses. In fiscal 1978, research and development expenses increased substantially as the Company hired additional technical personnel and concentrated on the development of its Disk II Floppy Disk Subsystem and system software. In addition, advances in semiconductor technology enabled Apple to increase the memory capacity of its computer systems. These advances contributed to the development of new product applications during the year, and resulted in shifting the market for Apple's products away from the computer hobbyist.

Net sales in fiscal 1979 increased approximately five-fold over fiscal 1978, due to a number of factors. The availability of the Company's Disk II Floppy Disk Subsystem expanded the capabilities of Apple's personal computers to accomplish more useful applications, thus broadening the market for its products. Although the Company was not supplying a significant amount of applications software for use with its systems at this time, many other firms began to market software and peripheral products for use with the Apple II. In addition, in fiscal 1979 Apple introduced its products to the educational market, which contributed to the increased awareness of the personal computer. Cost of sales in fiscal 1979 increased to approximately 57% of net sales, primarily reflecting increased prices for certain semiconductor devices and increased staffing, training and support costs to manage expanded manufacturing facilities. Marketing expenses continued to be comprised primarily of advertising and promotion costs; however, marketing expenses decreased as a percentage of sales in fiscal 1979 to 8% of sales, compared to 16% of sales in fiscal 1978, principally due to the increased volume of business. Research and development activities in fiscal 1979 included the initial development expense for personal computer systems addressing new markets and applications and for new peripheral accessories.

Net sales in fiscal 1980 more than doubled that of fiscal 1979, reflecting the expansion of the Company's market to include use of Apple's computers by persons without prior computer experience as well as by persons with such experience. Factors contributing to this expansion included the Company's introduction of its own software application packages and new peripheral devices to expand the computer's applications. Costs and expenses in fiscal 1980 were significantly affected by the termination of the Company's independent distribution arrangements and by the start-up of manufacturing facilities in Dallas, Texas and County Cork, Ireland. Apple's purchase of inventory from certain of the distributors which it had terminated during the year, which purchases were at costs higher than the Company's manufacturing costs, and certain other costs associated with such terminations increased costs and expenses by approximately 2.5% of fiscal 1980 net sales. Start-up costs for Apple's new manufacturing facilities increased costs and expenses by approximately .6% of net sales. Marketing expenses increased to approximately 10% of net sales compared to 8% of net sales in fiscal 1979, reflecting increases in advertising expenses and the added costs of the Company's establishing its own direct sales organization to serve the retail computer stores, after termination of its distributors in March 1980. Such increased costs included the hiring of additional personnel and warehousing costs and sales commissions. Some of these costs were in addition to the warehousing costs and sales commissions paid to the former distributors during the start-up period. These costs of establishing the Company's regional distribution facilities were offset by the Company's ability to sell its products directly to retail dealers at prices which were higher than the Company had charged its former distributors. Apple anticipates that continued expenditures will be made to expand its direct sales force to serve not only existing markets, but other markets as it introduces new product applications.

During fiscal 1980 the Company's quarterly results were affected by the aforementioned factors. The termination of the Company's distribution arrangements late in the second fiscal quarter also affected earnings for the subsequent two fiscal quarters and resulted in a shift in some sales from the second to the third quarter. The repurchase of inventory from the Company's former distributors and certain other costs associated therewith increased costs and expenses in the third and fourth fiscal quarters by 4.6% and 3.4% of net sales in such quarters, respectively. Start-up costs associated with new manufacturing facilities occurred principally in the fourth quarter. The Company's performance in the third and fourth quarters was also affected by costs associated with the development and introduction of the Apple III system, which will first be sold to retail customers in late November 1980.

Liquidity

The Company's ability to generate cash adequate to meet its needs ("liquidity") results from the sale of inventory and the collection of accounts receivable and periodic bank borrowings and the sale of Common Stock. The Company's liquidity is improved by the tax benefit recognized upon the exercise of employee stock options, because income taxes payable are reduced by approximately 50% of the difference between the option exercise prices and the fair value of the shares at the time of exercise. These sources of liquidity are reduced by the Company's payments of accounts payable, income taxes payable and, periodically, notes payable to banks.

The Company's accounts receivable have increased each fiscal year, reflecting the growth in sales. During the 1980 fiscal year the Company improved its liquidity by reducing the number of days sales in accounts receivable, thereby increasing the availability of cash. This improvement resulted from the Company's domestic sale of products directly to the retail dealers. Such direct sales were on collection terms more favorable than the terms previously extended to distributors. However, there is no assurance that the Company will maintain these collection terms on a long-term basis as market factors and competitive conditions change.

During the 1980 fiscal year the Company's liquidity was negatively affected by an increase in inventory as a percentage of cost of sales resulting principally from increased levels of finished goods inventory. This increase was principally due to the Company carrying finished goods inventories at its regional distribution centers for direct sales to its retail dealers. In addition, inventory levels increased as a result of the Company purchasing materials and parts for production of the Apple III, which production commenced later than the Company's anticipated schedule due to certain technical difficulties. As production and sales of the Apple III increase, the level of manufacturing inventory for this product as a percentage of cost of sales is expected to decrease.

At September 26, 1980 the Company's material unused sources of liquidity consisted principally of approximately $2,000,000 of government securities and approximately $4,650,000 of currently available borrowings under its bank line of credit. See Note 5 of Notes to Consolidated Financial Statements. Except for the sale of Common Stock offered by this Prospectus, the Company does not anticipate a material change in the nature of its liquidity needs or available sources of liquidity.

Capital Resources

The Company's capital resource commitments at September 26, 1980 principally consisted of lease obligations and the Company's commitment to establish facilities in Ireland under an agreement with the Irish Development Authority. See Note 7 of Notes to Consolidated Financial Statements. The Company intends to finance these commitments from working capital generated from its internal and external sources of liquidity.

BUSINESS

Introduction

The Company designs, develops, produces, markets, and services microprocessor-based personal computer systems for individual use in a variety of computing applications. The Company's computer systems are generally composed of a computer mainframe and peripherals, operating software to control the system and applications software to solve problems. In addition, supplemental circuit boards and optional accessories can be added to enable the computer to perform additional or different tasks.

Computer systems powerful enough to solve meaningful computing problems but priced low enough to be used by one person resulted from significant technical and manufacturing advances within the semiconductor and magnetic memory industries over the past ten years. These advances included the development of increasingly more powerful microprocessor and memory circuits and significant reductions in the cost of these circuits. Similar developments occurred in magnetic storage as costs per unit of storage declined and capacities increased both for floppy (flexible) and rigid disks.

These advances and the introduction of a growing number of applications software packages resulted in the development of markets and applications for personal computer systems. Penetration of these markets has and will continue to require effective product marketing and distribution as well as the continuing development of easy-to-use software.

In 1976, two of the Company's founders designed, developed and assembled the Apple I, a microprocessor-based computer consisting of a single printed circuit board. In April 1977 the Company introduced the Apple II computer mainframe which was similar to the Apple I but incorporated additional circuitry and a keyboard, and was packaged in a plastic housing. Although many of the early personal computers, including Apple's products, were purchased by hobbyists who were highly knowledgeable technicians, the Company believes that such purchases presently constitute a small and decreasing percentage of personal computer sales.

In 1978 and 1979, the Apple II was improved with the addition of a more powerful disk operating system which facilitated the use of optional floppy disk storage in place of less efficient cassette tape storage. These enhancements increased the power and speed of the Apple II and facilitated the development of applications software. Independent firms began supplying a variety of applications software and peripheral equipment for use with the Apple II, for such applications as small business accounting, text editing, portfolio analysis, laboratory data collection and teaching. The development of this software and equipment contributed to the growth of the low-cost personal computer market by increasing the variety of applications for which personal computers could be used. Today, the Company's systems are used by persons without prior computer experience as well as by persons with prior computer experience in business, education, scientific and engineering applications and, to a lesser extent, in the home.

In anticipation of market growth, in 1977 Apple commenced the development of a distribution network of independent regional distributors and local retail outlets. In 1980, Apple terminated its arrangements with its domestic distributors and commenced distribution of its products directly to retail stores in order to improve the management of the channels of distribution and to gain better access to end-users. See "Marketing" and "Litigation". Apple products are currently sold through approximately 750 independent retail outlets in the United States and Canada and internationally through 20 distributors which resell to approximately 1,000 retail dealers. Products are serviced in the United States and in Canada by approximately 650 of the retail stores and internationally by retail dealers.

Products

The Company's computer systems combine the Apple II mainframe or Apple III with a variety of software programs and peripheral accessories, depending upon the complexity of the system and the computing tasks to be performed.

Apple II

The Company's principal computer system is based on the Apple II computer mainframe, first introduced in 1977. Packaged in a five-inch high, 12-pound case are the basic units of a computer, including a microprocessor, random access main memory, read only control memory, a typewriter-style keyboard and a power supply. In addition, the Apple II system circuitry provides an interface with various external devices, including a video display and specialized input controls for games. The basic Apple II mainframe can provide output to a black and white or color video monitor (including a television set) and can display 40 characters per line or graphics in up to 16 colors. It can also generate sounds and music through a built-in speaker. The Apple II provides eight plug-in slots for optional circuit boards which control and interface with such peripheral devices as disk drives, printers and a graphics tablet. The Apple II can be furnished with main memory ranging from 16K bytes to 48K bytes (a byte is a unit of data, such as a letter or integer and K is a symbol for approximately 1,000).

The suggested retail price of the Apple II mainframe ranges from $1,195 to $1,395, depending on main memory size. Complete Apple II systems, including various peripheral devices and software packages typically range in suggested retail price from $1,850 to over $5,000. As of October 31, 1980 the Company had sold approximately 135,000 Apple II computers.

Apple III

The Company announced the Apple III computer system in May 1980, with the first shipments originally scheduled for the summer of 1980. However, the Company encountered delays in meeting its production schedule, and demonstration units were first shipped to dealers in September 1980. The first deliveries of Apple III to retail customers are expected to take place in late November 1980. The Apple III is intended for a range of applications requiring more computing speed and power than the Apple II and includes a number of features which are optional accessories for the Apple II, as well as other features not available on the Apple II. The Apple III incorporates a built-in disk drive as well as the circuitry to control up to three additional external disk drives. It offers built-in interface circuitry for both a thermal printer and a letter-quality impact printer, for an enhanced typewriter-style keyboard with a numeric key pad and for full upper and lower case display capability with a text display of 80 characters per line. Apple III is furnished with main memory capacity of 96K bytes and can be expanded to 128K bytes.

The Apple III is designed principally for business applications, including preparing detailed budgets, performing complex pricing analyses, long-term scheduling, calculating investment returns, maintaining mailing lists and word processing. The suggested retail price for the Apple III computer system will range from approximately $4,300 to over $7,800 depending upon main memory size and peripherals.

Due to the recent introduction of the Apple III, the utility of and market acceptance for the product have not yet been demonstrated by significant sales or end-user applications.

Software

Of major importance to the usefulness, simplicity and flexibility of an Apple computer system is the availability of a variety of system software and applications packages.

System software is a set of programs supplied by Apple that enable the user to supervise the computer's resources. With these programs the user can maintain and manipulate files, execute existing programs and use programming languages to develop new applications. Programming languages enable the user to instruct the computer to perform specific tasks. Apple offers the user a variety of programming languages, each having advantages for particular applications. The programming languages offered for the Apple II include two versions of the popular BASIC (an easy-to-use beginners language), FORTRAN (useful for work in mathematics, engineering and the sciences), Pascal (generally used by professional computer programmers for complex programs) and PILOT (used for the development of computer aided instruction in education). The Apple III has an improved operating system for faster data retrieval and storage and will initially offer the Apple Business BASIC programming language and, in April 1981, will offer Pascal. In addition, the Apple III has a special emulation capability which permits it to run most programs designed for the Apple II.

Applications packages are programs written in one of the programming languages and are designed to accomplish specific tasks, such as bookkeeping, text editing and financial modeling. Although some of these programs are designed and developed by Apple, the Company believes that most of the applications packages which are available for Apple's computers are developed independently and supplied by approximately 170 independent vendors.

Among the principal software packages for the Apple II developed and marketed directly by the Company are the following:

APPLE POST™	—a mailing list system for entering, editing, storing and printing names, addresses and telephone numbers which, when attached to a compatible printer, will also print mailing labels, addresses and telephone lists.
APPLE WRITER™	—a basic word processing system providing the capability to write, revise, edit and print text.
DOW JONES SERIES PORTFOLIO EVALUATOR	—assists in portfolio analysis by enabling the user to store stock portfolios and to access stock quotations and other information via telephone connection to the Dow Jones News Retrieval System.
SHELL GAMES	—various programs designed as educational aids.

The software packages for the Apple II developed by independent vendors and marketed by Apple under royalty agreements include:

APPLE PLOT™	—a system for preparing, revising and printing charts and graphs.
CASHIER™	—a small retail store management system designed to maintain customer/vendor files, monitor and order inventory and generate invoices and management reports.
CONTROLLER™	—an accounting system designed to maintain accounts receivable, accounts payable and general ledger records for a small business.

In addition, the Company believes that one of the applications packages frequently used with the Apple II, which is developed and marketed by an independent vendor, is a financial modeling system enabling a user to manipulate and express relationships between rows and columns of numbers in applications such as financial modeling and forecasting. A new version of this applications package is intended to be marketed directly by the Company in connection with the Apple III.

Peripherals

Apple's computer systems are used with a variety of peripheral products such as video monitors, disk drives, printers and graphics tablets. Apple's computers incorporate standard interfaces permitting the use of peripherals designed and manufactured by others as well as those offered by Apple.

One of the principal peripheral accessories manufactured and offered by Apple is its Disk II Floppy Disk Subsystem, which increases the capability of the computer through the use of 5¼-inch flexible or floppy disks for data storage. The Disk II, introduced in June 1978, provides file memory capacity of up to 143K bytes of data, increases data retrieval speed and provides random access to stored data, permitting the computer system to accommodate many additional applications. The Company believes that most future applications of the personal computer will require a bulk random access storage device such as a Disk II.

Other peripheral accessories manufactured and offered by Apple include a graphics tablet (to create and display pictorial information electronically, such as architectural renderings, schematics, mechanical shapes and fine arts), a thermal printer (used for quiet printing of text or graphics) and interface circuit boards (used to exchange data between Apple computers and other computers, printers or accessories). Apple also markets peripheral products including impact printers and video monitors manufactured by others.

Users of Apple computer systems also have a choice of a wide variety of other peripheral accessories designed and offered by independent companies. These peripherals include medium-speed printers for home and business applications requiring letter-quality output; modems which provide a data communications link utilizing a telephone network to access timesharing services, computerized bulletin boards or other computers; music synthesizers; and portable power units that allow Apple systems to be operated in automobiles and elsewhere.

Marketing

The first personal computers were sold principally by mail order to hobbyists. However, with the growth in the number of computer retail stores since 1976, most personal computers have been distributed through retail outlets, reflecting the economics of distributing and servicing a moderate cost product to a highly diverse market. The Company believes that the introduction of higher priced and more complex personal computers, such as the Apple III, may require the Company to expand its distribution channels or establish additional marketing arrangements, such as a direct sales force. Certain of these steps could involve significant investments and additional costs. See "Use of Proceeds". In addition, the development of an experienced and expanded marketing organization will require the addition of qualified personnel, who are in great demand.

Distribution Channels

Apple's products are sold in the United States and Canada through approximately 750 independent retail outlets. Sales to the retail stores are made directly by the Company's sales organization and through independent sales representatives on a commission basis. The retail outlets are generally computer stores which range from sole proprietorships to franchises of retail store chains. These stores typically handle a variety of computer-related products, including competitive computer systems. Approximately 220 of the retail outlets consist of franchised outlets of four independent retail chains. To a lesser extent, Apple also markets its products to end-users and original equipment manufacturers through its own direct sales force and through independent sales representatives.

Prior to March 1980, Apple distributed its products in the United States and Canada primarily through five independent distributors which purchased the products for resale to the retail outlets. The distributors also were responsible for warehousing products as well as selecting, training and monitoring the retail dealers. In February 1980, Apple elected to terminate these distribution arrangements and distribute its products from newly established Company-owned regional support centers directly to the retail stores. This decision was made in order to improve the Company's ability to ensure adequate inventory of products at the distribution centers, to assist in the direct training of the retail dealers and to gain better access to end-users of personal computers. See Notes 2 and 3 of Notes to Consolidated Financial Statements and "Litigation". However, there can be no assurance that this change will improve the distribution of the Company's products.

Apple's regional support centers are located in Sunnyvale and Irvine, California; Charlotte, North Carolina; and Dallas, Texas. The Company plans to establish additional support centers in Boston and Chicago and in Toronto, Canada during 1981. In addition to distributing Apple products to the retail stores, the regional centers also are responsible for warehousing Apple's products and providing credit, service training and service support. See "Service and Support".

The largest retail chain distributing Apple products during the 1980 fiscal year was ComputerLand with 118 franchised outlets offering Apple products in the United States. The Company has entered into a volume purchase agreement with ComputerLand, expiring on March 24, 1981, which is subject to automatic extension unless terminated upon 90 days notice by either party. Under the agreement, the Company sells its products directly to ComputerLand. ComputerLand resells such products to its franchised outlets and is responsible for centralized purchasing as well as selecting, training and monitoring its franchised dealers. Sales of Apple products to ComputerLand accounted for approximately 14% of the Company's net sales for the 1980 fiscal year. No other retail chain or store accounted for more than 3% of net sales during the 1980 fiscal year.

Retail dealers typically purchase the Company's products on an as-needed basis. The Company, in turn, currently ships to retailers shortly after order receipt. For this reason and because the nature of their business frequently results in retail dealers changing delivery schedules and order rates, the Company's backlog of orders as of any particular period may not be representative of the Company's actual sales for any succeeding period.

Prior to August 1980, foreign sales were made primarily to an independent distributor, Eurapple, located in the United States, under an agreement providing for exclusive rights to distribute Apple's products in certain foreign countries. Foreign sales were made by Eurapple to other independent distributors primarily located in Europe and, to a lesser extent, in the Far East, the Middle East, Australia, the Philippines and South Africa. In August 1980, Apple acquired Eurapple's distribution rights and currently sells its products directly to 20 independent foreign distributors. Sales to Eurapple in fiscal 1980 prior to such date accounted for approximately 17% of the Company's net sales for fiscal 1980. See Note 2 of Notes to Consolidated Financial Statements. The foreign distributors resell the products to approximately 1,000 retail dealers.

In September 1980 Apple established a center for sales, marketing, service, dealer training, warehousing and distribution in Zeist, Netherlands to serve the European market. In addition, the Company expects to manufacture a substantial portion of its products for sale in Europe at its recently opened facility in County Cork, Ireland.

During the 1979 and 1980 fiscal years, foreign sales of Apple's products, including sales in Canada, were approximately 24% and 25%, respectively, of net sales for such periods. Since August 1980 sales to the foreign distributors have been made in local currencies and are subject to the risks of exchange rate fluctuations. Restrictive tariff and export control policies are potential risks of foreign sales, but the Company has experienced no material problems to date.

The Company has not directly financed, rented, or leased any of its computer systems nor is any such program presently contemplated. The Company, however, has entered into agreements with ITT Diversified Credit Corporation ("ITT") and United States Leasing Corporation ("USLC") to provide inventory financing for retail dealers and third-party leasing arrangements for commercial end-user customers, respectively. The ITT agreement is terminable by the Company upon 10 days written notice to ITT and obligates the Company to repurchase factory-sealed Apple products from ITT in the event of certain defaults in the dealer's obligations. The USLC leasing plan offers commercial end-user customers three and four-year leases with fixed purchase options and permits users to add additional equipment to their leases. The agreement between the Company and USLC continues until October 31, 1981 and provides for automatic renewal for an additional one-year period unless terminated by either party. Both of the foregoing agreements were entered into by the Company in

June 1980 and, to date, only a small amount of the Company's products have been leased or financed under such agreements.

Service and Support

Apple's products are serviced in the United States and Canada by approximately 650 retail dealers and four Company-owned service centers. The authorized retail dealers are trained to replace and exchange most system components at the retail store. These dealers are required to enter into dealer service agreements pursuant to which they purchase service kits containing spare parts, components, manuals and diagnostic programs. Although certain of these dealers offer maintenance and service of entire systems, including peripheral products manufactured by others, the Company relies upon the manufacturers of such peripheral products (including any warranties offered by such manufacturers) for assistance in maintenance. The cost of this dealer service to the customer is set by the dealer for products not under warranty. To date, approximately 90% of all repair work and diagnostic testing on Apple products has been provided by dealers.

Company-performed service principally consists of more extensive repairs not provided by the authorized retail dealers. This service is performed at the four United States regional support centers and at Zeist, Netherlands using extensive diagnostic instrumentation and repair equipment.

Apple typically offers a 90-day full parts and labor warranty for its products and, since January 1980, has offered an extended limited warranty at a price of $195 for each year of coverage. Since January 1980, approximately 5% of the purchasers of Apple systems entered into extended service agreements. Liabilities under both warranty programs have been nominal to date; however, no assurance can be given that this trend will continue for existing as well as new and more complex systems which may be introduced to the market.

Although the Company currently anticipates utilizing its existing service procedures for its Apple III systems, such service, as well as service on future products, may require greater technical expertise than that currently used in dealer service and end-users of the Apple III and future products may require on-site service. In addition, the continued growth of Apple's distribution network will require the Company to establish other Company-owned service centers and to inventory spare parts in different geographic locations in order to provide prompt service and warranty repair. Such steps could involve significant investments and additional costs.

Advertising and Promotion

The expansion of the personal computer market will require a continued orientation effort directed at informing individuals of the means by which the computer may be utilized to enhance personal efficiency and productivity. Towards this end, the Company is committed to an extensive advertising and promotional effort. During the fiscal years ended September 30, 1978 and 1979 and September 26, 1980, the Company spent $573,000, $2,011,000 and $4,469,000, respectively, for advertising.

Apple supports the advertising campaigns of its retail dealers by reimbursing them for up to 3% of their dollar purchases from Apple for advertising costs actually incurred which comply with certain standards set by Apple. Apple also provides dealers, at its own expense, with a variety of support materials including point-of-sale posters, demonstration models and brochures. Sales seminars are also conducted to assist dealers in selling Apple products.

Apple advertises its products through radio commercials, newspaper advertisements, in business, professional, consumer and trade periodicals, and through participation in industry shows and seminars. The Company also promotes its products through direct mailings to retail dealers and end-users and through various Company publications including *The Apple Magazine*, each issue of which features a major product application area, such as finance, business, science or education.

Competition

The personal computer market is highly competitive and has been characterized by rapid technological advances in both hardware and software development, which have substantially increased the capabilities and applications of personal computers. The principal competitive factors in the personal computer market are product quality and reliability, relative price/performance, marketing and distribution capability, service and support, the availability of hardware and software accessories, corporate reputation, and ease of understanding and operation of the system. The Company believes it competes favorably with respect to all of these factors, however, the Company's reliance upon independent retail dealers for product distribution may not provide the market penetration of Radio Shack (a subsidiary of Tandy Corporation), which sells through a large number of company-owned retail stores and distribution outlets. In addition, Commodore International Ltd. has broader international retail distribution than the Company. The Company may also be at a competitive disadvantage because it purchases integrated circuits and other component parts utilized in its computers from outside vendors, while certain of its competitors manufacture such parts. In addition, a substantial portion of the peripheral equipment used with Apple's systems is purchased from outside vendors while certain competitors design and manufacture their own peripheral equipment.

Apple, Radio Shack and Commodore are believed to be the principal manufacturers of personal computers with system prices below $5,000, which category includes most Apple II systems. The Company believes that it has the second largest installed base of such systems in the United States. Apple experiences competition for its higher priced systems (which will include the Apple III) from a number of concerns including Cromemco Incorporated, North Star Computers, Inc., Ohio Scientific, Inc. and Vector Graphics Inc.

The Company expects intense competition from several substantially larger firms which have entered or are expected to enter the personal computer market, including Hewlett-Packard Company, IBM, Texas Instruments and various Japanese manufacturers, all of which have considerably greater financial, marketing, and technological resources than the Company. In addition, depending upon the successful completion of pending and proposed product development efforts, the Company anticipates competing more directly with the foregoing concerns and other large domestic and foreign manufacturing concerns, such as Xerox Corporation, Exxon Corporation and Wang Laboratories, Inc. in such areas as the office automation and information processing segments of the business and office market. No assurance can be given that the Company will have the financial resources, marketing, distribution and service capability, depth of key personnel, or technological knowledge to compete successfully in these markets.

Manufacturing

The Company's manufacturing operations consist principally of the purchase, assembly and test of the materials and components comprising its products at facilities located in Dallas, Texas; Cupertino, San Jose and Los Angeles, California; and, since October 1980, in County Cork, Ireland. The principal materials and components used in the production of Apple's products include semiconductors, plastic and metal parts, and certain electro-mechanical subassemblies purchased from independent suppliers. Although most are standard parts, certain items, such as metal and plastic parts and circuit boards are fabricated or assembled by independent vendors to Apple's specifications. In addition, Apple manufactures certain components such as disk drives and keyboards. Apple strives to qualify multiple sources of supply for all of its materials and subassemblies. Certain components, such as power supplies, integrated circuits and plastic housings are obtained from single sources, although the Company believes other sources for such parts are available. To date, the Company has not experienced any significant production problems or delays due to shortages in material or components.

Quality control and final system testing and inspection are performed by Apple at its production facilities. In the testing process, the Company utilizes its own computers with specialized software to perform diagnostic testing to isolate and identify defective components. As part of the final testing process, all systems are subjected to a four day continuous "burn-in" to provide assurance of electronic and mechanical functions.

Apple anticipates that as it develops more complex products it may be required to use custom integrated circuits. There can be no assurance that the required custom circuits will be readily available or available from more than one source.

FCC Regulation

In October 1979 and April 1980, the Federal Communications Commission ("FCC") adopted orders imposing radiofrequency emanation standards on computing equipment. The specifications set forth in those regulations are designed to reduce radiofrequency interference with communications, including television and radio reception. The regulations distinguish between computing devices marketed for use primarily in a commercial, industrial or business environment (designated Class A) and computing devices marketed for use primarily in a residential environment (designated Class B).

The Company believes that its Apple II system will be subject to regulations imposed on Class B devices. Personal computers classified as Class B devices which are manufactured after January 1, 1981 must be certificated as being in compliance with the FCC specifications for such devices and be appropriately labelled. The Company has completed the engineering design work to modify the Apple II system to comply with the regulations and has ordered the necessary parts to permit production of the redesigned system by the required January 1, 1981 date. However, no assurance can be given that the Company will be able to meet this production schedule for the redesigned system. As a consequence, the Company has also filed a request with the FCC for a 90 day extension, but it is uncertain whether such extension will be granted. If the Company is unable to meet its planned modification and production schedule and if no extension is granted, the Company could be precluded from selling non-complying products in the United States until such modifications are completed. However, the Company does not believe this risk to be significant.

The Company believes that its Apple III computer systems will be classified as Class A devices. Class A devices first manufactured prior to October 1, 1981 must meet Class A specifications by October 1, 1983. All Class A devices first produced after October 1, 1981 must comply with Class A specifications at the time of their manufacture. Since the specifications for Class A devices are less strict than the equivalent standards for Class B devices, and since the time in which compliance must occur is longer, the Company expects the Apple III to satisfy applicable FCC specifications.

Research and Development

The personal computer industry is subject to rapid technological change, and the ability of the Company to operate successfully depends upon, among other things, its ability to adapt to such change. The Company maintains a continuing program of research and development. This program focuses upon the development of personal computer systems to address new markets and applications, the development of peripheral accessories and the development of software packages designed to further enhance the user's productivity.

During the fiscal years ended September 30, 1978 and 1979 and September 26, 1980, the Company spent approximately \$600,000, \$3,600,000, and \$7,300,000, respectively, for research and product development. All of the Company's research and development costs are expensed as incurred.

Patents and Licenses

The Company currently holds four U.S. patents and has filed applications for four additional U.S. patents relating to certain aspects of the Company's computer and peripheral systems. The

Company is also seeking patent protection in certain major foreign countries. However, the Company believes that the ownership of patents is not presently a significant factor in its business and that its success does not depend on the ownership of patents, but primarily on the innovative skills, technical competence and the marketing abilities of its personnel.

In addition, the Company has a registered trademark in the United States for "Apple", the Apple silhouette and the Apple color logo.

Because of the technological changes in the computer industry with current extensive patent coverage and the rapid rate of issuance of new patents, certain components of the Company's products may involve infringement of existing patents. If any such infringements do exist, the Company believes, based upon industry practice, that any necessary licenses or rights under patents may be obtained on terms which would not have a material adverse effect on the Company. The Company has entered into a patent cross-licensing agreement with Hewlett-Packard.

Litigation

In June 1980, High Technology, Inc., a former distributor of the Company's products which was terminated by the Company, filed an action against the Company in the United States District Court for the Eastern District of Missouri. High Technology's president and an affiliated company are also plaintiffs. The complaint alleges, among other things, violations of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,750,000 in damages, as well as alleging treble damages, punitive damages and claiming attorneys' fees and costs. The Company has denied the material allegations of the complaint and has counterclaimed for the amount due for goods sold and delivered by the Company to High Technology, for breach of the distributorship agreement between the Company and High Technology and for tortious interference with the Company's business relationships with dealers.

The Company is also a defendant in an action filed in May 1980 and currently pending in the United States District Court for the Western District of Washington brought by Omega Northwest, Inc., another terminated distributor of the Company's products. The complaint alleges breach of contract, violations of the Washington Franchise Investment Protection Act and state antitrust law and defamation. Omega seeks treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The Company has answered the complaint denying its material allegations and has counterclaimed for Omega's unpaid indebtedness to the Company and for fraud. The Company will be filing a motion to dismiss and for summary judgment on all but the defamation claim.

Discovery in both of these legal actions is at an early stage. Based upon the proceedings which have taken place to date and upon review of the Company's records, and discussion with Company personnel, the Company and its special litigation counsel, Fenwick, Stone, Davis & West, are of the opinion that there is no substantial likelihood that the plaintiffs in either case will establish a material liability of the Company on any of the claims asserted.

Employees

At September 26, 1980, the Company employed approximately 1,015 full time employees, including 198 in marketing and sales; 152 in research, product development and related engineering; 558 in manufacturing; and 107 in general management and administration.

Many of the Company's employees are highly skilled, and the Company's continued success will depend in part on its ability to attract and retain such employees, who are in great demand. At times the Company, along with most other computer manufacturers, experiences difficulty in hiring and retaining experienced personnel.

The Company has never had a work stoppage and no domestic employees are represented by a labor organization. The Company's production employees in County Cork, Ireland are represented by the Irish Transport and General Workers' Union. The Company considers its employee relations to be good.

Property

The following table sets forth information concerning the Company's principal facilities:

Location	Square Feet	Lease Expiration
Manufacturing		
Cupertino, CA (3 locations)	69,100	11/83 to 6/89
San Jose, CA	34,640	5/86
Sunnyvale, CA (2 locations)	46,717	3/81 to 6/85
Garden Grove, CA	20,680	8/84
Newbury Park, CA	6,490	8/83
Carrollton, TX	100,000	7/85
County Cork, Ireland	41,500	Owned
	321,127	
Distribution		
Sunnyvale, CA	31,000	12/82
Irvine, CA	31,645	8/86
Charlotte, NC	29,160	9/85
Carrollton, TX	39,388	7/85
Zeist, Netherlands	29,329	5/81
	160,522	
Administration and Research and Development		
Cupertino, CA (7 locations)	103,314	12/80 to 12/90
Cupertino, CA	3,000	Owned
	106,314	

In addition the Company leases facilities aggregating approximately 20,000 square feet for regional sales offices. See Note 7 of Notes to Consolidated Financial Statements for information regarding the Company's obligations under leases.

The Company has commenced expansion of its Ireland facility to include an additional 42,000 square feet of manufacturing space, with construction anticipated to be completed in July 1981. The Company also intends to lease additional office facilities aggregating approximately 130,000 square feet in Cupertino, California, which are currently under construction and anticipated to be completed in August 1981.

The Company believes that its existing facilities and equipment are well maintained, in good operating condition and adequate for its present level of operations.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company and their ages are as follows:

Name	Position	Age
A. C. Markkula, Jr.	Chairman of the Board and Executive Vice President	38
Steven P. Jobs	Vice Chairman of the Board and Vice President	25
Michael M. Scott	President, Chief Executive Officer and Director	37
Ann S. Bowers	Vice President—Human Resources	42
Carl H. Carlson	Executive Vice President—Operations	52
Gene P. Carter	Vice President—Sales	46
John D. Couch	Vice President	33
Albert A. Eisenstat	Vice President, General Counsel and Secretary	50
Frederick M. Hoar	Vice President—Corporate Communications	54
Frederick Rodney Holt	Vice President	46
Thomas M. Whitney	Executive Vice President	41
Stephen G. Wozniak	Vice President	29
Kenneth R. Zerbe	Executive Vice President—Finance and Administration	45
Peter O. Crisp*	Director	48
Arthur Rock*	Director	54
Philip S. Schlein*	Director	46
Henry E. Singleton*	Director	63

*Member of Audit Committee and Compensation Committee.

All directors hold office until the annual meeting of shareholders of the Company next following their election, or until their successors have been elected and qualified. Officers serve at the discretion of the Board of Directors. Pursuant to the requirements of a common stock purchase agreement entered into by the Company in January 1978, Mr. Crisp was appointed as a director in substitution for Mr. Henry S. Smith in October 1980. See "Certain Transactions". The Company has entered into an employment agreement with Carl H. Carlson which expires in September 1981.

There are no family relationships between any directors or executive officers of the Company.

Mr. Markkula has been a director since March 1977 and has served as Chairman of the Board of Directors since May 1977. In addition, he served as Vice President—Marketing from May 1977 through June 1980, and was promoted to Executive Vice President in June 1980. From 1971 to December 1976, he was Marketing Manager at Intel Corporation, a manufacturer of integrated circuits.

Mr. Jobs, a co-founder of the Company, has served as Vice Chairman of the Board since August 1979 and as Vice President since May 1977, and has been a director since March 1977. Prior to that time, he worked as an engineer for two years with Atari, Inc., a computer games manufacturer.

Mr. Scott has served as President since May 1977 and as a director since January 1978. From 1972 to January 1977, he was a director of manufacturing at National Semiconductor Corporation, a manufacturer of integrated circuits and computers.

Ms. Bowers joined the Company in July 1980 as Vice President—Human Resources. From October 1976 through June 1980, she served as an independent personnel management consultant to high technology growth firms. Prior to that time she served as Director of Personnel at Intel Corporation for over six years.

Mr. Carlson joined the Company in September 1979 as Vice President—Operations and was promoted to Executive Vice President—Operations in June 1980. From September 1978 until his employment by the Company, he was President and a director of Basic Manufacturing, Inc., a subsidiary of BTI Computer Systems, a mini-computer manufacturer. Prior to that time, he was Vice President of Computer Automation, Inc., a manufacturer of mini-computers, for approximately three years.

Mr. Carter joined the Company in August 1977 as National Sales Manager and in December 1978 was elected Vice President—Sales. Prior to that time he was Director of Microprocessor Marketing at National Semiconductor Corporation.

Mr. Couch joined the Company as Product Manager in October 1978 and was promoted to Vice President in April 1979. For more than five years prior to that time he held various engineering management positions at Hewlett-Packard Company, a manufacturer of business computers, during which time he was responsible for software development for the HP-3000 family of computers. Mr. Couch is also a director of Advanced Business Technology.

Mr. Eisenstat joined the Company in July 1980 as Vice President and General Counsel and has also served as Secretary of the Company since September 1980. From December 1978 to July 1980, he was Senior Vice President of Bradford National Corporation, a computer services firm serving the banking, securities, and health care industries. From December 1974 through December 1978, he was Vice President and Corporate Counsel of Tymshare, Inc., an international computer timesharing and services company. In both of these positions, Mr. Eisenstat was responsible for legal and administrative duties.

Mr. Hoar joined the Company in July 1980 as Vice President—Corporate Communications. From March 1980 until his employment with the Company, he was Vice President—Public Affairs and Communications at Syntex Corporation, a pharmaceutical company. For more than five years prior to that time he was Vice President—Communications for Fairchild Camera & Instrument Corporation, a semiconductor manufacturer.

Mr. Holt joined the Company as an engineer in February 1977 and became Vice President—Engineering in March 1978. From January 1976 until January 1977, Mr. Holt was a senior project engineer with Atari, Inc. From January 1975 until January 1976, he was a senior project engineer for Coherent, Inc., a laser optics firm.

Dr. Whitney joined the Company in October 1978 as an Executive Vice President. From July 1974 to October 1978, he was Engineering Manager for various divisions of Hewlett-Packard Company. In this position, he was in charge of managing hardware and software products development.

Mr. Wozniak, a co-founder of the Company, has served as Vice President since March 1977, was Secretary of the Company from March 1977 to September 1980 and was a director of the Company from March 1977 to January 1978. Prior to that time, he had been an engineer for Hewlett-Packard Company for three years.

Mr. Zerbe joined the Company in April 1979 as Vice President—Finance and Administration, and served in that position until June 1980, at which time he was promoted to Executive Vice President—Finance and Administration. From April 1976 to April 1979, he was Senior Vice President of Finance and Administration for American Microsystems, Inc., a manufacturer of semiconductors. Prior to that time, he was Senior Vice President of Finance at Fisher and Porter Co., a manufacturer of electronic process instrumentation.

Mr. Crisp was appointed to the Board of Directors in October 1980. Since 1969, Mr. Crisp has been a general partner of Venrock Associates, a limited partnership that invests in technology-based companies. See "Certain Transactions". Mr. Crisp is also a director of Crum and Forster, Eastern Air Lines, Inc., Evans & Sutherland Computer Corp., Itek Corporation and Thermo Electron Corporation.

Mr. Rock was appointed to the Board of Directors in October 1980 and was one of the early investors in the Company. He has been the general partner of Arthur Rock & Associates, a venture capital concern, since 1969 and a limited partner of Hambrecht & Quist, one of the Representatives of the Underwriters, since January 1980. Mr. Rock is also a director of Intel Corporation and Teledyne, Inc. See "Certain Transactions" and "Underwriters".

Mr. Schlein was appointed to the Board of Directors in June 1979. He has been President and Chief Executive Officer of Macy's California, a division of R. H. Macy & Co., Inc. since January 1974. Mr. Schlein is also a director of that corporation.

Dr. Singleton was appointed to the Board of Directors in October 1978. He has been Chairman of the Board and Chief Executive Officer of Teledyne, Inc., an insurance and electronics company, for twenty years and also serves as a director of Unicoa Corp., a publicly-held subsidiary of Teledyne, Inc.

Remuneration

The following table sets forth certain information as to each of the five most highly compensated executive officers or directors of the Company whose aggregate direct remuneration exceeded $50,000, and as to all officers and directors as a group, during the fiscal year ended September 26, 1980.

		Cash and Cash Equivalent Remuneration	
Individuals or Persons in Group	Capacities in Which Served	Salaries and Bonuses(1)	Securities and Personal Benefits(2)
Michael M. Scott	President and Chief Executive Officer	$ 135,182	$ 12,362
Gene P. Carter	Vice President—Sales	80,091	206,895
John D. Couch	Vice President	81,253	646,734
Frederick Rodney Holt	Vice President	78,554	128,148
Thomas M. Whitney	Executive Vice President	104,750	2,342,819
All Officers and Directors as a group (16 persons)		$1,447,825	$3,419,702(3)

(See footnotes on following page)

(Footnotes from preceding page)

(1) Includes bonuses paid in January 1980 for services rendered in the fiscal year ended September 30, 1979 and bonuses accrued for all officers and directors as a group during the fiscal year ended September 26, 1980. Such accrued bonuses have not been allocated among participants in the bonus plan and therefore are not included in the individual amounts shown in the table. See "Key Employee Bonus Plan".

(2) Includes (i) automobile allowances; (ii) $3,272,488 representing the difference between the exercise price of options exercised by certain officers during fiscal 1980 and the fair value on the date of exercise; and (iii) $106,464 representing the difference between the rate of interest on certain officers' and directors' notes to the Company and the average rate of interest (12.4%) at which the Company borrowed money in fiscal 1980.

(3) Includes benefits paid to a former director who resigned in October 1980.

See "Certain Transactions" for information concerning indebtedness of certain officers to the Company.

Key Employee Bonus Plan

The Board of Directors of the Company has adopted a bonus plan for management for the fiscal year ending September 25, 1981. The bonus pool is determined by a formula based on annual sales and pre-tax profit margins, before adjustment for certain items. Eligible employees include the president, the vice-presidents, directors of operations, other key employees and certain other employees. Ninety percent of the bonus pool is available for award to individuals in certain categories. These categories are assigned weighted distribution values, which values are then used to determine the maximum dollar amount of bonuses available for individuals in such categories. Each individual is automatically awarded 70% of his or her maximum bonus determined pursuant to the weighted formula, and the remaining 30% is awarded at the discretion of the president. The remaining 10% of the total bonus pool is available for award at the discretion of the president to individuals not included in the categories referred to above. A similar bonus plan has been in effect in each of Apple's two prior fiscal years. In fiscal 1980, an aggregate of $554,000 was available as a bonus pool for distribution under the plan.

Profit Participation Plan

The Company adopted a Profit Participation Plan for fiscal 1980 under which distributions are made by the Company to employees in amounts of up to an aggregate of three percent of pre-tax earnings, depending upon the Company's pre-tax profits for each calendar quarter, before adjustment for certain items. Distributions under the Profit Participation Plan are made by the Company on a quarterly basis within 30 days after the end of the quarter and are allocated among eligible participants in the proportion that their base salary for the quarter bears to the aggregate of all base salaries of participating employees in that quarter. All persons employed on a regular basis for at least 30 hours per week with a minimum of six months of service with the Company, with the exception of corporate officers and directors of operations, are eligible to participate in the Profit Participation Plan. For fiscal 1980, approximately $379,000 was provided under the Profit Participation Plan.

Stock Option Plans

The Company had a 1978 Stock Option Plan (the "1978 Option Plan") which was terminated by the Board in December 1979. In addition, the Company has a 1980 Stock Option Plan (the "1980 Option Plan"), adopted by the Board of Directors and approved by the shareholders in December 1979, under which a total of 3,200,000 shares of Common Stock were reserved for issuance and a 1981 Stock Option Plan (the "1981 Option Plan"), adopted by the Board of Directors in October

1980 and approved by the shareholders in November 1980, under which 1,500,000 shares of Common Stock are reserved for issuance. Each of these plans is administered by the Board of Directors, which has authority to determine optionees, the number of shares to be covered by each option, the time at which each option is exercisable, the exercise price of the options granted, the method of payment and certain other terms of the options. The exercise prices of options granted under the 1978 Option Plan and 1980 Option Plan have been determined by the Board to be not less than the fair value of the shares at the respective dates of grant. The 1981 Option Plan provides that the exercise prices of options granted thereunder shall not be less than the fair market value of the shares at the date of grant, as determined by the Board. Any options which are cancelled or not exercised within the option period become available for future grants. As of September 26, 1980, there were options to purchase a total of 7,180,972 shares outstanding to all employees under the Company's option plans. No options have been granted under the 1981 Option Plan.

The following table sets forth information as to all options to purchase Common Stock under the stock option plans which were granted to or exercised by certain officers and all officers and directors as a group during the fiscal year ended September 26, 1980, and information as to unexercised options held by such persons as of November 1, 1980.

	Gene P. Carter	John D. Couch	F. Rodney Holt	Thomas M. Whitney	All Directors and Officers as a Group (7 Persons)
Options Granted:					
Number of shares	—	—	—	160,000	435,000
Average exercise price per share	—	—	—	$1.31	$2.78
Options Exercised:					
Number of shares	160,000	320,000	106,656	1,120,000	1,906,656
Aggregate purchase price	$ 15,000	$127,500	$ 19,998	$ 300,000	$ 724,998
Aggregate fair value on date of exercise	$210,000	$765,000	$139,986	$2,620,000	$3,997,486
Unexercised Options:					
Number of shares	160,000	—	213,344	—	748,344
Average exercise price per share	$.09	—	$.19	—	$1.59

See "Shares Eligible for Future Sale" and "Description of Securities—Outstanding Registration Rights" for information concerning the registration of shares reserved under the stock option plans.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in October 1980 and approved by the shareholders in November 1980. A total of 1,000,000 shares of Common Stock are reserved for issuance under the Purchase Plan. The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1954, as amended, is implemented by one offering during each six-month period and is administered by the Board of Directors of the Company or by a committee appointed by the Board. Employees are eligible to participate if they are customarily employed by the Company for at least 20 hours per week and more than five months per year. The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions (which may not exceed 10% of an employee's compensation) at the lower of 85% of the fair value of the Common Stock as determined by the Board of Directors at the beginning or at the end of each six-month offering period. Employees may end their participation in the offering at any time during the offering period and participation ends automatically on termination of employment with the Company. To date, no shares have been offered or sold to employees pursuant to the Purchase Plan.

Key Employee Stock Purchase Plan

In December 1979, the Board of Directors and shareholders of the Company adopted a Key Employee Stock Purchase Plan which was terminated by the Board of Directors in October 1980. A total of 800,000 shares of Common Stock was initially reserved for issuance under the plan, of which 798,000 shares have been issued. Consideration for the shares, which were sold at fair value as determined by the Board of Directors, was payable in cash or by a promissory note. The purchase agreements under the plan provide the Company with an option to repurchase the shares at the original sales price in the event of termination of the participants' employment within specified time periods.

1980 Stock Option Financial Assistance Program

In December 1979, the Board of Directors and shareholders adopted a Financial Assistance Program for the purpose of assisting optionees under the Stock Option Plans of the Company in acquiring shares by providing loan guarantees of bank loans to such optionees. Optionees holding options exercisable during calendar year 1980 are eligible for participation in the program. The Company will provide a guaranty to the bank in an amount not to exceed the aggregate purchase price of the shares plus 23% of the difference between the aggregate purchase price of the shares and their market price on the date of exercise, as determined by the Board of Directors. The shares issued upon exercise of the option must be pledged to the Company as collateral to secure its guaranty. The aggregate amount to be guaranteed by the Company pursuant to the program shall not exceed $2,000,000. At September 26, 1980 the Company had outstanding guarantees of approximately $1,018,567 under the program, representing the outstanding amount on loans made to 72 optionees for the purchase of an aggregate of 815,944 shares of the Company's Common Stock upon the exercise of the options. Messrs. Carter, Couch and Whitney are the only officers currently participating in this program. This plan was terminated by the Board of Directors in November 1980.

CERTAIN TRANSACTIONS

Steven P. Jobs, Stephen G. Wozniak and A. C. Markkula, Jr. may be considered "promoters" of the Company within the meaning of the rules and regulations promulgated under the Securities Act of 1933, as amended. In March 1977 the Company sold and issued to Messrs. Jobs and Wozniak 8,320,000 shares of Common Stock each for an aggregate purchase price of $2,654.48 each; and in November 1977 the Company sold and issued 8,320,000 shares of Common Stock to Mr. Markkula for $91,000. The shares issued to Mr. Markkula were paid for in cash. The shares issued to Messrs. Jobs and Wozniak were issued in exchange for certain designs and assets relating to Apple's first products, which were valued at their then-current value by Messrs. Jobs, Wozniak and Markkula acting in their capacities as directors of the Company.

In a private placement in January 1978 the Company sold an aggregate of 5,520,000 shares of Common Stock at a purchase price of $.09 per share for an aggregate purchase price of $517,500 to a group of private investors. Of these shares, 640,000 were purchased by Mr. Arthur Rock, a director of the Company, and 3,200,000 were purchased by Venrock Associates, a venture capital limited partnership of which Mr. Henry S. Smith, a former director of the Company, and Mr. Peter O. Crisp, a director of the Company, are general partners. Mr. Smith and his successor, Mr. Crisp, were elected to the Board of Directors pursuant to a common stock purchase agreement and related letter agreement with certain major shareholders executed in connection with such private placement, which documents provide that, so long as Venrock Associates is a holder of at least 5% of the outstanding shares of Common Stock of the Company, at least one person nominated by Venrock Associates is to be elected to the Board. In addition, Venrock Associates purchased 22,222 shares of Preferred Stock, Series A, from the Company in a private placement in September 1978 at a purchase price of $9.00 per share for an aggregate purchase price of $199,998. These shares were subsequently converted, in accordance with their terms, into 711,104 shares of Common Stock (giving effect to subsequent stock splits).

The following table sets forth the number of shares of Common Stock which were sold to and the price paid therefor by officers and directors of the Company other than the promoters:

Name	Shares	Price per Share	Date of Purchase
Michael M. Scott	1,280,000	$ .01	11/77
	1,920,000	.09(1)	8/78
Carl H. Carlson	200,000(2)	1.31(1)	10/79
	100,000	1.31(1)	10/80
Gene P. Carter	160,000	.09	6/78
	160,000	.09	1/79
	160,000	.09(3)	2/80
	40,000(4)	1.31(5)	12/79
John D. Couch	80,000(2)	.09(1)	10/78
	80,000(2)	.09(3)	2/80
	160,000(2)	.09(1)	4/80
	80,000(2)	1.31(1)	4/80
Albert A. Eisenstat	160,000(4)	2.75(1)	7/80
Frederick Rodney Holt	800,000	.01	11/77
	960,000	.09(1)	8/78
	106,656(2)	.19(3)	2/80
Thomas Whitney	320,000(2)	.09(1)	10/78
	320,000(2)	.09(3)	2/80
	640,000(2)	.09(1)	4/80
	160,000(2)	1.31(1)	4/80
Kenneth R. Zerbe	800,000	.31(1)	7/79
	100,000(4)	2.75(1)	7/80
Arthur Rock	640,000	.09	1/78
Philip S. Schlein	32,000	.31	11/79
	80,000(4)	2.75(6)	4/80
Henry E. Singleton	1,120,000	.09	9/78
	80,000(4)	2.75(6)	4/80

(See footnotes on following page)

(Footnotes from preceding page)

(1) Payment was made by a 6% promissory note due five years from its date and secured by the shares purchased.
(2) Represents shares issued upon exercise of options under the Company's Stock Option Plans.
(3) Payment was made with the proceeds of a bank loan guaranteed by the Company.
(4) Represents shares purchased under the 1980 Key Employee Stock Purchase Plan. See "Management—Key Employee Stock Purchase Plan".
(5) Payment was made by a 7% promissory note due five years from its date and secured by the shares purchased.
(6) Payment was made by a 7% promissory note due four years from its date and secured by the shares purchased.

Of the amounts payable by officers and directors of the Company with respect to the Notes described in the table, Messrs. Carlson, Couch, Whitney and Zerbe have repaid $7,875, $1,500, $1,875 and $50,000, respectively, and Mr. Scott has repaid all of his notes in full. At November 1, 1980, all other amounts described in the foregoing table remained outstanding. Also, Messrs. Carter, Couch, Holt and Whitney were extended loans in an aggregate amount of $257,070 during fiscal 1980 by a bank under the 1980 Stock Option Financial Assistance Program, repayment of which was guaranteed by the Company. Mr. Holt has subsequently repaid this note in full. See "Management—1980 Stock Option Financial Assistance Program".

During fiscal 1979, the Company extended a $100,000 cash loan to Kenneth R. Zerbe at an interest rate of 6%. This loan was repaid prior to September 26, 1980. In addition, the Company extended loans during fiscal 1980 and 1981 in aggregate amounts of $443,900, $124,200, and $107,812 at an interest rate of 6% to Thomas Whitney, John Couch, and Carl Carlson, respectively, for tax payment purposes.

In August 1980, Hambrecht & Quist, a venture capital limited partnership of which Mr. Rock is a limited partner, entered into an agreement to purchase for its own account and the account of certain of its affiliates 40,000 shares of the Company's Common Stock from an employee of the Company at $5.44 per share for an aggregate purchase price of $217,600. See "Underwriters".

CERTAIN SHAREHOLDERS

The following table sets forth information, as of September 26, 1980, with respect to all shareholders known by the Company to be the beneficial owners of more than 5% of its outstanding Common Stock and share ownership by directors and by all officers and directors as a group.

	Shares of Common Stock Beneficially Owned(1)	
Name and Address	Number of Shares	Percent of Total
Venrock Associates 30 Rockefeller Plaza New York, NY	3,801,822	7.9%
Steven P. Jobs	7,547,448	15.6
A. C. Markkula, Jr.	7,047,448(2)	14.6
Stephen G. Wozniak	4,181,792(3)	8.6
Michael M. Scott	2,946,232	6.1
Peter O. Crisp	3,801,822(4)	7.9
Henry E. Singleton	1,200,000	2.5
Arthur Rock	640,000(5)	1.3
Philip S. Schlein	112,000	0.2
All Officers and Directors as a group (17 persons)	32,581,654(6)	67.0

(1) Includes options which are currently exercisable or will be exercisable within 60 days from September 26, 1980. See "Management—Stock Option Plans".
(2) Includes 7,047,448 shares held of record by Armas Clifford Markkula and Linda Kathryn Markkula, Trustees of the Arlin Trust U/D/T dated May 29, 1980, which shares are beneficially owned by Mr. Markkula.

(Footnotes continued on following page)

(Footnotes continued from preceding page)

(3) Excludes (i) 1,248,000 shares held of record by Mr. Wozniak's wife, from whom he is separated, and (ii) an aggregate of 128,000 shares held of record by Mr. Wozniak's parents and siblings. Mr. Wozniak disclaims beneficial ownership of these shares.

(4) Represents shares held of record by Venrock Associates, a venture capital limited partnership. As a general partner of Venrock Associates, Mr. Crisp may be deemed to share voting and investment power as to all of such shares.

(5) Includes 12,800 shares held of record by the Marie R. Getchel Trust, for which Mr. Rock acts as trustee and exercises voting and investment power.

(6) Includes (i) 10,000 shares held of record by Mr. Carlson's son, as to which shares he disclaims beneficial ownership; (ii) 3,200 shares held of record by Mr. Couch's father, as to which shares he disclaims beneficial ownership; (iii) 101,540 shares held by a trustee in an irrevocable trust for Mr. Holt; and (iv) 266,656 shares subject to outstanding options, held by two officers, which will be exercisable within 60 days from September 26, 1980. Excludes 119,944 shares owned by Mr. Henry S. Smith, a former director of the Company who resigned in October 1980.

By virtue of their beneficial ownership of 15.6%, 14.6% and 6.1% of the outstanding shares of Common Stock, respectively, and positions with the Company (See "Management—Executive Officers and Directors"), Messrs. Jobs, Markkula and Scott may be deemed to be "parents" of the Company within the meaning of the rules and regulations promulgated under the Securities Act of 1933, as amended.

SELLING SHAREHOLDERS

The following table sets forth information, as of September 26, 1980, with respect to the beneficial ownership of the Company's Common Stock by Selling Shareholders:

Name or Identity of Group	Shares Owned		Shares to Be Sold	Shares to Be Owned After Sale	
	Number	Percent		Number	Percent(1)
Broventure Company, Inc.	200,000	0.4%	5,000	195,000	0.4%
Continental Illinois Venture Corporation	1,792,000	3.7	224,000	1,568,000	3.0
Fifty-Third Street Ventures, Inc.	240,000	0.5	40,000	200,000	0.4
Hellman, Gal Investment Associates	600,000	1.2	100,000	500,000	1.0
Hixon Venture Company	362,864	0.7	51,000	311,864	0.6
Xerox Corporation	800,000	1.7	80,000	720,000	1.4
Total	3,994,864	8.3%	500,000	3,494,864	6.7%

(1) Assuming no exercise of the over-allotment option to purchase up to an aggregate of 400,000 shares from the Company.

DESCRIPTION OF SECURITIES

The Company's authorized capital stock consists of 160,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

Common Stock

Holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders, except that holders are entitled to cumulate their votes in the election of directors. The holders of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor and subject to the prior dividend rights of holders of the Preferred Stock, if any (see "Dividends"). Upon liquidation or dissolution of the Company, subject to prior liquidation rights of the holders of the Preferred Stock, if any, the holders of Common Stock are entitled to receive pro rata all assets remaining available for distribution to shareholders. The Common Stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares. All of the outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be outstanding upon completion of this offering will be fully paid and nonassessable.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred Stock, none of which is presently outstanding. The Board of Directors is authorized to determine the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, liquidation preferences and sinking fund terms on any series of Preferred Stock, the number of shares constituting any such series and the designation thereof. The Company has no present plans to issue any such shares.

Outstanding Registration Rights

The holders of an aggregate of 11,736,248 shares of Common Stock, at September 26, 1980, sold by the Company pursuant to Common Stock Purchase Agreements dated January 31, 1978 and August 9, 1979, and Common Stock issued upon conversion of Preferred Stock, Series A, sold by the Company pursuant to Preferred Stock Purchase Agreements dated August 25, 1978 and September 6, 1978, or their transferees (collectively, the "Holders") are entitled to certain rights with respect to the registration thereof under the Securities Act of 1933, as amended (the "Act"). Such Holders may request that the Company file a registration statement under the Act with respect to such Common Stock, and the Company shall use its best efforts to effect such registration, provided that the aggregate proposed offering price of the shares proposed to be registered is at least $4 million for the first registration of securities by the Company and $3 million for subsequent registrations, or the number of shares proposed to be registered is 3,200,000 shares, and subject to certain other conditions. The original purchasers under the four agreements have the sole and exclusive right to request the first such demand registration and the Company is only required to effect two such registrations. Furthermore, whenever the Company proposes to register any of its securities under the Act either for its own account or on account of other security holders exercising certain registration rights, the Company is required, each such time, to notify each Holder of the proposed registration, and include all Common Stock which such Holder may request to be included in such registration; provided, among other things, that the Company has the right to limit the number of such shares being registered according to a certain schedule.

Holders of (i) options which have been granted under the 1978 Stock Option Plan or the 1980 Stock Option Plan and which are exercisable and (ii) Common Stock of the Company issued upon exercise of such options (collectively, the "Option Shares") are entitled to certain registration rights pursuant to the Option Agreements entered into with the Company. All expenses of such registrations are to be borne by the Company with the exception of transfer taxes, brokerage fees and other costs incurred directly by the optionee. The Company intends to file a registration statement on Form S-1 to register the issuance of shares of Common Stock to employees upon exercise of stock options issued under the Company's Stock Option Plans. Such registration statement is expected to become effective shortly after the date of this Prospectus. Shares of Common Stock issued upon the exercise of stock options after the effective date of such registration statement will generally be freely tradable without any further registration requirement.

Subject to market conditions and other factors, the Company may file another registration statement on a date not less than four months after the date of this Prospectus covering the sale of such amount of the Option Shares as may be requested by the holders. The Company has agreed that the number of such Option Shares included in such registration statement will not exceed 500,000 shares without the written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist as to the amount and method of offering.

Transfer Agent and Registrar

The First National Bank of Boston is the Transfer Agent and Registrar of the Company's Common Stock.

Reports to Shareholders

The Company intends to furnish its shareholders with annual reports containing audited financial statements and to distribute quarterly reports containing unaudited financial information for the first three quarters of each year.

UNDERWRITERS

Under the terms and subject to the conditions contained in an Underwriting Agreement dated the date hereof, the Underwriters named below have severally agreed to purchase, and the Company and the Selling Shareholders have severally agreed to sell to them, shares of the Company's Common Stock which in the aggregate equal the number of shares set forth opposite the name of such Underwriter below.

Name	Number of Shares	Name	Number of Shares
Morgan Stanley & Co. Incorporated			
Hambrecht & Quist			
		Total	4,500,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock are subject to the approval of certain legal matters by counsel and to certain other conditions including the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission and that there has been no material adverse change (not in the ordinary course of business) in the condition of the Company and its subsidiaries, taken as a whole, from that set forth in the Registration Statement. The nature of the Underwriters' obligations is such that they are committed to take and pay for all of the shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any are taken.

The Underwriters propose to offer part of the shares directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price which represents a concession of $ a share under the public offering price. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ a share to other Underwriters or to certain other dealers.

The Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to 400,000 additional shares of Common Stock at the public offering price set forth on the cover page hereof less the underwriting discounts and commissions. The Underwriters may exercise such option to purchase solely for the purpose of covering over-allotments, if any, incurred in the sale of the shares of Common Stock offered hereby. To the extent such option to purchase is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to 4,500,000.

The Representatives of the Underwriters have informed the Company that the Underwriters do not expect sales to discretionary accounts to exceed 5% of the total number of shares of Common Stock offered hereby and that the Representatives do not intend to confirm sales to any accounts over which they exercise discretionary authority.

In August 1980, Hambrecht & Quist, one of the Representatives of the Underwriters, entered into an agreement to purchase for its own account and the accounts of certain of its affiliates 40,000 shares of Common Stock of the Company from an employee of the Company at $5.44 per share for an aggregate purchase price of $217,600. See "Certain Shareholders" for shares owned by Mr. Arthur Rock, a director of the Company and a limited partner of Hambrecht & Quist.

The Company, the Selling Shareholders and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

Each Selling Shareholder has agreed not to offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any shares of Common Stock owned by such Selling Shareholder on the date hereof for a period of 90 days after the date of the initial public offering of the shares offered hereby without the consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist.

Pricing of the Offering

Prior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price for the Common Stock has been determined by negotiation among the Company, the Selling Shareholders and the Representatives of the Underwriters. Among the factors considered in determining the initial public offering price were the sales, earnings and certain other financial and operating information of the Company in recent periods, the future prospects of the Company and its industry in general and the price-earnings ratios, price-book value ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to those of the Company. The estimated offering price set forth on the cover page of this

Prospectus should not, however, be considered an indication of the actual value of the Common Stock of the Company. Such price range is subject to change as a result of market conditions.

LEGAL OPINIONS

The validity of the shares offered hereby will be passed upon for the Company and the Selling Shareholders by Wilson, Sonsini, Goodrich & Rosati, a Professional Corporation, 2 Palo Alto Square, Palo Alto, California, and for the Underwriters by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York. Davis Polk & Wardwell will rely as to all matters of California law on Wilson, Sonsini, Goodrich & Rosati.

EXPERTS

The consolidated financial statements and schedules included in this Prospectus and elsewhere in the Registration Statement have been examined by Arthur Young & Company, certified public accountants, to the extent and for the periods indicated in their report with respect thereto, and are included herein in reliance upon such reports and upon the authority of such firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and such Common Stock, reference is hereby made to such Registration Statement, exhibits and schedules.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Apple Computer, Inc.

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. at September 26, 1980 and September 30, 1979 and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended September 26, 1980 and for the period from January 3, 1977 (inception of the Corporation) through September 30, 1977. Our examinations were 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 consolidated financial position of Apple Computer, Inc. at September 26, 1980 and September 30, 1979 and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 26, 1980 and for the period from January 3, 1977 (inception of the Corporation) through September 30, 1977, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

San Jose, California
October 31, 1980

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF INCOME

	January 3, 1977 (Inception of Corporation) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Revenues (Note 1):				
Net sales	$773,977	$7,856,360	$47,867,186	$117,125,746
Interest income	—	27,126	71,795	775,797
	773,977	7,883,486	47,938,981	117,901,543
Costs and expenses (Notes 1 and 10):				
Cost of sales	403,282	3,959,959	27,450,412	67,328,954
Research and development	75,520	597,369	3,601,090	7,282,359
Marketing	162,419	1,290,562	4,097,081	12,109,498
General and administrative	76,176	485,922	2,616,365	6,819,352
Interest	5,405	2,177	69,221	209,397
	722,802	6,335,989	37,834,169	93,749,560
Income before taxes on income	51,175	1,547,497	10,104,812	24,151,983
Provision for taxes on income (Note 4)	9,600	754,000	5,032,000	12,454,000
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share (Note 1)	$ *	$.03	$.12	$.24
Common and common equivalent shares used in the calculation of earnings per share	16,640,000	31,544,000	43,620,000	48,412,000

*Less than $.01.

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	September 30, 1979	September 26, 1980
Current assets:		
Cash and temporary cash investments (Note 5)	$ 562,800	$ 362,819
U.S. Government securities, at cost, which approximates market	—	2,110,710
Accounts receivable, net of allowance for doubtful accounts of $617,763 ($400,000 in 1979) (Note 5)	9,178,311	17,441,066
Inventories (Notes 1 and 5):		
Raw materials and purchased parts	6,348,810	19,709,562
Work-in-process	2,985,794	3,773,615
Finished goods	768,113	10,708,443
	10,102,717	34,191,620
Total current assets	19,843,828	54,106,215
Property, plant and equipment, at cost (Note 1):		
Land and buildings	—	242,851
Machinery, equipment and tooling	404,127	2,688,787
Leasehold improvements	384,186	710,556
Office furniture and equipment	321,718	1,673,225
	1,110,031	5,315,419
Less accumulated depreciation and amortization	209,824	1,311,256
Net property, plant and equipment	900,207	4,004,163
Leased equipment under capital leases, net of accumulated amortization of $205,358 ($32,627 in 1979) (Note 6)	195,764	774,988
Cost in excess of net assets of purchased business, net of accumulated amortization of $13,193 (Note 3)	—	514,592
Reacquired distribution rights, net of accumulated amortization of $90,022 (Note 2)	—	5,311,304
Other assets	231,180	639,079
	$21,170,979	$65,350,341

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1979	September 26, 1980
Current liabilities:		
Notes payable to bank (Note 5)	$ —	$ 7,850,000
Note payable (Note 2)	—	1,250,000
Accounts payable (Note 5)	5,410,879	14,495,143
Accrued liabilities	1,720,459	5,795,945
Income taxes payable	1,879,432	7,474,170
Deferred taxes on income (Note 4)	2,051,000	661,000
Current obligations under capital leases (Note 6)	21,823	253,870
Total current liabilities	11,083,593	37,780,128
Non-current obligations under capital leases (Note 6)	203,036	670,673
Deferred taxes on income (Note 4)	204,000	951,000
Commitments and contingencies (Notes 5, 7, and 10)		
Shareholders' equity (Notes 1 and 8):		
Common stock, no par value:		
160,000,000 shares authorized, 48,396,928 shares issued and outstanding (43,305,632 in 1979)	4,297,729	11,428,438
Common stock to be issued in business combination (Note 3)	—	920,210
Retained earnings (Note 5)	5,907,884	17,605,867
	10,205,613	29,954,515
Less notes receivable from shareholders	(525,263)	(4,005,975)
Total shareholders' equity	9,680,350	25,948,540
	$21,170,979	$65,350,341

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(See Note 8)

	Convertible Preferred Stock		Common Stock		Common Stock Subscribed		Common Stock to Be Issued	Retained Earnings	Notes Receivable From Shareholders	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 3, 1977 (inception of the Corporation)	—	$ —	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Issuance of common shares to founders	—	—	16,640,000	5,309	—	—	—	—	—	5,309
Common shares subscribed	—	—	—	—	10,480,000	114,625	—	—	—	114,625
Net income	—	—	—	—	—	—	—	41,575	—	41,575
Balance at September 30, 1977	—	—	16,640,000	5,309	10,480,000	114,625	—	41,575	—	161,509
Issuance of common shares previously subscribed	—	—	10,480,000	114,625	(10,480,000)	(114,625)	—	—	—	—
Issuance of common shares to investors and employees	—	—	6,256,064	586,506	—	—	—	—	—	586,506
Issuance of common shares to officers and directors	—	—	4,000,000	375,000	—	—	—	—	(375,000)	—
Issuance of convertible preferred shares	78,222	703,998	—	—	—	—	—	—	—	703,998
Net income	—	—	—	—	—	—	—	793,497	—	793,497
Balance at September 30, 1978	78,222	703,998	37,376,064	1,081,440	—	—	—	835,072	(375,000)	2,245,510
Issuance of common shares under stock option plan	—	—	1,026,464	181,205	—	—	—	—	(53,250)	127,955
Issuance of common shares to officers and investors	—	—	2,400,000	2,331,086	—	—	—	—	(250,000)	2,081,086
Repayments of notes receivable from shareholders	—	—	—	—	—	—	—	—	152,987	152,987
Issuance of common shares upon conversion of convertible preferred shares	(78,222)	(703,998)	2,503,104	703,998	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	5,072,812	—	5,072,812
Balance at September 30, 1979	—	—	43,305,632	4,297,729	—	—	—	5,907,884	(525,263)	9,680,350
Issuance of common shares under stock option plan	—	—	4,293,296	4,831,209	—	—	—	—	(1,399,100)	3,432,109
Issuance of common shares to officers and directors under key employee stock purchase plan	—	—	798,000	2,299,500	—	—	—	—	(2,299,500)	—
Repayments of notes receivable from shareholders	—	—	—	—	—	—	—	—	217,888	217,888
Shares to be issued in business combination (Note 3)	—	—	—	—	—	—	920,210	—	—	920,210
Net income	—	—	—	—	—	—	—	11,697,983	—	11,697,983
Balance at September 26, 1980	—	$ —	48,396,928	$11,428,438	—	$ —	$920,210	$17,605,867	$(4,005,975)	$25,948,540

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	January 3, 1977 (Inception of Corporation) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Sources of working capital:				
Working capital provided from operations:				
Net income	$ 41,575	$ 793,497	$ 5,072,812	$11,697,983
Charges to operations not requiring the current use of working capital:				
Depreciation and amortization	8,057	33,056	201,338	1,377,378
Deferred income taxes—non-current portion	—	29,000	175,000	747,000
Total working capital provided from operations	49,632	855,553	5,449,150	13,822,361
Issuance of common shares, net of notes receivable from shareholders	5,309	586,506	2,209,041	3,454,109
Common shares subscribed	114,625	—	—	—
Issuance of convertible preferred shares	—	703,998	—	—
Payments on notes receivable from shareholders	—	—	152,987	195,888
Non-current obligations under capital leases	—	—	228,391	751,955
Working capital provided from business combination:				
Non-current assets acquired	—	—	—	(607,455)
Common shares to be issued	—	—	—	920,210
Working capital provided from business combination	—	—	—	312,755
Total sources of working capital	169,566	2,146,057	8,039,569	18,537,068
Applications of working capital:				
Additions to property, plant and equipment	58,894	250,877	800,260	4,125,718
Acquisition of equipment under capital leases	—	—	228,391	751,955
Reacquisition of distribution rights	—	—	—	5,401,326
Additions to other assets	1,364	27,533	202,283	407,899
Reduction in non-current obligations under capital leases	—	—	25,355	284,318
Total applications of working capital	60,258	278,410	1,256,289	10,971,216
Increase in working capital	$109,308	$1,867,647	$ 6,783,280	$ 7,565,852
Changes in components of working capital:				
Increases (decreases) in current assets:				
Cash and temporary cash investments	24,420	750,909	$ (212,529)	$ (199,981)
U.S. Government securities	—	—	—	2,110,710
Accounts receivable	178,648	1,201,239	7,798,424	8,262,755
Inventories	182,188	1,637,831	8,282,698	24,088,903
Prepaid taxes on income	3,400	64,600	(68,000)	—
Common stock subscriptions receivable	114,625	(114,625)	—	—
	503,281	3,539,954	15,800,593	34,262,387
Increases (decreases) in current liabilities:				
Notes payable to bank	150,000	(150,000)	—	7,850,000
Note payable	—	—	—	1,250,000
Accounts payable	200,494	795,854	4,414,531	9,084,264
Accrued liabilities	32,379	267,771	1,420,309	4,075,486
Income taxes payable	11,100	758,682	1,109,650	5,594,738
Deferred taxes on income	—	—	2,051,000	(1,390,000)
Current obligations under capital leases	—	—	21,823	232,047
	393,973	1,672,307	9,017,313	26,696,535
Increase in working capital	$109,308	$1,867,647	$ 6,783,280	$ 7,565,852

See accompanying notes.

APPLE COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Apple Computer, Inc. and all of its subsidiaries, after elimination of significant intercompany accounts and transactions. Minority interests in subsidiaries are immaterial.

Provision for doubtful accounts

Provisions for doubtful accounts were $10,000, $125,000, $326,000 and $330,000 in 1977, 1978, 1979 and 1980, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out (FIFO) basis. Market is replacement cost for raw materials and purchased parts and estimated net realizable value for work-in-process and finished goods.

Property, plant and equipment

Depreciation and amortization is being provided using principally declining balance methods over estimated useful lives as follows:

	Estimated Life
Buildings	30 years
Machinery, equipment and tooling	3-7 years
Leasehold improvements	Life of lease or four years, whichever is less
Office furniture and equipment	3-5 years

Stock splits

In April 1979, May 1980 and September 1980 the Company increased its authorized common shares from 5,000,000 to 160,000,000 and declared two four-for-one stock splits and a two-for-one stock split. Numbers of common shares and per share amounts for all periods presented reflect the effects of the stock splits.

Fiscal year

In fiscal 1980, the Company changed from a September 30 fiscal year-end to a fiscal year ending on the last Friday in September.

Earnings per common and common equivalent share

Earnings per share were computed using the weighted average number of common shares outstanding and common shares issuable upon the exercise of outstanding options (assuming the proceeds would be used to purchase treasury stock at the average fair value during the year). In 1978 and 1979, the calculation included the common shares issuable upon conversion of the preferred stock.

The Company has restated earnings per share for 1979 to reflect the retroactive application of Financial Accounting Standards Board Interpretation No. 31, which requires that the tax benefit attributable to unexercised stock options be considered as part of the proceeds under the treasury stock method. The effect of the restatement was to increase earnings per share in 1979 by $.01.

Investment tax credits

The Company accounts for investment tax credits using the flow-through method.

Industry segment and geographic information

The Company designs, develops, produces, markets and services personal computer systems. One customer, ComputerLand, accounted for approximately 17% of consolidated revenues in fiscal 1978 and 14% of consolidated revenues in fiscal 1979 and 1980. Sales to certain distributors accounted for more than 10% of revenues prior to changes in distribution arrangements (see Notes 2 and 3). The Company has had no significant foreign operations. Export sales including sales in Canada, made primarily through the Company's former distributor of products in foreign countries (see Note 2), comprise 14%, 24% and 25% of total consolidated sales in 1978, 1979 and 1980, respectively.

2. Product distribution arrangements

Until March 1980, the Company's products were sold primarily through distributors. Effective in March 1980, the Company cancelled all domestic distribution agreements in accordance with their terms and began selling directly to domestic dealers. Concurrent with the cancellations, the Company repurchased approximately $1,300,000 of Apple inventory and offset the amount against amounts owing to the Company by the distributors.

In August 1980 the Company reacquired, for approximately $5,400,000, the exclusive rights to distribute its products in certain foreign countries. The rights, which were to expire in September 1984, were acquired from a distributor and are being amortized using the straight-line method over four years. In connection with the purchase the Company issued an 11%, $1,250,000 promissory note payable February 15, 1981. The Company also repurchased, for approximately $2,800,000, the distributor's Apple inventory and offset the amount against amounts owing to the Company.

3. Business combination

Effective June 30, 1980, the Company agreed to purchase all of the outstanding common stock of a former distributor of Apple products, OB1. The purchase price, $920,210, is to be paid by the issuance of the Company's common stock. The actual number of common shares to be issued (estimated by the Company to be 115,000) is dependent upon the outcome of negotiations currently in progress. The resulting cost in excess of the net OB1 assets acquired, $527,785, is being amortized on the straight-line method over ten years. The effect of this acquisition on sales and income is immaterial.

4. Taxes on income

The provision for taxes on income consists of the following:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
State:				
Current	$5,000	$151,000	$ 555,000	$ 2,205,000
Deferred (prepaid)	(400)	(11,000)	360,000	(272,000)
	4,600	140,000	915,000	1,933,000
Federal:				
Current	8,000	642,000	2,186,000	10,893,000
Deferred (prepaid)	(3,000)	(28,000)	1,931,000	(372,000)
	5,000	614,000	4,117,000	10,521,000
Provision for taxes on income	$9,600	$754,000	$5,032,000	$12,454,000

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. The sources of these differences and the tax effect of each are as follows:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Bad debt, warranty and advertising provisions	$(1,600)	$(86,000)	$1,961,000	$(2,642,000)
Inventory items capitalized for financial reporting	—	—	—	810,000
Income of Domestic International Sales Corporation	—	39,000	292,000	1,136,000
Other	(1,800)	8,000	38,000	52,000
Total deferred (prepaid) taxes	$(3,400)	$(39,000)	$2,291,000	$ (644,000)

The total provision for taxes on income differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for the differences and the tax effect of each are as follows:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Computed expected tax, net of surtax exemption	$11,100	$729,500	$4,681,000	$11,091,000
California franchise tax, net of federal benefit	2,400	73,000	490,000	1,044,000
Investment tax credits	(5,600)	(25,000)	(77,000)	(197,000)
Other	1,700	(23,500)	(62,000)	516,000
Provision for taxes on income	$ 9,600	$754,000	$5,032,000	$12,454,000

5. Bank credit arrangements

At September 26, 1980, $7,850,000 was payable to a bank under a $20,000,000 line of credit which expires in January 1981. The agreement allows the Company to borrow up to $15,000,000 based upon acceptable receivables and an additional $5,000,000 based upon certain items of inventory. The interest rate is the bank's prime rate plus ¼%. Any amounts due to the bank under the inventory line ($1,850,000 at September 26, 1980) may be converted, at the Company's option, to a term loan payable in 48 monthly installments beginning March 1, 1981 at the bank's prime rate plus ¾%.

Letters of credit of $3,442,169 outstanding at September 26, 1980 further reduce availability of the $15,000,000 portion of the line of credit. Acceptances payable of $946,892 and $1,113,580 at September 26, 1980 and September 30, 1979, respectively, for goods received under the letters of credit but not yet paid by the bank are classified with accounts payable. Additional borrowings at September 26, 1980 are limited, based upon the definition of the borrowing base in the agreement, to approximately $1,500,000 and $3,150,000 under the receivable and inventory portions of the line, respectively.

Borrowings are secured by the Company's receivables and inventory. The agreement contains provisions prohibiting payment of any cash dividends without bank authorization and requiring maintenance of specified levels of working capital and tangible net worth. In accordance with the agreement, the Company has paid a $112,500 commitment fee to the bank.

The inventory line requires the Company to either maintain compensating balances equal to $250,000 plus ten percent of the average daily outstanding balance under the line or to pay fees in lieu of the compensating balances for periods in which the required balances are not maintained.

Amounts paid to the bank under this provision are immaterial. The compensating balance requirement does not legally restrict the use of cash.

6. Obligations under capital leases

Obligations under capital leases represent the present value of future rental payments to be made to a bank under agreements for lease of data processing equipment. Upon payment of the required rentals, the Company has the option to either extend the leases or purchase the equipment at the then fair value. The equipment is being depreciated using the double declining balance method over the terms of the leases (3-7 years). These leases were entered into pursuant to a $2,000,000 lease line of credit with a bank.

Following is a schedule by year of future minimum lease payments under the capital lease obligations together with the present value of the net minimum lease payments as of September 26, 1980:

Fiscal years ending September:	
1981	$ 343,000
1982	343,000
1983	305,000
1984	48,000
1985	48,000
Later years	48,000
Total minimum lease payments	1,135,000
Less amount representing interest	210,000
Present value of net minimum lease payments	$ 925,000

7. Commitments

Lease commitments

The Company operates in leased facilities and also leases certain automobiles. Rent expense was $8,000, $61,000, $358,000 and $1,810,000 in fiscal 1977, 1978, 1979 and 1980, respectively. Aggregate minimum annual lease commitments are $2,672,000, $2,678,000, $2,489,000, $2,140,000, $1,739,000 and $2,208,000 in fiscal 1981, 1982, 1983, 1984, 1985 and 1986-1990, respectively.

Loan guarantees

The Company is the guarantor of $1,118,567 of bank loans as of September 26, 1980 to employees who have exercised options to date during calendar year 1980 under the Company's stock option plans (see Note 8). Employees are required to pledge as collateral the common shares obtained upon exercise. The bank loans are limited to the purchase price of the common shares plus 23% of the difference between the aggregate purchase price and the fair value of the shares as of the date of exercise.

Foreign facilities

During fiscal 1980, the Company signed a grant agreement with the Industrial Development Authority of Ireland (IDA), an Irish government agency, whereby the Company agreed to establish an industrial undertaking for the production and development of personal computer systems and committed itself to purchase or construct land, buildings, machinery, and equipment before July 31, 1983, at a cost of approximately $16,000,000. As of September 26, 1980, the IDA had not yet signed the grant agreement and the amount of the grant, if any, had not yet been determined.

8. Capital stock

Preferred stock authorized

The Company has authorized 1,000,000 shares (increased by the Board of Directors to 5,000,000 shares in October 1980) of preferred stock which may be issued from time to time in one or more series. The Board of Directors is authorized to fix the number and designation of any such series and to determine the rights, preferences, privileges and restrictions granted to or imposed upon any such series.

Stock option plans

In July 1978, the Board of Directors adopted a nonqualified stock option plan (1978 plan) under which options for a total of 11,025,600 shares of common stock were available for grant to officers, directors, employees and contractors at the discretion of the Board of Directors. Option prices were to be at fair value as determined by the Board of Directors, but not less than $.03 per share. Options granted under the 1978 plan become exercisable over varying periods and expire seven years after the grant date. This plan was terminated in December 1979. Subsequent cancellations are not available for regrant and 49,856 options available for grant at the termination date were rescinded.

In December 1979, the Board of Directors adopted a nonqualified stock option plan for fiscal 1980 (1980 Plan) under which options for a total of 3,200,000 shares of common stock may be granted to officers, directors, employees and contractors. Options granted under the 1980 plan have been granted at no less than fair value as determined by the Board of Directors, become exercisable over varying periods, and expire eight years after grant date. Proceeds and income tax benefits of $66,349 and $3,391,714 in 1979 and 1980, respectively, realized by the Company as a result of transactions under these plans have been credited to shareholders' equity; no charges have been made to income in connection with these plans.

Information with respect to stock options is summarized as follows:

		Outstanding Options		
	Available for Grant	Number	Aggregate Price	Price Per Share
Initial authorization under the plan—fiscal year 1978	8,000,000	—	$ —	$ —
Balance at September 30, 1978	8,000,000	—	—	—
Authorized increase	2,000,000	—	—	—
Options granted	(11,621,600)	11,621,600	2,850,150	$ .09–$1.31
Options exercised	—	(1,026,464)	(114,856)	$ .09–$ .81
Options cancelled	1,530,656	(1,530,656)	(146,999)	$ .09–$ .31
Balance at September 30, 1979	(90,944)	9,064,480	2,588,295	$ .09–$1.31
Authorized increases, net of recission	4,175,744			
Options granted	2,765,800	2,765,800	6,775,725	$1.31–$6.00
Options exercised	—	(4,293,296)	(1,439,495)	$ .09–$2.75
Options cancelled	33,600	(356,012)	(187,221)	$ .19–$1.31
Balance at September 26, 1980	1,352,600	7,180,972	$7,737,304	$ .09–$6.00
Options exercisable at:				
September 30, 1979		267,200	$ 200,500	$ .09–$1.31
September 26, 1980		227,924	$ 96,553	$ .09–$2.75

In October 1980, the Board of Directors adopted the 1981 Stock Option Plan, subject to shareholder approval, under which 1,500,000 shares of common stock are reserved for issuance. This plan is similar to the Company's 1978 and 1980 option plans.

Key employee stock purchase plan

In December 1979, the Board of Directors adopted a stock purchase plan to encourage stock ownership by certain officers, directors and key employees of the Company. The Company has reserved 800,000 common shares for issuance under the plan. The purchase price of shares sold pursuant to this plan was the fair value at the date of sale, as determined by the Board of Directors. At September

26, 1980, 798,000 shares of common stock had been issued under this plan. Certain of the shares sold under this plan are subject to repurchase by the Company at the original sale price if the employees leave the employ of the Company within specified periods of time.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted, subject to shareholder approval, an Employee Stock Purchase Plan under which 1,000,000 shares of Common Stock were reserved for issuance. This plan provides that substantially all employees may purchase stock at 85% of its fair market value at certain specified dates. Purchases are limited to 10% of an employee's compensation.

Notes receivable from shareholders

The notes receivable arose from the sale by the Company of its common stock to directors, officers and employees and from the exercise of stock options by officers and employees under the Company's stock option plans. The notes receivable relating to exercise of stock options include both the proceeds from the exercise and up to 23% of the difference, if any, between the aggregate exercise price and the fair value of the shares as of the exercise date.

The notes receivable are secured by a pledge of the shares issued, less the pro-rata release by the Company of pledged shares based on the percentage of the principal amount of the notes paid. There were 4,179,000 common shares pledged as collateral at September 26, 1980.

The notes bear interest at 6% and 7% and are payable on various dates through July 1985.

9. Employee incentive plans

Profit participation plans

The Company has a profit participation plan originally adopted effective October 1978 which covers all fulltime employees, except corporate officers and certain key employees, who have been employed for at least six months. Distributions under the plan are based upon pretax profits, as defined, for each calendar quarter. The amount of the distribution can vary from zero to three percent, depending upon the pretax profit percentage for each calendar quarter, and is payable to all eligible participants within 30 days after the end of the quarter. For the years ended September 30, 1979 and September 26, 1980, approximately $263,000 and $379,000, respectively, were provided under the plan.

Key employee bonus plans

The Company has a bonus plan originally adopted effective October 1978 for officers and certain key employees. The amount of the distribution can vary from zero to seven percent of pretax profits, depending upon annual sales and pretax profits, as defined. Payments under the plan shall be made by January 15 of the year following the fiscal year in which the distribution is accrued. For the years ended September 30, 1979 and September 26, 1980, approximately $456,000 and $554,000, respectively, were provided under the plan.

10. Litigation

In June 1980, a former distributor (High Technology, Inc.) filed suit against the Company alleging, among other things, violation of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,750,000 in damages, as well as alleging treble damages, punitive damages, and claiming attorneys' fees and costs. Another former distributor (Omega Northwest, Inc.) filed suit against the Company in May 1980 seeking treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The complaint alleges breach of contract, violations of state franchise protection and state antitrust acts, and defamation. In the opinion of the Company's management, the outcome of the litigation will result in no material loss to the Company. Refer to "Litigation" section of the Prospectus for a more complete description of this pending litigation.

[illegible] by the Company within specified periods of time.

[illegible] Plan

[illegible]

[illegible] from the [illegible]

[illegible] the Company [illegible] and [illegible]

[illegible]

8. Employee benefit plans

Profit participation plans.

The Company has a profit participation plan originally adopted effective October [illegible] which covers all [illegible], except [illegible] officers and certain key employees, who have [illegible] employed [illegible]. [illegible] The amounts of the contribution [illegible] upon the profit [illegible] within [illegible] days after the end of the quarter. [illegible] and September 30, 1969, approximately [illegible] and [illegible] respectively, were provided [illegible] plan.

Key employee bonus plans

The Company has a bonus plan [illegible] effective [illegible] and [illegible] employees. The amount of the [illegible] in excess of [illegible] for the fiscal year [illegible] September 30, 1970 and September 30, 1969 [illegible] respectively, were provided under the plan.

10. Litigation

[illegible]

06315 2nd PROOF OF APRIL 20, 1981
Bowne of New York City (212) 924-5500

Proof of April 20, 1981

Shares

Apple Computer, Inc.

COMMON STOCK

AGREEMENT AMONG UNDERWRITERS

May , 1981

May , 1981

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

c/o MORGAN STANLEY & CO.
INCORPORATED
1251 Avenue of the Americas
New York, N.Y. 10020

Dear Sirs:

I.

We hereby confirm our agreement with you with respect to the purchase from certain shareholders (hereinafter called the Selling Shareholders) named in Schedule I to the Underwriting Agreement (Exhibit A hereto) by you and the other Underwriters referred to in the Underwriting Agreement, including ourselves, severally, and the offering of an aggregate of issued and outstanding shares of common stock of Apple Computer, Inc., a California corporation (hereinafter called the Company). Such shares of common stock are hereinafter referred to as the Shares, and all outstanding shares of common stock of the Company, including the Shares, are hereinafter referred to as Common Stock.

We authorize you to execute and deliver the Underwriting Agreement and the Agreement with the Company (Exhibit B hereto) on our behalf, and, in the event our principal place of business is outside the United States, in your discretion to agree with the Selling Shareholders on such additions to and changes in the form of the Underwriting Agreement prior to the execution thereof as shall be approved by counsel for the Underwriters. The number of Shares set forth opposite each Underwriter's name in the Underwriting Agreement (or such number increased as provided in Article VII of the Underwriting Agreement) is hereinafter referred to as the original puchase obligation of such Underwriter, and the ratio which such original purchase obligation bears to Shares is hereinafter referred to as the underwriting percentage of such Underwriter.

II.

We authorize you to act as the Managers of the offering of the Shares and to take such action as may seem advisable to you in respect thereof.

The public offering of the Shares is to be made as soon after the Registration Statement becomes effective as in your judgment is advisable, at the public offering price and on the other terms and conditions as you shall determine in accordance with the Underwriting Agreement. Public advertisement of the offering shall be made by you on behalf of the Underwriters on such date as you shall determine. We have not advertised the offering and will not do so until after such date. Any advertisement we may then make will be on our own responsibility and at our own expense.

If our principal place of business is located outside the United States, we agree that (i) if we are not registered as a broker-dealer under Section 15 of the United States Securities Exchange Act of 1934, while we are acting as an Underwriter in respect of the Shares and in any event during the term of this Agreement, we will not directly or indirectly effect any transaction in shares of Common Stock in the United States or sell or offer to sell any shares to a national or resident of the United States (except for purchases provided for in the Underwriting Agreement and sales to dealers and others provided for in this Article II); and (ii) in connection with sales and offers to sell Shares made by us outside the United States, (a) we will either furnish to each person to whom any such sale or offer is made a copy of the then current preliminary prospectus or of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto), as the case may be, or inform such person that such preliminary prospectus or Prospectus will be available upon request and (b) we will furnish to each person to whom any such sale or offer is made such prospectus, advertisement or other offering document containing information relating to the Shares or the Company, or both, as may be required under the laws of the jurisdiction in which such sale or offer is made. Any prospectus, advertisement or other offering document furnished by us to any person in accordance with clause (ii) (b) of the preceding sentence and any such additional offering material as we may furnish to any person (i) shall comply in all respects with the law of the jurisdiction in which it is so furnished; (ii) shall be prepared and so furnished at our sole risk and expense; and (iii) shall not contain information relating to the Shares or the Company which is inconsistent in any respect with the information contained in the then current preliminary prospectus or in the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto), as the case may be.

We authorize you to sell for our account to institutions such Shares purchased by us from the Selling Shareholders as you shall determine. Except for sales for the accounts of Underwriters designated by a purchaser, aggregate sales of Shares to institutions shall be made for the accounts of the several Underwriters as nearly as practicable in their respective underwriting percentages.

We authorize you to sell for our account to dealers such Shares purchased by us from the Selling Shareholders as you shall determine. Sales of Shares to dealers shall be made for the account of each Underwriter approximately in the proportion that Shares of such Underwriter held by you for such sales bear to the total Shares so held. Such sales may be made pursuant to dealer agreements substantially in the form attached as Exhibit C hereto.

You will advise us promptly, on the date of the public offering, as to the Shares purchased by us which we shall retain for direct sale. At any time prior to the termination of this Agreement any Shares purchased by us, which are held by you for sale for our account as set forth above but not sold, may, on our request and at your discretion, be released to us for direct sale, and Shares so released to us shall no longer be deemed held for sale by you.

From time to time prior to the termination of this Agreement, on your request, we will advise you of the number of Shares remaining unsold which were retained by or released to us for direct sale and of the number of shares of Common Stock remaining unsold which were delivered to us pursuant to Article III, and, on your request, we will release to you any shares of Common Stock remaining unsold (i) for sale by you for our account to institutions or dealers or (ii) if, in your opinion, such shares of Common Stock are needed to make delivery against sales made pursuant to Article III.

III.

We authorize Morgan Stanley & Co. Incorporated to buy and sell shares of Common Stock, in addition to the Shares sold pursuant to Article II, in the open market or otherwise, for long or short account, on such terms as it shall deem advisable, and to over-allot in arranging sales. Such purchases and sales and over-allotments shall be made for the accounts of the several Underwriters as nearly as practicable in their respective underwriting percentages. Shares of Common Stock which may have been purchased by Morgan Stanley & Co. Incorporated for stabilizing purposes prior to the execution of this Agreement shall be treated as having been purchased pursuant to this paragraph for the accounts of the several Underwriters. At no time shall our net commitment pursuant to the foregoing authorization exceed 10% of our original purchase obligation. On demand we will take up and pay for any shares of Common Stock so purchased for our account and deliver against payment any shares of Common Stock so sold or over-allotted for our account. You agree to notify us if

Morgan Stanley & Co. Incorporated engages in any stabilization transaction requiring reports to be filed pursuant to Rule 17a-2 under the Securities Exchange Act of 1934 and to notify us of the date of termination of stabilization. We agree to file with you any reports required of us pursuant to such Rule 17a-2 not later than five business days following the day upon which stabilization was terminated. and we authorize you to file on our behalf with the Securities and Exchange Commission any reports required by such Rule.

If pursuant to the provisions of the preceding paragraph and prior to the termination of this Agreement (or prior to such earlier date as you may have determined) you purchase or contract to purchase for the account of any Underwriter in the open market or otherwise any Shares which were retained by or released to us for direct sale (including any Shares represented by certificates which may have been issued on transfer or in exchange for certificates originally representing such Shares) and which Shares were therefore not effectively placed for investment by us, we authorize you either to charge our account with an amount equal to the concession to dealers with respect thereto, which amount shall be credited against the cost of such Shares, or to require us to repurchase such Shares at a price equal to the total cost of such purchase, including commissions, if any, and transfer taxes on redelivery.

We agree that we will not, without your approval in advance, buy, sell, deal or trade in any Common Stock, or buy any right or option to purchase Common Stock, or sell any right or option to sell Common Stock, for our own account or for the account of a customer, except

(a) as provided for in this Agreement or the Underwriting Agreement;

(b) that we may deliver Common Stock owned by us upon the exercise of any option to purchase Common Stock written by us as permitted by this Agreement; and

(c) in brokerage transactions on unsolicited orders which have not resulted from activities on our part in connection with the solicitation of purchases and which are executed by us in the ordinary course of our brokerage business.

An opening uncovered writing transaction in options to acquire Common Stock, for our account or for the account of a customer, shall be deemed, for purposes of this paragraph, to be a sale of Common Stock which is not unsolicited. The term "opening uncovered writing transaction in options to acquire" as used above means a transaction where the seller intends to become a writer of an option to purchase any Common Stock which he does not own or have the right to acquire upon exercise of option rights. An opening uncovered writing transaction in options to sell Common Stock, for our account or for the account of a customer, shall be deemed, for purposes of this paragraph, to be a purchase of Common Stock which is not unsolicited. The term "opening uncovered writing transaction in options to sell" as used above means a transaction where the seller intends to become a writer of an option to sell any Common Stock with respect to which he does not have a short position or have the right to sell upon exercise of option rights.

We represent that we have not participated, since May , 1981, in any transaction prohibited by the preceding paragraph and that we have at all times complied with the provisions of Rule 10b-6 of the Securities and Exchange Commission applicable to this offering.

IV.

On the Closing Date as defined in the Underwriting Agreement, at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N.Y., prior to 8:45 a.m., New York Time, we will deliver to you a certified or official bank check, payable to the order of Morgan Stanley & Co. Incorporated in New York Clearing House funds, for either (i) an amount equal to the public offering price less the selling concession in respect of the Shares to be purchased by us or (ii) an amount equal to the public offering price less the selling concession in respect of such of the Shares to be purchased by us as shall have been retained by or released to us for direct sale, as you shall advise. You will make payment to the Selling Shareholders against delivery to you for our account of stock certificates for such Shares in definitive form, and you will deliver to us certificates for such of the Shares purchased by us which shall have been retained by or released to us for direct sale.

V.

We authorize you to charge our account, as compensation for your services in connection with this issue, including the purchase from the Selling Shareholders and the management of the offering, an amount not in excess of % of the amount by which the public offering price per share exceeds the purchase price per share (as determined pursuant to Article I of the Underwriting Agreement), for each Share which we have agreed to purchase.

We authorize you to charge our account (i) our underwriting percentage of all expenses, other than transfer taxes, incurred by you under this Agreement or in connection with the purchase, carrying and sale of shares of Common Stock and (ii) all transfer taxes paid on our behalf on sales or transfers made for our account under this Agreement.

VI.

We authorize you to advance your own funds for our account, charging current interest rates, or to arrange loans for our account for the purpose of carrying out the provisions of this Agreement, and in connection therewith, to hold or pledge as security therefor all or any shares of Common Stock which you may be holding for our account under this Agreement.

Out of payment received by you for Shares sold for our account which have been paid for by us, you will remit to us promptly an amount equivalent to the price paid by us for such Shares.

You may deliver to us from time to time against payment, for carrying purposes only, any shares of Common Stock purchased by us or for our account under this Agreement which you are holding for sale for our account but which are not sold and paid for. We will redeliver to you against payment any shares of Common Stock so delivered to us for carrying purposes at such times as you may demand.

VII.

This Agreement shall terminate 30 days after the date of the initial public offering of the Shares unless sooner terminated by you. You may at your discretion on notice to us prior to the termination of this Agreement alter any of the terms or conditions of offering determined pursuant to Article II, or terminate or suspend the effectiveness of Article III, or any part thereof. No termination or suspension pursuant to this paragraph shall affect your authority under Article III to cover any short position incurred under this Agreement.

Upon termination of this Agreement, or prior thereto at your discretion, you shall deliver to us any Shares purchased by us from the Selling Shareholders and held by you for sale for our account to institutions and dealers but not sold and paid for and any shares of Common Stock which are held by you for our account pursuant to the provisions of Article III. As soon as practicable after termination of this Agreement our account hereunder shall be settled and paid. You may reserve from distribution such amount as you deem advisable to cover possible additional expenses. The determination by you of the amount so to be paid to or by us shall be final and conclusive. Any of our funds in your hands may be held with your general funds without accountability for interest.

Notwithstanding any settlement on the termination of this Agreement, we agree to pay any transfer taxes which may be assessed and paid after such settlement on account of any sales or transfers hereunder for our account and our underwriting percentage of (i) all expenses incurred by you in investigating or defending against any claim or proceeding which is asserted or instituted by any party (including any governmental or regulatory body) other than an Underwriter based upon any claim that the Underwriters constitute an association, unincorporated business or other separate entity or relating to the Registration Statement or Prospectus (or any amendment or supplement thereto) or any preliminary prospectus and (ii) any liability, including attorneys' fees, incurred by you in respect of any such claim or proceeding, whether such liability shall be the result of a judgment or as a result of any settlement agreed to by you, other than any such expense or liability as to which you receive indemnity or contribution pursuant to the next succeeding paragraph, pursuant to Articles V or VI of the Underwriting Agreement or pursuant to Article II of the Agreement with the Company.

We agree to indemnify and hold harmless each other Underwriter and each person, if any, who controls any such Underwriter within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934, to the extent and upon the terms which we agree to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and any person controlling the Company as set forth in Article II of the Agreement with the Company.

Regardless of any termination of this Agreement, our agreements contained in the two immediately preceding paragraphs of this Article VII shall remain operative and in full force and effect as set forth in the last paragraph of Article VI of the Underwriting Agreement.

VIII.

The Underwriting Agreement provides that the several obligations of the Underwriters thereunder are subject to the condition that the Registration Statement become effective not later than the date hereof. You are authorized to extend such date by one business day and to execute on our behalf any supplementary agreements with the Selling Shareholders and the Company necessary for such purpose. You are authorized to postpone the date by which the public offering price shall be agreed upon as set forth in Article VII of the Underwriting Agreement with the consent of such of the Underwriters, including yourselves, as shall have agreed to purchase an aggregate of at least 50% of the Shares.

We have examined the Registration Statement, including the prospectus, as amended to date, and we are familiar with the terms of the securities being offered and the other terms of offering which are to be reflected in the proposed amendment to the Registration Statement. In addition, we confirm that the information relating to us which has been furnished to the Company for use therein is correct. You are authorized, with the approval of counsel for the Underwriters, to approve on our behalf such proposed amendment and any further amendments to the Registration Statement or the Prospectus and, if applicable, to advise the Securities and Exchange Commission on our behalf that we are aware that the Commission's staff has made only a summary or cursory and not a customary review of the Registration Statement which may not be relied upon in any degree to indicate that the Registration Statement is true, complete or accurate, and that we are also aware of our statutory responsibilities under the Securities Act of 1933.

We represent that we are a member in good standing of the National Association of Securities Dealers, Inc. (hereinafter called the "NASD") or that we are a foreign bank or dealer, not eligible for membership in the NASD, which agrees not to offer or sell any Shares in, or to persons who are nationals or residents of, the United States of America. In making sales of Shares, if we are such a member, we agree to comply with all applicable rules of the NASD, including, without limitation, the NASD's Interpretation with Respect to Free-Riding and Withholding and Section 24 of Article III of the NASD's Rules of Fair Practice, or, if we are such a foreign bank or dealer, we agree to comply with such Interpretation, Sections 8, 24 and 36 of such Article as though we were such a member and Section 25 of such Article as it applies to a non-member broker or dealer in a foreign country.

You will file a Further State Notice with the Department of State of New York, if required.

IX.

If the Underwriting Agreement is terminated as permitted by the terms thereof, our obligations hereunder shall immediately terminate except (i) as set forth in the last paragraph of Article VII, (ii) that we shall remain liable for our underwriting percentage of all expenses, including any transfer taxes which may be assessed and paid on account of any sales or transfers hereunder for our account, and for any purchases or sales which may have been made for our account pursuant to the provisions of Article III and (iii) that such termination shall not affect any obligations of any defaulting Underwriter.

In the event that any Underwriter shall default in its obligations (i) pursuant to the first paragraph of Article III, (ii) to pay amounts charged to its account pursuant to the second paragraph of Article V or (iii) pursuant to the third and fourth paragraphs of Article VII or the first paragraph of this Article IX, we will assume our proportionate share (determined on the basis of the respective underwriting percentages of the non-defaulting Underwriters) of such obligations, but no such assumption shall affect any obligations of any defaulting Underwriter.

You are authorized to arrange for the purchase by others (including yourselves or any other Underwriter) of any Shares not purchased by any defaulting Underwriter or by the other Underwriters as provided in Article VII of the Underwriting Agreement.

Nothing herein contained constitutes us partners with you or with the other Underwriters, and the obligations of ourselves and of each of the other Underwriters are several and not joint. Each Underwriter elects to be excluded from the application of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as amended. You shall be under no liability to us for any act or omission except for obligations expressly assumed by you herein.

Any notice from you to us shall be deemed to have been duly given if mailed or telegraphed to us at our address as set forth in the Underwriters' Questionnaire addressed by us to the Company.

This Agreement is being executed by us and delivered to you in duplicate. Upon your confirmation hereof and of agreements in identical form with each of the other Underwriters, this Agreement shall constitute a valid and binding contract between us.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Yours very truly,

....

....

Confirmed, May , 1981

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

By MORGAN STANLEY & CO.
INCORPORATED

By ....
Managing Director

EXHIBIT A

Shares

Apple Computer, Inc.

COMMON STOCK

UNDERWRITING AGREEMENT

May , 1981

May , 1981

MORGAN STANLEY & CO.
INCORPORATED
HAMBRECHT & QUIST
c/o MORGAN STANLEY & CO.
INCORPORATED
1251 Avenue of the Americas
New York, N.Y. 10020

Dear Sirs:

Certain shareholders (hereinafter called the Selling Shareholders) named in Schedule I hereto severally propose to sell an aggregate of issued and outstanding shares (hereinafter called the Shares) of common stock of Apple Computer, Inc., a California corporation (hereinafter called the Company). All outstanding shares of common stock of the Company, including the Shares, are hereinafter referred to as Common Stock.

The Selling Shareholders understand that the Company has filed with the Securities and Exchange Commission a registration statement including a prospectus relating to the Shares. The registration statement as amended at the time when it becomes effective is hereinafter referred to as the Registration Statement, and the prospectus in the form first filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933 is hereinafter referred to as the Prospectus.

I.

Each Selling Shareholder hereby agrees to sell to the several Underwriters named below, and each Underwriter upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees to purchase from each Selling Shareholder, severally and not jointly, at the purchase price (as hereinafter defined) the respective number of Shares (subject to such adjustments to eliminate fractional shares as you may determine) which bears the same proportion to the number of Shares set forth opposite the name of such Selling Shareholder in Schedule I hereto as the number of Shares set forth below opposite the name of such Underwriter bears to .

Name	Number of Shares	Name	Number of Shares
Morgan Stanley & Co. Incorporated			
Hambrecht & Quist			
		Total	

The purchase price per Share to be paid to the Selling Shareholders by the several Underwriters will be an amount equal to the public offering price, determined as hereinafter set forth, less an amount per Share, determined by agreement between you and the Selling Shareholders, not in excess of % of the public offering price. The public offering price per Share — the public offering price — will be a fixed price determined by agreement between you and the Selling Shareholders. Such agreement shall be in the form attached hereto as Schedule II. The public offering price per Share will not be higher than the last reported sale price (regular way) or the last reported asked quotation for shares of the Common Stock on the National Association of Securities Dealers Automated Quotation System immediately prior to such determination, plus $ per Share.

Each of the Selling Shareholders hereby agrees not to sell, contract to sell or otherwise dispose of, without your consent, any shares of Common Stock owned by such Selling Shareholder on the date of this Agreement, other than the Shares to be sold hereunder, for a period of ninety days after the date of the initial public offering of the Shares hereunder.

II.

The Selling Shareholders are advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement has become effective and the public offering price has been determined as in your judgment is advisable. The Selling Shareholders are further advised by you that the Shares are to be offered to the public at the public offering price and to certain dealers who enter into dealer agreements with you substantially in the form of Exhibit C to the Agreement Among Underwriters at a price which represents a concession, not in excess of $ a share, under the public offering price, and that any Underwriter may allow, and any such dealer may reallow, a concession, not in excess of $ a share, to any Underwriter or to other such dealers.

III.

Payment for the Shares shall be made by certified or official bank check or checks payable to the order, or for the accounts, of the Selling Shareholders in Clearing House funds at the office of at a.m., Time, on such date as shall be designated in writing by you, not fewer than seven nor more than fourteen days after the date the public offering price shall be agreed upon, upon delivery to you for the respective accounts of the several Underwriters of stock certificates in definitive form for the Shares, registered in such names and in such denominations as you shall request in writing not less than two full business days prior to the date of delivery, with any transfer taxes payable in connection with the transfer of the Shares to the Underwriters duly paid. The time and date of such payment and delivery are herein referred to as the Closing Date.

IV.

The several obligations of the Selling Shareholders and the several obligations of the Underwriters hereunder are subject to the condition that the Registration Statement shall have become effective not later than the date hereof.

The several obligations of the Underwriters hereunder are subject to the following further conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the Securities and Exchange Commission, and there shall have been no material adverse change (not in the ordinary course of business) in the condition of the Company and its subsidiaries, taken as a whole, from that set forth in the Registration Statement; and on the Closing Date you shall have received a certificate dated the Closing Date and signed by an executive officer of the Company to the foregoing effect. The officer making such certificate may rely upon the best of his knowledge as to proceedings threatened.

(b) You shall have received on the Closing Date an opinion of Wilson, Sonsini, Goodrich & Rosati, counsel for the Company and the Selling Shareholders, dated the Closing Date, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the State of California and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of property requires such qualification, except jurisdictions where the failure to be so qualified will not have a material adverse effect on the Company,

(ii) each of the following subsidiaries of the Company — Apple Computer, Inc., Limited, Apple Computer Limited, [Microsense], and Apple Sales Corporation — has been duly incorporated, is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of property requires such qualification, except jurisdictions where the failure to be so qualified will not have a material adverse effect on the Company,

(iii) the authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus,

(iv) the shares of Common Stock (including the Shares) have been duly authorized and validly issued and are fully paid and non-assessable,

(v) the Agreement with the Company (Exhibit B to the Agreement Among Underwriters) has been duly authorized, executed and delivered by the Company and is a valid and binding agreement of the Company in accordance with its terms, except as rights to indemnity thereunder may be limited under applicable law and except as to the availability of equitable remedies under general equitable principles,

(vi) this Agreement has been duly authorized, executed and delivered by or on behalf of each Selling Shareholder and is a valid and binding agreement of each Selling Shareholder in accordance with its terms, except as rights to indemnity hereunder may be limited under applicable law and except as to the enforcement of creditors' remedies under bankruptcy or insolvency laws of general applicability and the availability of remedies under general equitable principles,

(vii) the execution, delivery and performance of the Agreement with the Company by the Company will not contravene any provision of applicable law or the certificate of incorporation or by-laws of the Company or, to the knowledge of such counsel, any agreement or other instrument binding upon the Company and, other than such consents, approvals or authorizations as may be required by state securities or Blue Sky laws, no consent, approval or authorization of any governmental body is required for the performance of such Agreement by the Company, except such as are specified and have been obtained,

(viii) the execution, delivery and performance of this Agreement will not contravene any provision of applicable law or any certificate of incorporation or by-laws of any Selling Shareholder or, to the knowledge of such counsel, any agreement or other instrument binding upon any Selling Shareholder and, other than such consents, approvals, or authorizations as may be required by state securities or Blue Sky laws, no consent, approval or authorization of any governmental body is required for the performance of this Agreement by any Selling Shareholder, except such as are specified and have been obtained,

(ix) the statements in the Prospectus under , insofar as such statements constitute a summary of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings,

(x) each Selling Shareholder has valid marketable title to the Shares to be sold by such Selling Shareholder, and has the legal right and power, and all consents, approvals and authorizations required by law (which shall be specified), to enter into this Agreement and to sell, transfer and deliver the Shares to be sold by such Selling Shareholder,

(xi) the Powers of Attorney signed by the Selling Shareholders appointing certain individuals as their attorneys-in-fact to the extent set forth therein with regard to the transactions contemplated hereby and by the Registration Statement, and the Custody Agreements between the Selling Shareholders and Wells Fargo Bank, N.A., as Custodian, relating to the deposit of the Shares have been duly authorized, executed and delivered by or on behalf of the respective Selling Shareholders and are valid and binding instruments of such Selling Shareholders in accordance with their respective terms, except as to the enforcement of creditors' remedies under bankruptcy or insolvency laws of general applicability and the availability of remedies under general equitable principles,

(xii) delivery of the certificates for the Shares to be sold by each such Selling Shareholder pursuant to this Agreement will pass marketable title to such Shares free and clear of any security interests, claims, liens, equities or other encumbrances known to such counsel, and

(xiii) such counsel (1) is of the opinion that the Registration Statement and the Prospectus and any supplements or amendments thereto (except as to financial statements as to which such counsel need not express any opinion) comply as to form in all material respects with the Securities Act of 1933 and the rules of the Securities and Exchange Commission thereunder, and (2) believes that (except as to financial statements as to which such counsel need not express any belief) the Registration Statement and the Prospectus at the time the Registration Statement became effective did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and the Prospectus (as amended or supplemented, if applicable) does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely upon an opinion or opinions of counsel for any Selling Shareholder, and, to the extent such counsel deems appropriate, upon the representations of each Selling Shareholder contained herein, in the aforementioned Custody Agreements and Powers of Attorney and in other documents and instruments, with regard to the matters in (vi), (viii), (x), (xi) and (xii) above, provided that (A) each such counsel for the Selling Shareholders is satisfactory to you, (B) a copy of each opinion so relied upon is delivered to you and is in form and substance satisfactory to you, (C) copies of such Custody Agreements and Powers of Attorney and of any such other documents and instruments shall be delivered to you and shall be in form and substance satisfactory to you and (D) such counsel shall state in their opinion that they are justified in relying thereon. In rendering such opinion, such counsel may also state that, with respect to (xiii) above, their opinion and belief is based upon their participation in the preparation of the Registration Statement and the Prospectus and any supplements or amendments thereto and review and discussion of the contents thereof, but is without independent check or verification except as specified.

(c) You shall have received on the Closing Date an opinion of Davis Polk & Wardwell, counsel for the Underwriters, dated the Closing Date, covering the matters referred to in (iii), (iv), (v), (vi), (ix) and (xiii) of (b) above, provided that such counsel may rely upon the opinion of Wilson, Sonsini, Goodrich & Rosati referred to in (b) above as to all matters of California law and as to the matters referred to in (vi) of (b) above, and that with respect to (xiii) of (b) above, such counsel may state that their opinion and belief is based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and review and discussion of the contents thereof, but is without independent check or verification except as specified.

V.

Each Selling Shareholder will pay or cause to be paid (i) all taxes, if any, on the transfer and sale, respectively, of the Shares being sold by such Selling Shareholder, and (ii) such Selling Shareholder's pro rata share (based on the percentage which the number of Shares sold by such Selling Shareholder bears to the total number of Shares sold) of all costs and expenses incident to the performance of the obligations of the Selling Shareholders and the Company under this Agreement, including, but not limited to, all expenses incident to the delivery of the certificates for the Shares, the fees and expenses of counsel and the accountants for the Selling Shareholders and the Company, the costs and expenses incident to the preparation, printing and filing of the Registration Statement (including all exhibits thereto) and the Prospectus and any amendments or supplements thereto, the expenses of qualifying the Shares under the state securities or Blue Sky laws, all fees payable in connection with the review of the offering of the Shares by the National Association of Securities Dealers, Inc., and the cost of furnishing to the Underwriters the required copies of the Registration Statement and Prospectus and any amendments or supplements thereto.

VI.

Each Selling Shareholder, severally and not jointly, represents and warrants to each Underwriter (a) that such Selling Shareholder now has, and on the Closing Date will have, valid marketable title to such of the Shares as are to be sold by such Selling Shareholder pursuant to this Agreement, free and clear of any security interests, claims, liens, equities and other encumbrances, (b) that such Shares, when delivered, will be duly authorized, validly issued, fully paid and nonassessable, (c) that such Selling Shareholder now has, and at the time of the delivery of such Shares to you will have, the legal right and power, and all consents, approvals and authorizations required by law, to enter into this Agreement and to sell, transfer and deliver such Shares in the manner provided in this Agreement and (d) that all information furnished by or on behalf of such Selling Shareholder for use in the Registration Statement and Prospectus is, and on the Closing Date will be, true, correct and complete, and does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading.

Each Selling Shareholder agrees, severally and not jointly, to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934, and the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either such Section, from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Prospectus (if used within the period set forth in subparagraph (c) of Article I of the Agreement with the Company and as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Selling Shareholder furnished in writing by or on behalf of such Selling Shareholder expressly for use in the Registration Statement or the Prospectus or in any preliminary prospectus; provided, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased Shares, or any person controlling such Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law to have been so delivered, at or prior to the written confirmation of the sale of the Shares to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability.

Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Selling Shareholders, and each person, if any, who controls any Selling Shareholder within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934, from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Prospectus (if used within the period set forth in subparagraph (c) of Article I of the Agreement with the Company and as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished in writing to the Company by such Underwriter expressly for use in the Registration Statement, the Prospectus or any preliminary prospectus.

In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to either of the two preceding paragraphs, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable under this Agreement for the reasonable fees and expenses of more than one separate firm for all such indemnified parties. In the case of any such separate firm for the Underwriters and such control persons of Underwriters, such firm shall be designated in writing by Morgan Stanley & Co. Incorporated. In the case of any such separate firm for the Selling Shareholders and such control persons of Selling Shareholders, such firm shall be designated in writing by the attorneys-in-fact for the Selling Shareholders under the Powers of Attorney mentioned in subparagraph (b)(xi) of Article IV. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment.

If the indemnification provided for in the second or third paragraphs of this Article VI is unavailable as a matter of law to an indemnified party in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under either such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Selling Shareholders on the one hand and the Underwriters on the other from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Selling Shareholders on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Selling Shareholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Selling Shareholders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Selling Shareholders and of the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Selling Shareholders or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Selling Shareholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Article VI were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Article VI, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act of 1933) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Article VI are several in proportion to their respective underwriting percentages (as defined in the Agreement Among Underwriters) and not joint. Notwithstanding the provisions of this Article VI, no Selling Shareholder shall be required to contribute any amount in excess of the amount by which the total amount received by such Selling Shareholder for such Selling Shareholder's Shares exceeds the amount of any damages which such Selling Shareholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. The Selling Shareholders' obligations to contribute pursuant to this Article VI are several in the proportions which the numbers of Shares sold by the respective Selling Shareholders bear to .

The indemnity and contribution agreements contained in this Article VI and the representations and warranties of the Selling Shareholders contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, or any Selling Shareholder or any person controlling any Selling Shareholder and (iii) acceptance of and payment for any of the Shares.

VII.

This Agreement shall become effective at such time after notification of the effectiveness of the Registration Statement has been released by the Securities and Exchange Commission as you and the Selling Shareholders shall agree upon the public offering price. If the public offering price of the Shares shall not have been agreed upon prior to 5:00 p.m., New York Time, on the seventh full business day after the Registration Statement shall have become effective, this Agreement shall thereupon terminate without liability on the part of the Underwriters or the Selling Shareholders, except as set forth herein.

If any one or more of the Underwriters shall fail or refuse to purchase Shares which it or they have agreed to purchase hereunder, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of Shares, the other Underwirters shall be obligated severally in the proportions which the numbers of Shares set forth opposite their names in Article I bear to the aggregate number of Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase; provided that in no event shall the number of Shares which any Underwriter has agreed to purchase pursuant to Article I be increased pursuant to this Article VII by an amount in excess of one-ninth of such number of Shares without the written consent of such Underwriter. If any Underwriter or Underwriters shall fail or refuse to purchase Shares and the aggregate number of Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Shares and arrangements satisfactory to you and the Selling Shareholders for the purchase of such Shares are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or of the Selling Shareholders. In any such case either you or the Selling Shareholders shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

If this Agreement shall be terminated by the Underwriters, or any of them, because of any failure or refusal on the part of the Selling Shareholders or the Company to comply with the terms or to fulfill any of the conditions of this Agreement or the Agreement with the Company, or if for any reason the Selling Shareholders or the Company shall be unable to perform their obligations under this Agreement or the Agreement with the Company, the Selling Shareholders will reimburse (or cause to be reimbursed) the Underwriters, or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering contemplated hereunder, and upon such reimbursement the Selling Shareholders shall be absolved from any further liability hereunder, except as provided in Article VI.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

The Selling Shareholders named in Schedule I hereto, acting severally*

*By ....

Attorney-in-Fact

Accepted, May , 1981
San Francisco, California

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

Acting severally on behalf of themselves and the several Underwriters named herein

By MORGAN STANLEY & CO.
INCORPORATED

By ....

SCHEDULE I

Name of Selling Shareholder	Number of Shares to be Sold
Total	

SCHEDULE II

Shares

APPLE COMPUTER, INC.

Common Stock

San Francisco, California
May , 1981

With reference to Article I of the Underwriting Agreement dated May , 1981, relating to the above-mentioned shares of Common Stock, the undersigned hereby agree that the public offering price will be $ per share and the purchase price will be $ per share.

The Selling Shareholders listed in Schedule I to the Underwriting Agreement, acting severally*

*By ....
Attorney-in-Fact

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

Acting severally on behalf of themselves and the several Underwriters named in the Underwriting Agreement

By MORGAN STANLEY & CO.
INCORPORATED

By ....
Managing Director

EXHIBIT B

Shares

Apple Computer, Inc.

COMMON STOCK

AGREEMENT WITH THE COMPANY

May , 1981

May , 1981

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

c/o MORGAN STANLEY & CO.
INCORPORATED
1251 Avenue of the Americas
New York, N.Y. 10020

Dear Sirs:

Apple Computer, Inc., a California corporation (hereinafter called the Company), is advised that certain holders (hereinafter called the Selling Shareholders) of shares of common stock of the Company are entering into an agreement with you, as Representatives of the several Underwriters named therein (hereinafter called the Underwriters), dated May , 1981 (hereinafter called the Underwriting Agreement), for the sale by the Selling Shareholders of an aggregate of shares of the Company's common stock (hereinafter called the Shares). All outstanding shares of common stock of the Company, including the Shares, are hereinafter referred to as Common Stock.

The Company has filed with the Securities and Exchange Commission a registration statement including a prospectus relating to the Shares. The registration statement as amended at the time it becomes effective is hereinafter referred to as the Registration Statement, and the prospectus in the form first filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933 is hereinafter referred to as the Prospectus.

I.

The Company covenants as follows:

(a) To furnish you, without charge, three signed copies of the Registration Statement, including exhibits, and to each other Underwriter a copy of the Registration Statement without exhibits and, during the period mentioned in subparagraph (c) below, as many copies of the Prospectus and any supplements and amendments thereto as you may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus, to furnish you a copy of each such proposed amendment or supplement.

(c) If, during such period after the first date of the public offering of the Shares as in the opinion of your counsel the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if it is necessary to amend or supplement the Prospectus to comply with law, forthwith to prepare and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses you shall furnish to the Company) to which Shares may have been sold by you on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Propectus will comply with law.

(d) To endeavor to qualify the Shares for offer and sale under the state securities or Blue Sky laws of such jurisdictions as you shall reasonably request, it being understood that all expenses (including fees and disbursements of counsel) in connection therewith will be paid by or on behalf of the Selling Shareholders.

(e) To make generally available to the Company's security holders as soon as practicable an earnings statement, which need not be audited, covering the twelve month period ending June , 1982.

II.

The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934, from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Prospectus (if used within the period set forth in subparagraph (c) of Article I hereof and as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished in writing to the Company by any Underwriter expressly for use therein; provided, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased Shares, or any person controlling such Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Shares to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability.

Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and any person who controls the Company within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934, from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Prospectus (if used within the period set forth in subparagraph (c) of Article I hereof and as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished in writing to the Company by such Underwriter expressly for use in the Registration Statement, the Prospectus or any preliminary prospectus.

In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to either of the two preceding paragraphs, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm for all such indemnified parties. In the case of any such separate firm for the Underwriters and such control persons of Underwriters, such firm shall be designated in writing by Morgan Stanley & Co. Incorporated. In the case of any such separate firm for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment.

If the indemnification provided for in the first or second paragraphs of this Article II is unavailable as a matter of law to an indemnified party in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under either such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits to the Company on the one hand and the Underwriters on the other from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Underwriters in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits to the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Selling Shareholders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company and of the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Company or by the Selling Shareholders on the one hand or by the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Article II were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Article II, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act of 1933) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Article II are several in proportion to their respective underwriting percentages (as defined in the Agreement Among Underwriters) and not joint.

The indemnity and contribution agreements contained in this Article II shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, or the Company, its officers and directors or any other person controlling the Company and (iii) acceptance of and payment of any of the Shares.

III.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

APPLE COMPUTER, INC.

By ....

Accepted, May , 1981
San Francisco, California

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

Acting severally on behalf of themselves and the several Underwriters named in the Underwriting Agreement

By MORGAN STANLEY & CO.
INCORPORATED

By ....

EXHIBIT C

Shares

Apple Computer, Inc.

COMMON STOCK

DEALER AGREEMENT

May , 1981

May , 1981

MORGAN STANLEY & CO.
INCORPORATED

HAMBRECHT & QUIST

c/o MORGAN STANLEY & CO.
INCORPORATED
1251 Avenue of the Americas
New York, N.Y. 10020

Dear Sirs:

We acknowledge receipt of the Prospectus dated May , 1981 (hereinafter called the "Prospectus") relating to the offering of shares of common stock (hereinafter called the "Shares"), of Apple Computer, Inc. (hereinafter called the "Company").

We understand that the Underwriters are severally offering, through you, certain of the Shares for sale to certain securities dealers at the public offering price of $ a Share, less a concession of $ a Share, and that any Underwriter may allow, and such dealers reallow, a concession not in excess of $ a Share to any Underwriter or any dealer who has entered into an agreement in this form.

We hereby agree with you as follows with respect to any purchase of the Shares from you or from any other Underwriter or from any dealer at a concession from the public offering price.

In purchasing Shares, we will rely only on the Prospectus and on no other statements whatsoever, written or oral.

I. OFFERING AND TRADING PROVISIONS

The Shares purchased by us at a concession from the public offering price shall be promptly offered to the public upon the terms set forth in the Prospectus or for sale at a concession not in excess of $ a Share to any Underwriter or to any other member of the National Association of Securities Dealers, Inc. (hereinafter called "NASD") who enters into an agreement with you in this form or to foreign banks or dealers, not eligible for membership in the NASD, who (i) agree that they will not offer or sell any Shares in, or to persons who are nationals or residents of, the United States of America, (ii) in making sales of such Shares will comply with all applicable rules of the NASD, including, without limitation, the NASD's Interpretation with Respect to Free-Riding and Withholding, Sections 8, 24 and 36 of Article III of the NASD's Rules of Fair Practice as though they were such a member and Section 25 of such Article as it applies to a non-member broker or dealer in a foreign country and (iii) enter into an agreement with you in this form.

We agree that we will not, without your approval in advance, at any time prior to the completion by us of distribution of Shares acquired by us pursuant to this Agreement, buy, sell, deal or trade in any common stock of the Company (hereinafter called the "Common Stock"), or buy any right or option to purchase Common Stock for our own account or for the account of a customer, except

(a) as provided for in this Agreement, the Agreement Among Underwriters or the Underwriting Agreement relating to the Shares;

(b) that we may deliver Common Stock owned by us upon the exercise of any option to purchase Common Stock written by us as permitted in this Agreement; and

(c) in brokerage transactions on unsolicited orders which have not resulted from activities on our part in connection with the solicitation of purchases and which are executed by us in the ordinary course of our brokerage business.

An opening uncovered writing transaction in options to acquire Common Stock, for our account or for the account of a customer, shall be deemed, for purposes of this paragraph, to be a sale of Common Stock which is not unsolicited. The term "opening uncovered writing transaction in options to acquire" as used above means a transaction where the seller intends to become a writer of an option to purchase any Common Stock which he does not own or have the right to acquire upon exercise of option rights. An opening uncovered writing transaction in options to sell Common Stock, for our account or for the account of a customer, shall be deemed, for purposes of this paragraph, to be a purchase of Common Stock which is not unsolicited. The term "opening uncovered writing transaction in options to sell" as used above means a transaction where the seller intends to become a writer of an option to sell any Common Stock with respect to which he does not have a short position or have the right to sell upon exercise of option rights.

We represent that we have not participated, since May , 1981, in any transaction prohibited by the preceding paragraph and that we have at all times complied with the provisions of Rule 10b-6 of the Securities and Exchange Commission applicable to this offering.

We agree to advise you from time to time upon request, prior to the termination of this Agreement, of the number of Shares remaining unsold which were purchased by us from you or from any other Underwriter or dealer at a concession from the public offering price and, on your request, we will resell to you any such Shares remaining unsold at the purchase price thereof if, in your opinion, such Shares are needed to make delivery against sales made to others.

If prior to the termination of this Agreement (or prior to such earlier date as you have determined) you purchase or contract to purchase in the open market or otherwise any Shares which were purchased by us from you or from any other Underwriter or dealer at a concession from the public offering price (including any Shares represented by certificates which may have been issued on transfer or in exchange for certificates originally representing such Shares), and which Shares were therefore not effectively placed for investment by us, we authorize you either to charge our account with an amount equal to such concession which shall be credited against the cost of such Shares, or to require us to repurchase such Shares at a price equal to the total cost of such purchase, including any commissions and transfer taxes on redelivery.

II. DELIVERY AND PAYMENT

If we purchase any Shares from you hereunder, we agree that such purchases will be evidenced by your written confirmation and will be subject to the terms and conditions set forth in the confirmation and in the Prospectus.

Shares purchased by us from you hereunder shall be paid for in full at the public offering price stated above, or, if you shall so advise us, at such price less the applicable concession, at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, New York, at such time and on such day as you may advise us, by certified or official bank check payable in New York Clearing House funds to the order of Morgan Stanley & Co. Incorporated against delivery of the Shares. If we are called upon to pay the public offering price for the Shares purchased by us, the applicable concession will be paid to us, less any amounts charged to our account pursuant to Article I above, after termination of this Agreement.

III. TERMINATION

You will advise us of the date and time of termination of this Agreement or of any designated provisions hereof. This Agreement shall, in any event, terminate 30 days after the date of the initial public offering of the shares unless sooner terminated by you.

IV. REPRESENTATIONS AND LIABILITY OF DEALERS AND UNDERWRITERS

We represent that we are a member in good standing of the NASD or that we are a foreign bank or dealer, not eligible for membership in the NASD, which agrees not to offer or sell any Shares in, or to persons who are nationals or residents of, the United States of America. In making sales of Shares, if we are such a member we agree to comply with all applicable rules of the NASD, including, without limitation, the NASD's Interpretation with Respect to Free-Riding and Withholding and Section 24 of Article III of the NASD's Rules of Fair Practice, or, if we are such a foreign bank or dealer, we agree to comply with such Interpretation, Sections 8, 24 and 36 of such Article as though we were such a member and Section 25 of such Article as it applies to a non-member broker or dealer in a foreign country.

We represent that in connection with sales and offers to sell Shares made by us outside the United States (a) we will not offer or sell any Shares in any jurisdiction except in compliance with applicable laws and (b) we will either furnish to each person to whom any such sale or offer is made a copy of the then current prospectus or of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto), as the case may be, or inform such person that such prospectus or Prospectus will be available upon request. Any offering material in addition to the then current prospectus or Prospectus furnished by us to any person in connection with any offers or sales referred to in the preceding sentence (i) shall be prepared and so furnished at our sole risk and expense; and (ii) shall not contain information relating to the Shares or the Company which is inconsistent in any respect with the information contained in the then current prospectus or in the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto), as the case may be. It is understood that no action has been taken to permit a public offering in any jurisdiction other than the United States where action would be required for such purpose.

We will not give any information or make any representations other than those contained in the Prospectus, or act as agent for the Company, the Selling Shareholders referred to in the Prospectus, any Underwriter or you.

We agree that you, as Managers of the offering, have full authority to take such action as may seem advisable to you in respect of all matters pertaining to the offering of the Shares. Neither you, as Managers, nor any of the Underwriters shall be under any liability to us for any act or omission, except for obligations expressly assumed by you in this Agreement.

All communications to you relating to the subject matter of this Agreement shall be addressed to the Syndicate Department, Morgan Stanley & Co. Incorporated, 1251 Avenue of the Americas, New York, New York 10020, and any notices to us shall be deemed to have been duly given if mailed or telegraphed to us at the address shown below.

V. BLUE SKY MATTERS

Neither you, as Managers, nor any of the Underwriters will have any responsibility with respect to the right of any dealer to sell Shares in any jurisdiction, notwithstanding any information you may furnish in that connection.

VI. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

....

....

....
(*Address*)

By ....