

apple resources

□ Apple is proud to announce the publication of a new newsletter, "Dimensions," exclusively for our Apple III owners. The newsletter will be mailed regularly and free of charge to all Apple III owners listed on our end-user data base. If you are an owner, but have been overlooked, contact us at Apple III Newsletter, 10260 Bandy Dr., Mail Stop 3-E, Cupertino, CA 95014.

□ The American Institute of Certified Public Accountants will sponsor its 18th annual computer conference May 24-26 in Kansas City, Missouri. Its theme is, "The Impact of Minicomputers and Microcomputers on the Accounting Profession." Apple Computer, Inc. will have a hands-on demonstration room with 20 Apple III computers for workshops.

□ East coasters should be interested in the 1982 Accounting Show and Conference, May 17-19, sponsored by the New York State Society of Certified Public Accountants and the Foundation for Accounting Education, Inc. The show will be an excellent opportunity for both CPAs and financial executives to see new electronic accounting systems, computers, timesharing and data processing services, business equipment—in short, a veritable supermarket of new products for the accounting profession. And, of course, Apple will be there with some exciting new software products!

□ Context Management Systems has announced the "Connector" software package, which allows users to consolidate results of VisiCalc models into summary models and reports. Data bases and spread-sheets developed on other computers can be transmitted to, and included in, users' own VisiCalc models. The Connector lets you link Apples to mainframes and minicomputers as well as to other microcomputers.

□ Data Security Concepts has announced Visi-Caids™, a comparison package of programs for use with VisiCalc text files. Features include the label-splitter, which creates a new text file, able to divide wide label entries in a selected column into two or more narrower columns; a print file option and width adjuster that prints and displays VisiCalc models with variable width columns; a program that reads

VisiCalc print files; and a program that prints or displays formulas, labels, etc., and their coordinates arranged by column in ascending order.

There are a good number of tax packages appearing on the market.

□ *The Tax Preparer* will do your state income tax return, as well as your itemized federal 1040 and all of its supporting attachments. The basic package can handle 10 different schedules, figure depreciation on various types of property, and compute both the minimum tax and alternative-minimum tax. The package does some record keeping and generates printouts that may go directly to the IRS. For more information, contact Howard Software Services, 8008 Girard Ave., Suite 310, La Jolla, CA 92037.

□ *Shortax* from Syntax Corp. runs on an Apple with a Z80 card. It allows you to do tax projections with 23 data variables, each of which can be extended indefinitely. You can perform 23 calculations in each data file. The program also computes taxes for a six-year period (1979-1984) for the six different types of taxpayers: single, joint, separate return, head of household, corporation, or trust. Written by Vernon Jacobs, a tax specialist, the program is user-friendly with help screens. For more information, contact Syntax Corporation, (913) 562-9667.

□ Another program called *MicroTax*, prints 27 schedules on IRS-approved forms. It will run on the Apple but requires the Microsoft™ card to run CP/M®. For additional information, contact Microcomputer Taxsystems Inc., 22713 Ventura Blvd., Woodland Hills, CA 91364.

CP/M is a registered trademark of Digital Research.

□ A tax preparation model for VisiCalc, *Tax Man '82*, is intended for taxpayers who file a relatively straightforward, itemized return. It won't figure depreciation or print forms, but will advise whether you would be better off income averaging or paying the alternative-minimum tax. For more information, contact Atsuko Computing International, Inc., 303 Williams Ave., S.E., Huntsville, AL 35801.

□ *Tax Mini Miser™* from Sunrise Software Inc.™ is intended for use in financial plan-

ning applications for individuals. It compares the results of various situations in which the user varies the assumptions. It is not intended for tax return preparation or for use with trusts, estates, or corporations. For more information, contact Sunrise Software Inc., 1056 Chestnut St., San Francisco, CA 94109.

□ Also available for VisiCalc is Pan-sophics' *Tax Model*. The program will prepare and print pages one and two of Form 1040, and sort out capital-gains taxes before and after the new maximum 20% rate became effective last June 10. For additional information, contact a computer dealer, or Professional Software Technology Inc., 180 Franklin St., Cambridge, MA 02139.

For those of you who would like a clock/calendar for your Apple, here are just a few possibilities:



□ The Thunderclock Plus™ is two peripheral systems on one card for your Apple II. It contains an accurate, reliable, real-time clock/calendar and an interface for the popular BSR/X-10 Home Control System. The clock/calendar portion makes accurate time and date available in your programs—month, date, day of the week, hour, minute, and second. The BSR/X-10 ultrasonic interface allows your programs to transmit control signals to your BSR/X-10 Command Console, which then sends signals to control lights, appliances, or almost any electrical device you plug into the remote module. For more information, contact Thunderware, (415) 652-1737.

(continued on page 11)

CP/M is a registered trademark of Digital Research.

Training Managers

(continued from page 9)

Speed

An instructional package must "hand-hold" the trainee; it must be extremely user friendly and supply many levels of reinforcement. The instructional program will thus proceed more slowly through its material than an applications program.

For this reason, and in order to more closely simulate reality, some instructional programs have been designed with two levels: a "tutorial" or initial level, and a "brush-up" or practice level. In the tutorial mode, the program offers a great deal of help to the trainee; in the practice mode, many prompts are omitted or abbreviated, and the trainee more closely approximates working at an applications level.

Gaming

Good simulations draw on game theory to motivate learning. They have elements of competition; they allow the application of a number of perspectives; they deliver a "big picture" message to the trainee. An applications program is not necessarily pleasant to use (as thousands of large mainframe programmers dealing with Fortran programs can attest to), and is most probably rigidly linear in its design. The extent of reinforcement is probably a "Help" menu, supplemented by reams of paper instructional manuals.

In summary, the best computer-based training simulates the real world very well, so well that it might tempt us to try using it for real applications. ≡



Dr. Matthew training with a specially encased Apple II.

About the author:

Dr. Matthew is Manager of Technological Product Development for the American Management Association. A national award winning author, he has published numerous articles in books, magazines, and newspapers.

The Plot Thickens

By Suzanne Weisenberger

The growing use of microcomputers as personal productivity tools has resulted in the release of many new plotting and graphics programs for the Apple II and Apple III. The combination of desktop plotters and personal computers now makes it possible to produce high-quality color graphic presentations at a fraction of the cost of those generated by large plotter systems.

Business professionals have long employed graphics to display complex interrelationships and trends. Important insights, often obscured by columns of figures, can become obvious when data is represented graphically. Graphs and charts produced on Apple computers make it easier to understand business information and, in turn, to effectively communicate that information in reports and presentations.

Information displayed graphically on the monitor screen becomes more valuable to managers when the image is transferred to hard copy that can be used and evaluated by several people. While printers are capable of handling the task, the most effective device for transferring graphic images to paper is the modular desktop plotter, designed specifically for generating charts and graphs.

Basically, there are two types of plotters: the flatbed plotter and the drum plotter. The flatbed plotter holds paper on a flat platform while a pen is moved vertically and horizontally about the paper surface to draw the graphic image. With drum plotters, on the other hand, the paper is wrapped around a cylinder that rotates to provide vertical positioning while a pen moves horizontally across its surface.

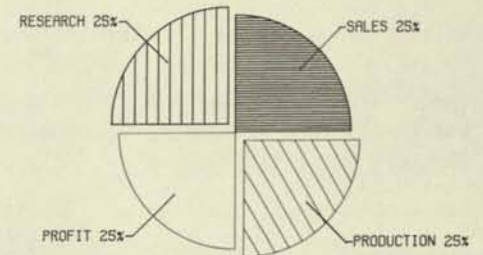
The number and type of pens used in plotters varies based on the size, type of plotter, and its manufacturer. Typically, with multiple-pen plotters, one pen at a time is in contact with the paper; the others are automatically picked up or dropped into position when directed by the graphics program. A multiple-pen arrangement allows you to define the color or colors to be contained in a graph, particularly useful for creating graph overlays and eye-catching pie charts that add dimension and impact to presentations.

The resolution of a plotter is limited to the smallest move its pen can make. The better the resolution, the smoother lines arcs, and characters will appear. There are two types of resolution specified for plotters. The first, addressable resolution, is defined as the smallest line segment that a user can command the plotter to

draw. The second, mechanical resolution, is the smallest line segment that the plotter can draw as defined by the limits of its mechanical design.

In addition to resolution, repeatability, or the ability of a plotter to return to a given

BUSINESS BUDGET ALLOCATIONS



(continued on page 12)

Apple Resources

(continued from page 10)

□ Intelligent Control Systems' ARIQ is a real-time clock/calendar card for the Apple II, with power line interface for BSR-type communications. ICS indicates the card might work on the Apple III, also. For more information, contact ICS, (612) 789-3565.

□ For Apple III owners, Time Card III from Vista Computers, designed by Burtronix™, is a multifunctional time and calendar card which contains the year, the month, the date, the day of the week, the hour, minute, and second. It also contains a countdown timer with a range of 100 milliseconds to 999 hours, 59 minutes, 59 seconds, 999 milliseconds. It is easy to access and use from CP/M, Pascal, or BASIC. For more information, call Vista at (714) 953-0523.

□ Hayes Microcomputer Products offers Hayes Stack Chronograph™, a calendar/clock system for use with any RS-232C compatible system. System activities can be logged by date (year/month/date and day of the week) and time (hours/minutes/seconds). Reports can be dated and times recorded automatically. In the home, your Apple and the alarm feature will control your lights, burglar alarms, and sprinkler systems. For more information, call Hayes Microcomputer Products, (404) 449-8791. ≡

The Plot Thickens

(continued from page 11)

point) is critical to plot quality. The more accurately the plotter can find a given point again, the more exactly lines will meet and the better circles will close. Repeatability is affected by both the mechanical operation of a plotter and the uniformity and concentricity of the pens used.

Both flatbed and drum plotters are easily

interfaced to the Apple II and Apple III. The type of interface required varies, depending on the manufacturer; however, the most commonly used interfaces include:

1. parallel,
2. serial RS-232,
3. IEEE.

In addition to the variety of existing models, interfaces, and resolution standards, plotters utilize different paper sizes. The matrix below will help you review and evaluate these differences. Further information on any of these plotters can be obtained by contacting the manufacturer.☐

Manufacturer & Model	Hewlett Packard 7225B	Hewlett Packard 7470A	Hewlett Packard 7220 Series	Houston Instruments HILOT DMP Series	Strobe Model 100	Watanabe 4670 Series
Type:	Flatbed	Flatbed	Flatbed	Flatbed	Drum	Flatbed
Interface	Serial RS-232	Serial RS-232	Serial RS-232	Serial RS-232	Serial RS-232	Serial RS-232
Method:	IEEE-488	IEEE-488	IEEE-488	Parallel	Parallel	IEEE-488
Resolution:	0.032mm	0.025mm	0.001"	0.005mm	.002"	0.1mm
Paper Size:	8 1/2" x 11"	8 1/2" x 11"	8 1/2" x 11" or 11" x 17"	8 1/2" x 11" and 11" x 17"	8 1/2" x 11"	420mm x 300mm
Pen Type:	Manufacturer supplied fiber ink pens.	Manufacturer supplied fiber ink pens.	Manufacturer supplied fiber ink pens.	Manufacturer supplied fiber, ball point, and India ink pens.	Nylon-tip Pilot™ Razor Point pens, Berol Spree™ ball point pens.	Water or oil base fiber tip, and ball point ink pens.
Multi-color Capability:	Single pen (up to 10 color plotting with manual changing)	Programmable Two pen plotting.	Programmable 8 pen color plotting.	Yes, have both 6 and 8 pen option plotters.	Yes	Yes
Vendor Technical Support	Yes	Yes	Yes	Yes, also supports user group for application notes.	Yes	Yes
Price:	\$2750	\$1550	\$5800-\$7900	\$1085-\$2680	\$785	\$1400-\$2350
For Additional Information Contact	16399 West Bernardo Dr., San Diego, CA 92127 (714) 487-4100	16399 West Bernardo Dr., San Diego, CA 92127 (714) 487-4100	16399 West Bernardo Dr., San Diego, CA 92127 (714) 487-4100	1 Houston Sq., Austin, TX 78753 (512) 835-0900	897-5a Independence Ave., Mountain View, CA 94043 (415) 969-5130	3186 Airway Ave., Bldg. D, Costa Mesa, CA 92626 (714) 546-5344



20525 Mariani Avenue
Cupertino, California 95014
(408) 996-1010
TLX 171-576



Apple Computer annual report to shareholders, fiscal year ended September 25, 1981.

Apple Computer develops, produces and markets personal computers, peripheral products and software for business, industry, science, education and the home.

COVER

The Apple balloon, bearing the familiar logo, has come to symbolize the unique world of Apple Computer.

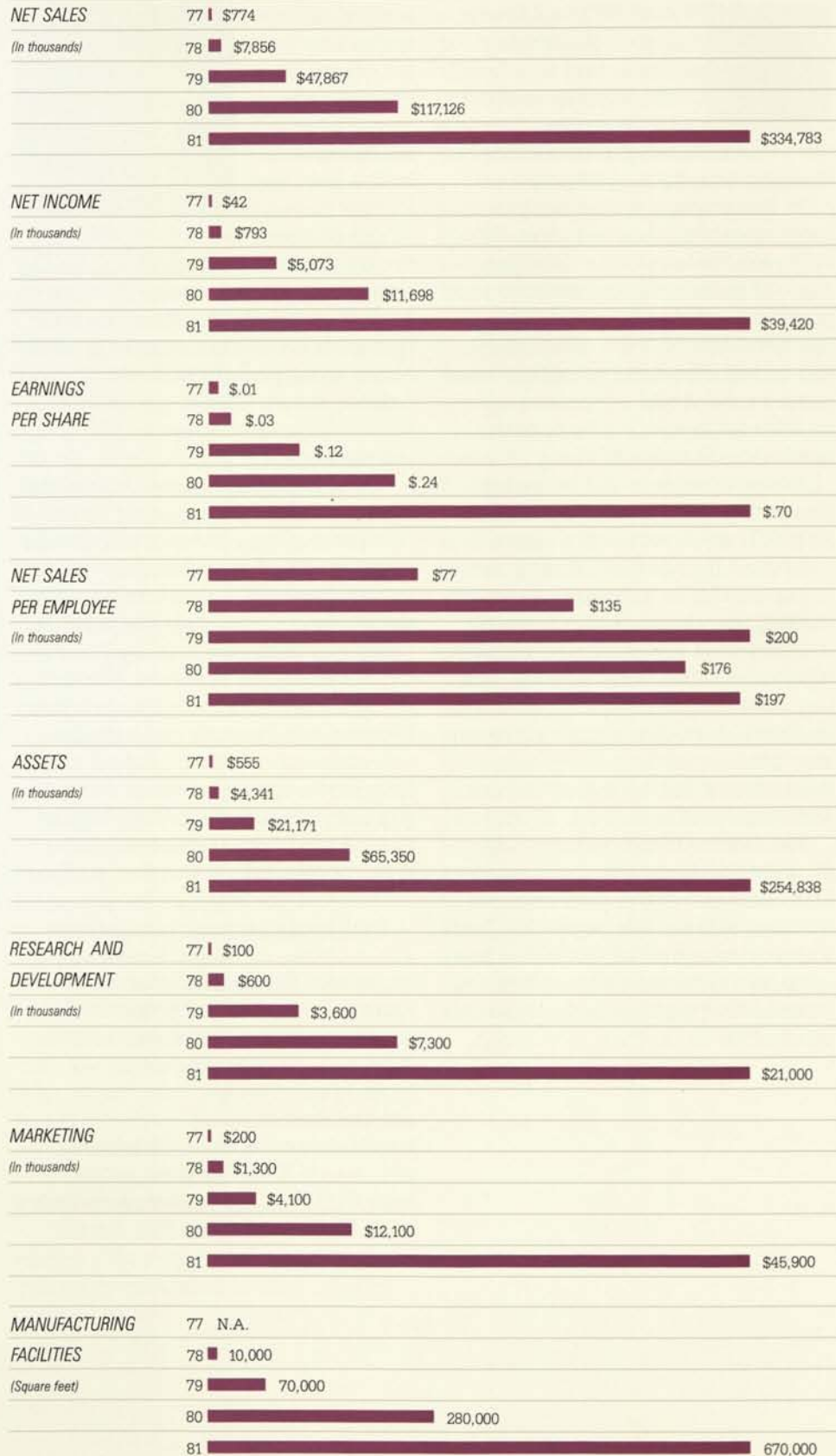
CONTENTS

To Our Shareholders	2
The World of Personal Computing	5
A World of Products	6
A World of Markets	8
A World of Operations	10
A World Within	12
The World Ahead	14
Financials	16
Directors and Officers	28

FISCAL 1981: THE YEAR IN REVIEW

NOVEMBER	Apple opens 40,000 square-foot assembly plant in Cork, Ireland.
DECEMBER	Initial public offering of 5,000,000 shares of common stock nets approximately \$90 million to Apple. European distribution and service center opens in Zeist, The Netherlands.
JANUARY	Apple "loan-to-own" program instituted, enabling all employees to acquire an Apple II system after demonstrating basic computer literacy. Technical problems arise with Apple III, causing the company to hold further shipments until corrective steps are taken.
FEBRUARY	Agreement is reached for Apple to acquire Microsense Computer, Ltd., its authorized distributor in the United Kingdom.
MARCH	A. C. Markkula, Jr., previously board chairman, named president and chief executive officer; Steven P. Jobs becomes chairman. Apple Expo '81 launched, the company's first national merchandising roadshow.
APRIL	Apple III shipments resumed in moderate volume after initial technical and quality problems resolved.
MAY	Secondary offering of 2,600,000 shares of common stock completed.
JUNE	Cork manufacturing plant enlarged by 45,000 square feet.
JULY	Apple III certified by Underwriter Laboratories. Operations commence in new 133,000 square-foot manufacturing and test facility in Singapore.
AUGUST	Pascal language system is released for Apple III. Dallas plant expansion of 220,000 square feet is completed.
SEPTEMBER	Business BASIC software released for Apple III. Dealer-based national account program is introduced to meet needs of large corporations for personal computers in multi-locations. ProFile, a hard disk mass storage system for the Apple III, is readied for introduction.

FIVE YEAR HIGHLIGHTS





Fiscal 1981, our fourth full year of operation and our first as a public company, was a strong year for Apple... and we are pleased to tell you about it in this, our first Annual Report.

In many ways, it was both our most rewarding and our most difficult year. Sales nearly tripled, earnings more than tripled, and the total population of Apple computers approached one-third of a million—the largest installed base of any computer in the world. Apple emerged as a leader in every aspect of the personal computer industry.

But our progress did not eclipse problems, internal or external. The Apple III, an evolutionary upgrade of the Apple II, was frustratingly slow in coming up to our quality and reliability standards. Today, however, it is the most powerful and versatile microcomputer on the market, earning increasing confidence of dealers and end users. A sluggish economy also moderated the growth rate of our industry during the spring and summer months.

We feel we measured up to the problems of growth and environment and came out of the year stronger because of them. We began 1982 with the momentum of an expanded hardware and software product line, increased financial resources, enlarged production capacity, a broadened

and experienced dealer network and a new national account program aimed at the evolving corporate marketplace.

TRANSITION

In the past year, Apple was transformed from a small, single-product, single-nation, private company to a medium-sized, multi-product, multi-national, public company. Today we are a focused and healthy organization with excellent technology, seasoned management and a strong balance sheet. These, we believe, are the keys to success in our industry.

We also entered a new transitional phase in 1981. Apple is being followed into the personal computer arena by corporations of considerable size and proven capability. This has tangible significance, certifying the personal computer both as a vital tool and a dynamic growth business. We welcome such responsible competition because we are convinced that it will stimulate market demand and help in the massive task of educating the potential user. But it repositions Apple from the largest of the small companies in the field to the smallest of the large.

In this challenging competitive atmosphere, we firmly believe in ourselves, our strengths and our abilities... and in the promise of the personal computer revolution which Apple began five years ago.

SALES AND EARNINGS

Worldwide sales rose 186 percent to a record \$334.8 million in 1981 from \$117.1 million in the preceding year. Net income was \$39.4 mil-

lion, 237 percent higher than the \$11.7 million in 1980. Earnings per share amounted to \$.70, up 192 percent from last year's \$.24.

The number of common and common equivalent shares used in the calculation of earnings per share was 56.2 million at the end of 1981, compared with 48.4 million a year earlier. The effective tax rate decreased to 48.5 percent from 51.6 percent in the previous year as a result of new tax laws.

In the fourth quarter, sales grew 136 percent to \$97.7 million from \$41.5 million in the same period last year. Net income rose 211 percent to \$11 million, or \$.19 per share, compared with \$3.5 million, or \$.07 per share, a year ago.



MIKE MARKKULA
President and
Chief Executive Officer

Fourth quarter profits were slightly below our third quarter high of \$11.9 million, or \$.21 per share, primarily due to an increase in our marketing

expenses for the period. This investment included Apple's first national television advertising campaign, featuring Dick Cavett.

AWARENESS

Consumer awareness and brand recognition are prerequisites to long-term success in a marketplace of intensifying competition. Apple has been known for its marketing emphasis, with a resultant identity which we consider memorable and strong. Awareness of Apple, according to market surveys, rose from approximately 10 percent at the beginning of 1981 to nearly 80 percent at year-end.

NEW PRODUCTS

Apple has also sustained a high rate of investment in new product research and development. R & D spending in 1981 totaled \$21 million, compared with \$7.3 million last year. This investment is a measure of our determination to lead in the technology of our industry as well as in its markets. We believe Apple has a greater number of engineering and technical personnel concentrated on personal computer products than any other company.

A major new product is our ProFile hard disk mass storage unit, introduced initially for the Apple III. ProFile supplies electronic storage capacity of up to five million bytes (computer characters), providing 35 times the capacity and 10 times the speed of standard floppy disk drives. It represents an important building block for Apple's future computer products, and is potentially as important in this decade as Apple's Disk II was in the 1970s.



STEVE JOBS
Chairman of the Board

Over 40 software packages were introduced by Apple in the past year. They included a number of mainstream Apple III programs—Business BASIC, Business Graphics, Mail List Manager, Apple-Writer III (a powerful word processing system); Access III, a terminal emulator for communications between Apple IIIs and other computers; and Pascal, a compiled language that enhances the usefulness of the Apple III for larger business, educational and scientific applications. The Apple III can also utilize most high-quality Apple II software in emulation mode.

The Apple II commands the largest software base in the personal computer industry, growing daily through the entrepreneurial energy of hundreds of third-party vendors and our own software development. During the past year we concluded important software publishing agreements with firms such as Scott Foresman and Co.

MARKETING AND DISTRIBUTION

Apple pioneered the retail sale of computers and, in 1981, we further strengthened our distribution expertise. We added several hundred authorized dealers for a total of some 3,000 in our world-wide dealer network. We also launched Apple Expo—a dealer seminar, trade show and public exposition in major U.S. cities—and created extensive merchandising aids and dealer training programs unparalleled in the industry.

Apple's dealer service and support infrastructure in the U.S. and Canada exceeds 1,000 locations and is backed up by our own distribution and service centers at six U.S. and three international sites.

Our marketing emphasis in the past two years has been on the business, professional and managerial segment, which today accounts for approximately 40 percent of revenues. We have also developed major programs with schools and universities, including our sponsorship of the Foundation for the Advancement of Computer-Aided Education (formerly Apple Education Foundation). Apple is a supplier of hardware and software to the scientific and industrial community as well, including growing OEM (original equipment manufacturer) sales.

Ultimately, the greatest demand for personal computers will come from a broader spectrum. There are an estimated 140 million people around the world who could justify the purchase of a personal computer if they truly understood its potential benefits. In the future, the home will become an important factor in the process of bringing this technology to individuals. Apple's current family-system merchandising program anticipates this trend by spotlighting personal computer benefits for every member of the household.

Finally, we have perceived a strong trend among large corporations to install personal computers as productivity-enhancing tools. At the end of 1981 we introduced our national account program, a dealer-based team effort between Apple and qualified dealers to provide sales and support to large organizations in all their user locations.

EXPANSION

During the past year, Apple expanded its manufacturing plant capacity. Assembly floor space in Texas and Ireland more than doubled and initial operations began in Singapore. Apple now produces one computer approximately every 30 seconds.

Employment reached 2,456 persons in 1981, more than double a year ago. Our objective is not to have the most employees, only the best. We are fortunate in having a staff of people in all disciplines—technical, marketing, manufacturing and administrative—who are both motivated by their association with Apple and second to none in competence. To them we owe a large debt of thanks for the company's performance and continued progress during the past year.

It is worth noting that many of our employees have Apple computers at home, through a special program designed to make each of them proficient in personal computing. We hope that you, as shareholders, are also personal computer owners, or will be in the future.

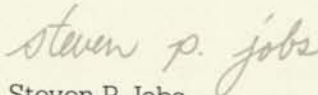
LOOKING AHEAD

Apple is committed to excellence. We are committed to steady, profitable growth through advanced technology, creative marketing, and high-volume, low-cost manufacturing.

We are also committed to the highest standard of corporate citizenship and to contributing meaningfully to the expansion of social capital through the products we design and market. The direction of the personal computer industry—and the inexorable path of Apple—will involve ever-increasing education of the user and ever-increasing ease of use as it relates to our product. These are the strategic benchmarks which will guide your company in the exciting years ahead.



A. C. Markkula, Jr.
President and
Chief Executive Officer



Steven P. Jobs
Chairman of the Board

November 6, 1981



In 1975 two young entrepreneurs, who would later found Apple Computer, designed and built the first "personal"

computer—a fully programmable system specifically designed for their individual use. It spawned a new industry and opened a new world: the world of Apple.

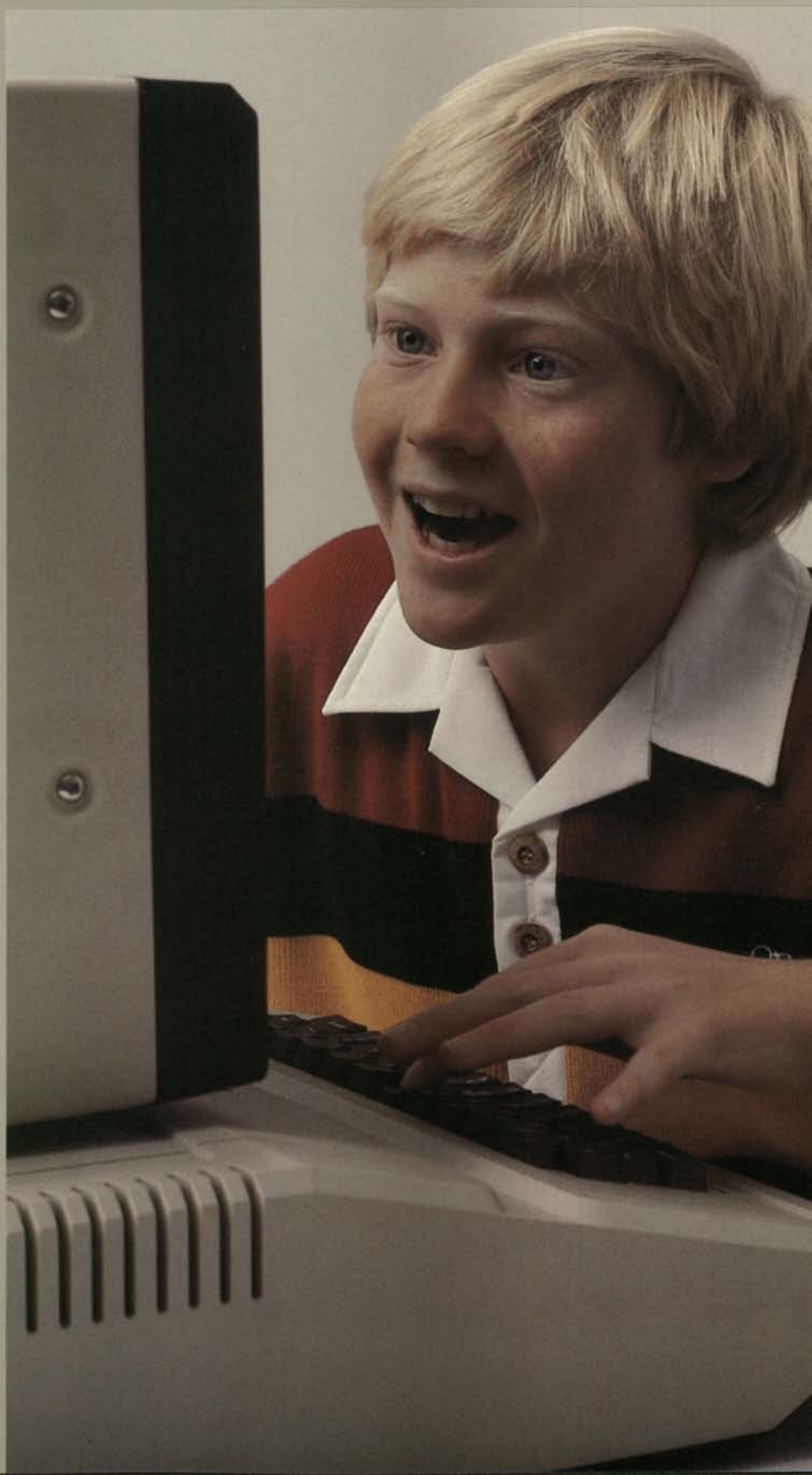
A million personal computers are at work today. The number is expected to increase fivefold by 1985.

But the real drama of personal computing lies on a broader plane. Microelectronics has transformed the connection between people and computers—creating a productive, interactive, one-on-one partnership. The personal computer, like the fractional horsepower engine generations before, delivers power where and when it is needed. The difference is that it is *computer* power, providing rapid access to vast libraries, instant data processing and intelligent solutions to a wide range of problems.

The personal computer is also part of a continuum that illustrates the acceleration of technology in this century. Nineteen eighty-one is a milestone year. It marks the 35th anniversary of the first electronic computer, the 20th anniversary of the integrated circuit, the 10th anniversary of the microprocessor and the fifth anniversary of the personal computer: the Apple I.

Personal computing has evolved into a social and economic movement that dwarfs previous assessments. What was categorized a few years ago as little more than an expensive gadget is changing forever the way we work, learn and communicate.

The promise of personal computing is nowhere more evident than in education, where youngsters using Apple systems discover how much fun learning can be.





Apple II: The first fully-assembled, fully-programmable personal computer commercially available, Apple II

launched a new industry by providing the capabilities of electronic data processing systems to individual users.

Nearly 180,000 Apple II systems were shipped in 1981, more than twice as many as last year, increasing the installed base of Apple II systems to well over 300,000. By the end of the year, several thousand applications programs had been developed for the system.

Apple III: Designed principally for business applications, the Apple III is a compatible, upward expansion of the Apple line designed for managers, financial analysts, administrators and professionals.

The Apple III underwent technical and manufacturing modifications in 1981 aimed at assuring highly reliable hardware and expediting the development of systems and applications software. By year-end these efforts culminated in a system that was as reliable as the Apple II, a standard of the industry. Among the hardware improvements is an option to expand internal memory capacity from 128K to 256K bytes.

Peripherals: Apple markets a growing array of accessories including the Apple floppy disk subsystem that expands memory capacity and allows access to stored data, and the Silentype thermal graphics printer for low-cost hard-copy output. Modems transform Apple systems into intelligent terminals for a variety of business and scientific applications. A series of plug-in cards allow the machines to communicate with graphic input and output devices, printers, analog

controllers, and a host of sensing and control equipment.

The introduction of ProFile, a mass storage system incorporating Winchester hard disk technology, provides Apple an entry into a market estimated at more than \$1.5 billion by the mid-1980s. As an enhancement to the Apple III system, ProFile addresses the increasing mass storage needs of the marketplace.

Software: Apple entered the software publishing business in 1981 with its Special Delivery Software, providing a means for independent software authors to distribute quality products through Apple. Along with Apple, more than 300 companies offered programs for use with Apple systems in 1981.

In addition to varied applications programs, Apple offers programming languages—aimed at users who want to tailor specific solutions to their own unique problems—including BASIC, Pascal, COBOL, FORTRAN, and PILOT. Released in 1981, Pascal for the Apple III was designed for the sophisticated programmer or computer science student. Apple has selected Pascal as its standard language for systems and applications development. It allows a user to access large libraries of existing programs, and to run programs written for other Pascal-based systems on the Apple III.

Other new hardware and software products in 1981 included the Monitor III video unit for the Apple III system, the IEEE 488 card for interfacing measurement and control equipment, a comprehensive small business accounting package for the Apple II, and Microcourier software that provides the Apple II with electronic mail capability.

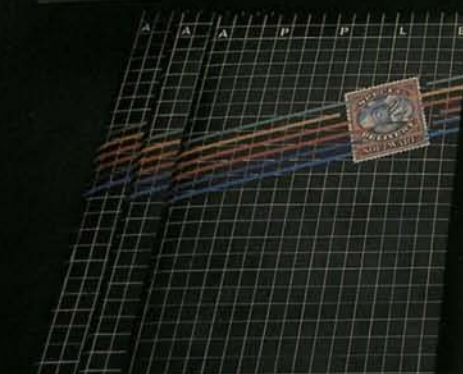


WIL HOUDE (vice president and general manager, personal computer systems): "Human engineering means that the user can operate the product easier and more naturally."



JOHN VENNARD (vice president and general manager, peripherals): "ProFile will be to the Apple III what the Disk II has been to the Apple II."

Apple's computer systems combine the Apple II or Apple III units with a variety of software programs and peripheral accessories.





Over a third of Apple's projected market through the middle of this decade falls into the business category.

Specifically, this segment is divided among small business owners, and managers, analysts and clerical workers within medium- to large-sized businesses. Personal computers give business organizations of all sizes a competitive edge because they make employees more productive. Apple systems tailored to the specific needs of those sub-categories include programs designed for accounting, inventory control, budgeting, forecasting, modeling and word processing.

Demand for personal computers is growing within large corporations. To help meet this demand, and the special requirements it imposes for service and delivery in many geographic locations, Apple developed a national account program in 1981 aimed at maximizing sales and support efficiency. Through a team-selling effort, the program pools the resources of Apple and qualified national account support dealers to provide the on-going support and training required by major customers.

Product durability, sound reproduction and high-resolution color graphics have convinced public school systems such as Minnesota's to make Apple the school standard. At the close of 1981, more educational software had been developed for Apple than for any other type of personal computer. In the next few years, most computer education dollars will be spent on acquiring personal computers for schoolchildren to use.

In higher education, Apple computers are being used in networks by students and teachers to access resources ranging from tutorial programs in the humanities to statistical packages for professional studies.

For professionals in various industrial and scientific disciplines, Apple's data processing and control capabilities can shorten job cycles, improve cash flow, and expedite research. A pathologist, for example, researching a form of cancer, applies his Apple to organizing a data base collected over 23 years. Searching for subtle patterns, he pieces together new knowledge about the disease.

Over 1,000 Apple dealers in the U.S. and Canada have "level one" service centers, making Apple's the largest personal computer maintenance network in existence. Special telephone hotlines to regional support sites provide these centers with instant access to applications experts.

In 1981, Apple opened European distribution centers in Zeist, The Netherlands, and Munich, Germany, staffed six U.S. service centers and opened a Canadian service facility. Increased penetration of the European marketplace, administered primarily through offices in London and Paris, contributed to worldwide growth, as did strong performance in Latin America and the Far East—particularly Japan. Apple's growing North American market, which accounted for approximately 76 percent of sales in 1981, received a further boost near year-end with approval by the Canadian government for Apple to manufacture and sell in Canada.

Reflecting an increasingly competitive marketplace and the need for ever-stronger recognition, vigorous marketing and merchandising activity is fundamental to Apple's continued success. Consumer sales promotion efforts in 1981 included the Dick Cavett national television advertising campaign and a merchandising concept for the Apple II focusing on the family use of personal computers.



GENE CARTER, right (vice president, sales): "The retail computer store has provided us with a successful distribution channel, and we plan to continue investing heavily in its support." Also shown, Mel Wong, owner, AIDS computer center in San Francisco.



FRED HOAR (vice president, communications): "You build competitive dominance in the marketplace through consumer awareness, brand recognition and aggressive merchandising." At left, Apple advertising spokesman Dick Cavett.



TOM LAWRENCE (vice president and general manager, Europe): "The European marketplace could generate as much as 30 percent of our business in the next two years."

The business, professional and managerial segment accounts for the largest portion of Apple sales. In 1981 more than 150,000 Apple systems were at work in such applications.



TOM LAWRENCE (vice president and general manager, Europe): "The European marketplace could generate as much as 30 percent of our business in the next two years."



The business, professional and managerial segment accounts for the largest portion of Apple sales. In 1981 more than 150,000 Apple systems were at work in such applications.



Apples are assembled at six manufacturing facilities (totaling nearly 700,000 square feet) in Texas, Ireland, Singa-

pore and three California locations. Responding to this demand-driven, high-volume business, Apple has developed production modules which can be duplicated as required within each plant. A module for Apple II manufacture, for example, fills 30,000 square feet, requires a crew of 70, and produces between 450 and 500 units per day.

A three-tiered quality control process monitors and diagnoses each system from assembly through arrival at its dealer destination. Following assembly, each unit is fully inspected five times and prepared for a four-day burn-in test. Prior to packaging, the systems are forwarded to a holding area where they are inspected once again.

To minimize the problems inherent in rapid growth, several years ago Apple implemented a management information system geared to an organization many times the company's size at the time. Today, the company is planning to develop an even more sophisticated system, again incorporating all aspects of operations and finance, to meet future needs.





Volume production requires high-capacity quality control and test capability. At left, material processor Susan Walker readies an Apple II for a four-day testing procedure.



CARL CARLSON, left (executive vice president, operations): "It all starts with a sales forecast. That's what drives us. From there, we focus on manufacturing planning and control." Also pictured, DEL YOCAM, vice president and general manager, manufacturing.



Apple shipped nearly 50 percent more units in 1981 than the previous four years combined.



In an Apple III test sequence, assembler Maria Mathis monitors video and sound functions.



Apple is dedicated to making the personal computer not only indispensable but understandable. The goal is a

"friendly," easy-to-use computer. Last year nearly 70 professionals in programming, semiconductor technology and computer science joined Apple to strive for this goal, bringing the total number of research and development professionals to approximately 350 persons.

The company invested over six percent of sales in research and development in 1981, representing a dollar amount that was double the previous four years combined. Apple plans several major product introductions, both hardware and software, in the next 18 months. One of these products will represent 200 man-years of initial software development, compared to 25 man-years for the Apple III, and two man-years for the Apple II.

Apple will continue to design, develop, and manufacture human-engineered products, in light of the evolving nature of users' needs. Product development is based on our conviction that the personal computer will become as fundamental a tool for the individual in this decade as the electronic calculator became in the last.

Apple believes that the future of personal computers depends on the convergence of two factors: increased consumer education and reduced complexity of use. Both are essential in our corporate strategy and our product development.



JOHN COUCH, right (vice president, personal office systems): "We're prepared to lead the revolution in software technology that it's going to take to realize the full potential of the personal computer." Also pictured is Wayne Rosing, engineering manager.



Designer Colette Askeland uses computer-aided design to improve the cost-efficiency of hardware.



Steve Smith, senior member of the technical staff, tests the layout of a new circuit board.

In the computer development laboratory, senior members of the technical staff create new electronic circuitry for future products. Pictured at right are Ed Riddle (seated) and Harrison "Hap" Horn.



SELECTED FINANCIAL INFORMATION

Annual

Five years ended September 25, 1981

(In thousands, except per share amounts)

	1981	1980	1979	1978	1977
Net sales	\$334,783	\$117,126	\$47,867	\$ 7,856	\$ 774
Net income	\$ 39,420	\$ 11,698	\$ 5,073	\$ 793	\$ 42
Earnings per common and common equivalent share	\$.70	\$.24	\$.12	\$.03	\$.01
Common and common equivalent shares used in the calculation of earnings per share	56,161	48,412	43,620	31,544	16,640
Cash and temporary cash investments	\$ 72,834	\$ 363	\$ 563	\$ 775	\$ 24
Total assets	\$254,838	\$ 65,350	\$21,171	\$ 4,341	\$ 555
Non-current obligations under capital leases	\$ 1,909	\$ 671	\$ 203	\$ —	\$ —

Apple has not paid any cash dividends on its common stock. The present policy is to reinvest earnings to finance future growth.

Quarterly (Unaudited)

(In thousands, except per share amounts)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
1981				
Net sales	\$97,678	\$90,719	\$78,765	\$67,621
Gross profit	\$47,021	\$43,632	\$34,165	\$29,604
Net income	\$10,966	\$11,858	\$ 9,175	\$ 7,421
Earnings per common and common equivalent share	\$.19	\$.21	\$.16	\$.14
Price range per common share	\$29 ³ / ₈ - \$16 ³ / ₈	\$33 ³ / ₈ - \$24 ¹ / ₄	\$34 ¹ / ₂ - \$21 ⁵ / ₈	\$36 - \$25 ¹ / ₄
1980				
Net sales	\$41,467	\$32,569	\$23,550	\$19,540
Gross profit	\$17,034	\$13,486	\$10,282	\$ 8,995
Net income	\$ 3,528	\$ 2,735	\$ 2,788	\$ 2,647
Earnings per common and common equivalent share	\$.07	\$.06	\$.06	\$.06

The price range per common share is the highest and lowest closing bid quotation for Apple's common stock during each quarter since December 12, 1980, the date Apple's common stock was first sold to the public.

At September 25, 1981 there were approximately 19,500 shareholders of record.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion that follows is management's analysis of significant events and trends that have affected Apple's financial performance and condition over the last three years.

Results of Operations

1981 versus 1980

Net sales in 1981 increased by 186% over 1980, reflecting the continuing demand for the Apple II and related peripheral and software products. Price changes for these products did not have a significant effect on revenues during the year.

Net income increased 237% in 1981. Income before taxes was 23% of net sales in 1981 as compared to 21% in 1980. This increase was due to improved gross margin and higher interest income which was partially offset by increases in marketing and general and administrative expenses as explained below.

Gross margin improved by 3.6 percentage points in 1981, reflecting improvements in manufacturing efficiency and lower prices for semiconductor components used in Apple's systems. Additionally, cost of sales in 1980 included non-recurring expenses resulting from the repurchase of inventory from Apple's former distributors and start-up costs connected with new manufacturing facilities. Cost of sales in 1981 also included expenses resulting from the expansion of Apple's distribution system and foreign manufacturing facilities, and costs related to the reliability problems with the Apple III.

Research and development expenses remained relatively constant at approximately 6% of net sales in 1980 and 1981, reflecting Apple's continuing emphasis on new product development. Marketing expenses as a percentage of net sales increased by 3.4 percentage points in 1981, primarily as the result of increased advertising and promotion costs and expansion of Apple's distribution system, particularly in Europe. General and administrative expenses for the year increased to approximately 6.4% of net sales, up from 5.8% in 1980. This increase was principally due to foreign exchange losses which were included in general and administrative expense in 1981.

Interest income in 1981 was approximately \$11.7 million, up from approximately \$1 million in 1980, resulting from the investment in short-term securities of the proceeds from Apple's common stock offering in December 1980.



KEN ZERBE, left (executive vice president, finance and administration): "We plan to grow at rates that exceed the industry average, but profitability is our number one goal." AL EISENSTAT (vice president, secretary and general counsel): "Financial statements are an historical read-out only. They cannot reflect our most valued asset — creative and motivated people."

1980 versus 1979

Net sales in 1980 increased by 145% over 1979, while the pretax profit margin remained constant at 21%. The increased sales were due to general expansion of the personal computer market and the introduction of new products in 1980, including software applications packages and new peripheral equipment which expanded the practical applications of the Apple II. Sales in 1980 were also affected by the termination of Apple's distributors in March 1980, after which Apple sold directly to retail dealers at higher prices.

Gross margins remained relatively constant at 43% of net sales in 1980 and 1979, in spite of additional expenses incurred in 1980 in connection with the termination of Apple's distributors. Cost of sales in the last half of 1980 included higher costs result-

ing from the repurchase of inventory held by Apple's former distributors at higher prices than Apple's manufacturing cost. Gross margin in 1980 was also affected by start-up expenses associated with the establishment of new manufacturing facilities in Texas and Ireland. These increases were partially offset by lower costs resulting from increased production volume. Cost of sales in 1979 also included expenses related to the expansion of manufacturing capacity.

Research and development expense was approximately 6% of net sales in 1980, compared to approximately 7.5% in 1979. Research and development in 1979 included expenses incurred in the initial development of the new software applications packages and peripheral equipment introduced to the market in 1980. Research and development expense in 1980 included costs associated with the development of the Apple III. Marketing expenses increased nearly 2 percentage points in 1980, reflecting increased advertising expenses and the costs incurred in establishing Apple's regional distribution and sales organization after the termination of the previous distribution arrangements.

Liquidity and Capital Resources

Apple's ability to generate the cash necessary to meet its needs ("liquidity") results from the sale of inventory, the collection of accounts receivable, periodic bank borrowings and the sale of common stock. Apple'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 purchases of inventory and property, plant and equipment and payments for taxes, salaries and other services.

1981 versus 1980

Apple's liquidity improved significantly during 1981. The major sources of liquidity were funds provided by operations (\$52 million) and from the sale of common stock (\$111 million). Apple received approximately \$90 million from the public offering of common stock in the first quarter of 1981. Sales of common stock to employees under stock option plans and stock purchase plans provided approximately \$20 million and \$1 million, respectively, during 1981. Tax benefits resulting from the exercise of stock options, which are included in the option proceeds, were \$18 million.

Apple's liquidity was reduced during 1981 primarily by increases in accounts receivable, inventory and property, plant and equipment. Accounts receivable nearly tripled in 1981 reflecting a similar increase in the annual sales volume. Inventory also more than tripled in 1981 due to higher sales levels and the need to support additional products and distribution centers. The investment in property, plant and equipment of approximately \$25 million during 1981 was principally the construction of additional manufacturing facilities in Ireland and Texas and the related purchase of equipment to outfit these facilities.

Apple's financial condition was strong at September 25, 1981 with a current ratio of 3.2:1, a total debt-to-equity ratio of .4:1 and cash and short-term securities of \$73 million. In addition, Apple has unused lines of credit and lease lines with domestic and foreign banks totalling \$139 million.

1980 versus 1979

The major sources of liquidity in 1980 were provided by operations (\$14 million) and from the sale of stock to employees under stock option plans (\$3 million including tax benefits).

Apple's liquidity was reduced in 1980 primarily by increases in inventories, accounts receivable and property, plant and equipment. Liquidity was also reduced by the reacquisition of distribution rights in foreign countries.

Inventories more than tripled in 1980 while cost of sales rose to only 2.5 times the 1979 level. The inventory increase was primarily the result of increased levels of finished goods inventories at the regional distribution centers established in 1980 to replace Apple's former independent distribution arrangements. The inventory increase was also related to the technical problems encountered in the production of the Apple III, since sales of the system were delayed until the problems were corrected.

Accounts receivable increased to 1.7 times the 1979 level while sales increased to 2.5 times 1979 sales. This improvement resulted from the change in Apple's distribution arrangements in March 1980.

Liquidity was also reduced by investments in property, plant and equipment, totalling \$5 million, and by the reacquisition of distribution rights from Apple's former distributor in Europe for approximately \$5 million.

At September 26, 1980, Apple's unused sources of liquidity consisted primarily of credit lines with domestic banks totalling approximately \$5 million. Apple's current ratio was 1.4:1 and its debt-to-equity ratio was 1.5:1 at the end of 1980.

CONSOLIDATED STATEMENTS OF INCOME

Three years ended September 25, 1981 (In thousands, except per share amounts)	1981	1980	1979
Net sales	\$334,783	\$117,126	\$47,867
Costs and expenses:			
Cost of sales	180,361	67,329	27,450
Research and development	20,956	7,282	3,601
Marketing	45,891	12,110	4,097
General and administrative	21,432	6,820	2,617
	268,640	93,541	37,765
Operating income	66,143	23,585	10,102
Interest, net	10,400	567	3
Income before taxes on income	76,543	24,152	10,105
Provision for taxes on income	37,123	12,454	5,032
Net income	\$ 39,420	\$ 11,698	\$ 5,073
Earnings per common and common equivalent share	\$.70	\$.24	\$.12
Common and common equivalent shares used in the calculation of earnings per share	56,161	48,412	43,620

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

September 25, 1981 and September 26, 1980

(Dollars in thousands)

	1981	1980
Assets		
Current assets:		
Cash and temporary cash investments	\$ 72,834	\$ 363
Accounts receivable, net of allowance for doubtful accounts of \$1,823 (\$618 in 1980)	42,330	15,814
Inventories	103,873	34,191
Other current assets	8,067	3,738
Total current assets	227,104	54,106
Property, plant and equipment:		
Land and buildings	4,815	243
Machinery and equipment	14,688	3,669
Office furniture and equipment	6,192	1,673
Leasehold improvements	5,129	710
	30,824	6,295
Accumulated depreciation and amortization	(8,453)	(1,516)
Net property, plant and equipment	22,371	4,779
Reacquired distribution rights, net of accumulated amortization of \$1,475 (\$90 in 1980)	3,926	5,311
Other assets	1,437	1,154
	\$254,838	\$65,350

See accompanying notes.

	1981	1980
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 10,745	\$ 7,850
Accounts payable	26,613	14,495
Accrued compensation and employee benefits	7,759	2,553
Income taxes payable	8,621	8,135
Other current liabilities	16,542	4,747
Total current liabilities	70,280	37,780
Non-current obligations under capital leases	1,909	671
Deferred taxes on income	5,262	951
Shareholders' equity:		
Common stock, no par value, 160,000,000 shares authorized	123,317	12,348
Retained earnings	57,026	17,606
	180,343	29,954
Notes receivable from shareholders	(2,956)	(4,006)
Total shareholders' equity	177,387	25,948
	\$254,838	\$65,350

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Preferred Stock		Common Stock		Retained Earnings	Notes Receivable From Shareholders	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balance at September 30, 1978	78	\$ 704	37,376	\$ 1,082	\$ 835	\$ (375)	\$ 2,246
Sale of common stock under stock option plan and related tax benefits	—	—	1,027	181	—	(53)	128
Sale of common stock to officers and investors	—	—	2,400	2,331	—	(250)	2,081
Repayments of notes receivable from shareholders	—	—	—	—	—	153	153
Issuance of common stock upon conversion of convertible preferred shares	(78)	(704)	2,503	704	—	—	—
Net income	—	—	—	—	5,073	—	5,073
Balance at September 30, 1979	—	—	43,306	4,298	5,908	(525)	9,681
Sale of common stock under stock option plans and related tax benefits	—	—	4,293	4,831	—	(1,399)	3,432
Sale of common stock to officers and directors under key employee stock purchase plan	—	—	798	2,299	—	(2,299)	—
Repayments of notes receivable from shareholders	—	—	—	—	—	217	217
Stock to be issued in business combination	—	—	153	920	—	—	920
Net income	—	—	—	—	11,698	—	11,698
Balance at September 26, 1980	—	—	48,550	12,348	17,606	(4,006)	25,948
Sale of common stock to public	—	—	4,400	90,361	—	—	90,361
Sale of common stock under stock option plans and related tax benefits	—	—	2,747	19,827	—	—	19,827
Sale of common stock under employee stock purchase plan	—	—	52	969	—	—	969
Repayments of notes receivable from shareholders, net of shares repurchased	—	—	(440)	(188)	—	1,050	862
Net income	—	—	—	—	39,420	—	39,420
Balance at September 25, 1981	—	\$ —	55,309	\$123,317	\$57,026	\$(2,956)	\$177,387

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Three years ended September 25, 1981 (In thousands)	1981	1980	1979
Working capital was provided by:			
Operations:			
Net income	\$ 39,420	\$11,698	\$ 5,073
Charges to operations not affecting working capital:			
Depreciation and amortization	8,590	1,377	201
Deferred taxes on income (non-current)	4,311	747	175
Total working capital provided by operations	52,321	13,822	5,449
Increases in common stock and related tax benefits, net of changes in notes receivable from shareholders	112,019	4,569	2,362
Increases in non-current obligations under capital leases	1,747	752	228
Total working capital provided	166,087	19,143	8,039
Working capital was applied to:			
Purchase of property, plant and equipment, net of retirements	24,529	4,878	1,028
Reacquisition of distribution rights	—	5,401	—
Other	1,060	1,298	228
Total working capital applied	25,589	11,577	1,256
Increase in working capital	\$140,498	\$ 7,566	\$ 6,783
Increase (decrease) in working capital by component:			
Cash and temporary cash investments	\$ 72,471	\$ (200)	\$ (212)
Accounts receivable	26,516	6,688	7,746
Inventories	69,682	24,089	8,283
Other current assets	4,329	3,685	(16)
Notes payable to banks	(2,895)	(7,850)	—
Accounts payable	(12,118)	(9,084)	(4,415)
Accrued compensation and other current liabilities	(17,001)	(5,557)	(1,442)
Income taxes payable	(486)	(4,205)	(3,161)
Increase in working capital	\$140,498	\$ 7,566	\$ 6,783

See accompanying notes.

Three years ended September 25, 1981

Summary of Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Apple Computer, Inc. and all of its subsidiaries (Apple Computer or Apple), after elimination of significant intercompany accounts and transactions.

Fiscal Year

Apple's fiscal year ends on the last Friday in September. Prior to 1980, Apple's year-end was September 30.

Inventories

Inventories are valued at the lower of cost or market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market is based upon estimated net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are computed principally by use of declining balance methods over the estimated useful lives of the assets.

Earnings Per Share

Earnings per share are computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period.

Inventories

Inventories consist of the following:

(In thousands)	1981	1980
Raw materials and purchased parts	\$ 45,175	\$13,858
Work-in-process (including materials held by subcontractors)	23,571	9,625
Finished goods	35,127	10,708
Total	\$103,873	\$34,191

Borrowing Arrangements

Apple has short-term unsecured lines of credit with domestic and foreign banks totalling \$145 million. There are no compensating balance requirements or fees associated with these credit lines and the lines are cancellable at any time by either the banks or Apple. At September 25, 1981, Apple had borrowed approximately \$10.7 million against these lines in various European currencies to hedge against foreign

exchange fluctuations. The weighted average interest rate on these borrowings was 12.8% at September 25, 1981.

Apple also has \$9.2 million of equipment leasing and financing arrangements with domestic and foreign banks. At September 25, 1981, approximately \$4.3 million was available for future use under these arrangements.

Taxes on Income

The provisions for taxes on income consist of the following:

(In thousands)	1981	1980	1979
State:			
Current	\$ 4,116	\$ 2,205	\$ 555
Deferred (prepaid)	331	(272)	360
	4,447	1,933	915
Federal:			
Current	26,303	10,893	2,186
Deferred (prepaid)	5,769	(372)	1,931
	32,072	10,521	4,117
Foreign — Current	604	—	—
Provision for taxes on income	\$37,123	\$12,454	\$5,032

For 1981, there were approximately \$11.2 million of foreign pretax earnings upon which federal and state taxes have been provided. There were no foreign earnings in any of the previous periods.

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Current deferred taxes on income of \$2,488,000 and \$661,000 are included in income taxes payable in 1981 and 1980, respectively. The sources of these differences and the tax effect of each are as follows:

(In thousands)	1981	1980	1979
Bad debt, warranty and advertising provisions	\$ (664)	\$(2,642)	\$1,961
Inventory items capitalized for financial reporting	3,191	810	—
Income of Domestic International Sales Corporation	98	1,136	292
Income of foreign subsidiaries not taxable in current year	4,753	—	—
Financial statement depreciation in excess of current tax deduction	(663)	—	—
Other	(615)	52	38
Total deferred (prepaid) taxes	\$6,100	\$ (644)	\$2,291

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:

(In thousands)	1981	1980	1979
Computed expected tax, net of surtax exemption	\$35,191	\$11,091	\$4,681
State taxes, net of federal benefit	2,401	1,044	490
Investment tax credits (flow-through method)	(650)	(197)	(77)
Research and development credit	(600)	—	—
Other	781	516	(62)
Provision for taxes on income	\$37,123	\$12,454	\$5,032

Leases

Apple leases various facilities and equipment under non-cancellable lease arrangements. The major facilities leases are for terms of five to ten years and generally provide renewal options of five additional years. The equipment leases are for terms of three to seven years.

Certain equipment leases are accounted for as the acquisition of an asset and the incurrence of a liability ("capital leases"). This equipment is classified as machinery and equipment in the balance sheet and is being depreciated over the lease terms using the double declining balance method.

Minimum future lease payments under all non-cancellable leases as of September 25, 1981 are as follows:

(In thousands)	Capital Leases	Operating Leases
1982	\$1,245	\$ 5,645
1983	1,074	5,321
1984	496	4,236
1985	369	1,960
1986	335	1,131
Later years	—	1,927
Total minimum lease payments	\$3,519	\$20,220

The present value of total minimum lease payments under capital leases was \$2,840,000 at September 25, 1981. Rent expense under all operating leases was \$5,427,000, \$1,810,000 and \$358,000 in 1981, 1980 and 1979, respectively.

Employee Benefit Plans

Stock Option Plans

Apple has three non-qualified stock option plans under which officers, directors, employees and contractors may be granted options to purchase shares of Apple's common stock at the fair market value on the date of grant. The options become exercisable over varying periods and expire seven to eight years after the grant date. Proceeds from the exercise of stock options, including income tax benefits of \$18,362,000, \$3,392,000 and \$66,000 in 1981, 1980 and 1979, respectively, have been added to shareholders' equity.

Information regarding stock option plans at September 25, 1981 is summarized below:

(In thousands, except per share amounts)	Number of Shares	Price per Share
Outstanding	5,419	\$.09-\$16.94
Exercisable	523	\$.09-\$ 2.75
Reserved for issuance	7,726	
Available for future grant	2,307	

In October 1981, the price per share of certain options was reduced by the Board of Directors to \$16.94, the fair market value on the date of the Board's action, with all other terms of the agreements remaining the same. The information presented above reflects the new price.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted an Employee Stock Purchase Plan under which one million 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.

Preferred Stock

Five million shares of preferred stock have been authorized for issuance 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.

Litigation

In June 1980, a former distributor (High Technology, Inc.) filed suit against Apple 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 approximately \$11.8 million 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 Apple in May 1980 seeking treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The complaint alleges violations of state franchise protection acts, state antitrust acts and defamation. In the opinion of Apple's management, the outcome of the litigation will result in no material loss to Apple.

Industry Segment and Geographic Information

Apple operates in one principal industry segment: the design, manufacture, sale and servicing of personal computers and related software and peripheral products.

Apple's foreign operations consist of manufacturing facilities in Ireland and Singapore and distribution facilities in

Europe and Canada. Prior to 1981, Apple had no significant foreign operations. Foreign exchange gains and losses were not material in 1981. Geographic financial information for 1981 regarding domestic and foreign operations is summarized below:

(In thousands)	Geographic Operations				Total
	United States	Europe	Other	Eliminations	
Net sales to unaffiliated customers in:					
United States	\$244,141	\$ —	\$ —	\$ —	\$244,141
Europe	7,717	51,591	—	—	59,308
Other	21,374	—	9,960	—	31,334
Transfers between geographic areas	273,232	51,591	9,960	—	334,783
Total revenue	33,944	1,098	—	(35,042)	—
Operating income	\$307,176	\$52,689	\$9,960	\$(35,042)	\$334,783
Unallocated income					10,400
Income before taxes on income					\$ 76,543
Identifiable assets	\$147,095	\$36,293	\$4,933	\$ (6,317)	\$182,004
Corporate assets					72,834
Total assets					\$254,838

Transfers between geographic areas are accounted for at amounts generally above cost and are in accordance with the rules and regulations of governing tax authorities. Operating income is total revenue less operating expenses. In computing operating income, none of the following items has been added or deducted: net interest and taxes on income.

Identifiable assets are assets that are identifiable with the operations in each geographic area. Corporate assets are principally cash and temporary cash investments.

Sales by Apple's domestic operations to unaffiliated foreign customers, principally in Europe, were 25% and 24% of total sales in 1980 and 1979, respectively. Sales to one retail dealer were 10% of total sales in 1981 and 14% in 1980 and 1979.

**To the Shareholders and Board of Directors
of Apple Computer**

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. (Apple Computer) at September 25, 1981 and September 26, 1980 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 25, 1981. 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 at September 25, 1981 and September 26, 1980 and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 25, 1981 in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
October 16, 1981

BOARD OF DIRECTORS

Steven P. Jobs
 Chairman of the Board
 Apple Computer, Inc.

Peter O. Crisp
 General Partner
 Venrock Associates
Venture capital investments

A. C. Markkula, Jr.
 President and Chief Executive Officer
 Apple Computer, Inc.

Arthur Rock
 Principal in Arthur Rock & Co.
Venture capital investments

Philip S. Schlein
 President & Chief Executive Officer
 Macy's, California
Retail department store chain

Dr. Henry E. Singleton
 Chairman of the Board
 Teledyne, Inc.
Diversified manufacturing company

OFFICERS

A. C. Markkula, Jr.
 President and
 Chief Executive Officer

Steven P. Jobs
 Chairman of the Board and
 Vice President

Carl H. Carlson
 Executive Vice President
 Operations

Kenneth R. Zerbe
 Executive Vice President
 Finance and Administration

Ann S. Bowers
 Vice President
 Human Resources

Gene P. Carter
 Vice President
 Sales

John D. Couch
 Vice President and General Manager
 Personal Office Systems

Albert A. Eisenstat
 Vice President
 Secretary and General Counsel

Joseph A. Graziano
 Vice President
 Chief Financial Officer

Frederick M. Hoar
 Vice President
 Communications

Wilfrid J. Houde
 Vice President and General Manager
 Personal Computer Systems

Thomas J. Lawrence
 Vice President and General Manager
 Europe

John Vennard
 Vice President and General Manager
 Peripherals

Delbert W. Yocam
 Vice President and General Manager
 Manufacturing

TRADEMARKS

Apple Computer, Inc. and its subsidiaries have applied for or have received registered trademarks on the following names appearing in this report: Apple, Silentye, Disk II, ProFile and Special Delivery Software.

STOCK TRADING

The Company's common stock is traded in the over-the-counter market and is listed on the NASDAQ National List. Symbol: AAPL

TRANSFER AGENT AND REGISTRAR

The First National Bank of Boston
Boston, Massachusetts

CERTIFIED PUBLIC ACCOUNTANTS

Arthur Young & Company
San Jose, California

SEC FORM 10-K

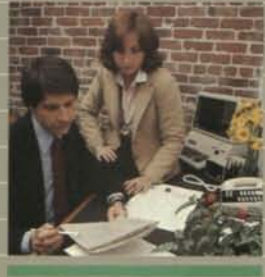
If you would like a copy of our Annual Report on SEC Form 10K for the fiscal year ended September 25, 1981, you may obtain it without charge. Please direct your request to Albert A. Eisenstat, corporate secretary, Apple Computer, 10495 Bandlely Drive, Cupertino, California 95014.

CORPORATE INFORMATION

Please direct inquiries to Stanley W. DeVaughn, manager, investor and press relations, Apple Computer, 10495 Bandlely Drive, Cupertino, California 95014.

ANNUAL MEETING

The annual meeting of shareholders will be held on December 15, 1981 at 10:00 A.M. local time at Flint Center, DeAnza Community College, 21240 Stevens Creek Blvd., Cupertino, California.



Basic Report

**NOT FOR PUBLIC
DISTRIBUTION**

APPLE COMPUTER, INC.

Apple Computer participates in one of the most rapidly growing markets in the history of American Industry. Through attractive product design, perceptive marketing, and the establishment of a superior management team, the company has become a leading factor in the personal computer industry. We estimate that sales for the fiscal year ending September 30, 1981 will be \$380 million or something more than three times the \$118 million generated in fiscal 1980. The patient investor, willing to assume the risk of a high price earnings multiple, should be rewarded over time.

Perspective Research

14 Wall Street, New York 10005 (212) 267-8800

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Apple Computer, Inc.
(AAPL - OTC)

Recent Price:	28B	1980 Earn/Share:	\$0.24
1981 Price Range:	34½ - 21½	1981 Earn/Share:	\$0.75E
Indicated Ann. Div.:	None	1981 P/E Ratio:	37.3X
		F/Y Ending 9/30	

Capitalization 3/27/81

Common Stock: 57,331,000 Shares
Long Term Debt: None

Introduction

Apple Computer, Inc. recently announced a prospective secondary offering to be completed in the near future. The announcement has focused further attention on this dominant supplier of personal computer systems.

The personal computer industry has emerged as one of the most dynamic and rapidly growing new product areas in the history of the American economy. Typically, personal computers are general purpose, stand alone, microprocessor-based systems that fulfill the data processing requirements of individuals and small firms. Complete systems retail from \$2,000 up to \$10,000. As a result, they represent a quantum leap forward for the computer industry in bringing down the cost of computer power to a point where virtually anyone can utilize a system. We anticipate that the market demand in this area is on the order of many millions of units, and growth over the next few years should be dramatic.

Apple Computer, organized in 1977, is one of the founders of this industry. Through attractive product design, perceptive marketing, and the establishment of a superior management team, the company has become a leading factor in this industry.

As is typical in the history of entrepreneurship, Steve Wozniak and Steve Jobs designed and initially built Apple I in their garage. With this experience under their belts, they quickly developed Apple II which was introduced in the marketplace in 1977. Apple II represents one of the most successful product introductions in the history of American industry. Apple sold approximately 570, 7,600, 35,100, and 75,100 of these systems in the fiscal years ending September 30, 1977 through September 26, 1980, respectively. We anticipate shipments in the current fiscal year ending September 30, 1981 will approach the 200,000 unit level.

The applications of personal computers are many and varied. They can be utilized as data processing systems to run accounting and other functions in the many millions of small businesses throughout the world. The low cost of these systems should make them economic for virtually any size business unit. In addition, these systems can be employed by the many millions of "Knowledge Workers" in order to leverage their skills in much the same fashion that machines were initially employed to leverage the muscle of the working man in the early years of the Industrial Revolution. Furthermore, because this small computer works on a one-to-one basis with the user, it has the potential to bring about a revolution in education.

The bright outlook for this rapidly developing area has drawn the attention of virtually all companies in the computer industry and many others as well. We anticipate that there will be numerous new entries in this marketplace over the next few years. With a 20% market share, a seasoned and well-balanced management team, and a lead time of three to four years, we confidently expect Apple to maintain a large share of this rapidly growing market.

The company has consistently generated a high level of profitability throughout its history. Given its large market share and the many opportunities for manufacturing integration, we expect margins to be maintained and profits to grow in line with revenues over the next few years.

We recommend purchase of the common stock of Apple Computer at the current level. The price earnings multiple of this stock is about 37 times our estimate for earnings per share of \$0.75 in the fiscal year ending September 30, 1981. Because of the rapid growth in earnings over the next few years, we would not expect significant multiple erosion, and as a result, growth in this firm should accrue to shareholders in the form of capital appreciation. However, over short periods of time, the multiple can be affected quite dramatically by market uncertainties, the entrance of new competitors and other unforeseeable circumstances. Therefore, this investment vehicle should only be utilized by those willing to assume the risk of a high multiple stock. The company's management should be able to cope with the many vagaries associated with developments in this rapidly changing marketplace. Hence, the patient investor, willing to assume these risks, should be rewarded over time.

Don F. Sinsabaugh
May 8, 1981

Table of Contents

	<u>Page</u>
Introduction	1
Personal Computer Marketplace	5
Summary	7
The Company	8
Marketing	8
Product line	10
Manufacturing	11
Management	12
Operating Results	13
Financial	16
Summary & Conclusion	19

Table of Contents

Table of Charts

	<u>Page</u>
Industry Sales	7
Quarterly Results	13
Operating Results	14
Cash Flow	16
Balance Sheet	18

Personal Computer Marketplace

The personal computer marketplace is broad and varied. Basically, there are three ways that a computer of this size can be utilized: 1) It can be employed in small corporations, those whose sales range up to \$10 million, much as large computers service other corporations in accounting and data handling applications. 2) Their personal computer can assist individual professionals in their daily work for a variety of applications. 3) It can also be used as a dedicated function machine, such as in an educational environment, in word processing systems, or in distributed processing networks for collecting information.

There are a multitude of businesses in America which have yet to be computerized. Growth and demand from this sector will appear over the next few years as a wide range of application programs for the millions of small firms throughout this country are developed. It has only been recently that small firms could afford the luxury of their own computer systems. With the \$2,000 - \$10,000 systems now available, such firms have begun to utilize the personal computer to maintain their accounting records. In coming years those who have yet to computerize will be forced to do so in order to remain competitive. Meanwhile, a number of software houses have come into existence to develop application packages suitable for non-accounting functions in companies of this size. As these applications become available, the need for these firms to have their own small computer will become even more urgent.

There are literally millions of companies in America which fit into this category. We feel that personal computer firms have only scratched the surface of demand in this field. We expect that the preponderance of the 2 million companies with annual revenues of between \$100,000 - \$1,000,000 will be computerized by 1985. Furthermore, there are at least 4 million even smaller firms, many of which will be computerized in the next few years.

The largest single market for personal computers are those applications which serve the many millions of professionals throughout American life. These individuals were first "categorized" by Peter Drucker in his noteworthy book "Age of Discontinuity: Guidelines To Our Changing Society" published in 1969; the awareness of this rather large diverse body of individuals has increased over the years although it is still too nebulous a group to classify in any certain fashion. The one common denominator of this group is that they deal with information as a means of livelihood.

The personal computer is the one automation tool which will allow these individuals to leverage their skills and become economically more valuable in whatever function they fulfill.

It can be utilized by this group in basically two ways. That is, it can be used as a glorified filing cabinet to allow the professional to access his information in as rapid and meaningful a fashion as possible. Secondly, the personal computer can manipulate and analyze information in the same way these individuals have always performed their task; it could also add new skills to these individuals in the performance of their duties. The more technologically oriented of the knowledge workers have begun "The Knowledge Revolution" through the utilization of the personal computer as a tool to automate their labors. We expect that this trend will have a self reinforcing aspect to it in the highly competitive American economy as those individuals who have yet to computerize find themselves at a disadvantage. More importantly, the awareness on the part of Corporate America of the power and utility of the personal computer is in its nascent stage. We will expand on this point at a later part in the report.

It has been estimated that there are at least 25 million American Knowledge workers who could utilize the personal computer in their day to day activity. Although the majority of these will not be computerized by 1985, we anticipate a growing trend in this respect, and that most of these will be computerized by 1990. Even so, growth in this area over the next few years should be rapid.

The use of the personal computer in educational applications is becoming widespread as a result of two factors. First, it is thought by many educators that an understanding of computers is necessary for an educated individual in the future. Second, the computer itself is an excellent educational tool in our society which lacks an adequate number of qualified teachers. To date, only the more well endowed of the over 100,000 schools in this country have been able to equip their institutions with personal computers. Because of the low cost of these systems and the performance from an educational standpoint, we expect substantial growth in the utilization of personal computers in this field.

Perhaps the least exploited, yet potentially one of the largest, application areas for small computer systems is for use within major corporations in word processing/analytical computing configurations. In this instance, the corporations will acquire standardized packages (including software and hardware) for decentralized utilization to increase productivity. We are quite optimistic with regard to this development in the personal computer marketplace as these packages, whose average price for a complete system is about \$8,000, will compete quite favorably with other alternatives currently promoted by word processing manufacturers and others. Even though these machines do not offer all of the word processing features available today, their capabilities are more than sufficient, and the prices of these systems are quite attractive when compared with the alternatives.

Distributed processing is another example of a relatively large market which currently exists and is available to the personal computer manufacturer. The total market is difficult to get a handle on, however, we expect it to generate sales in the future of many millions of units. Incidentally, this is why most major manufacturers, such as IBM, Digital Equipment, Datapoint, Xerox, et al., anticipate entering this field. In this regard, personal computer manufacturers enjoy a substantial advantage in that they are currently producing small systems with very low prices, yet these have the processing power necessary for those applications. The mistake on the part of major manufacturers, though, is to produce a full-blown system which will do everything for the user but is priced out of the market.

Summary

Industry growth in the personal computer marketplace has been dramatic. We have estimated the trends in this market in the table outlined below:

	<u>Industry Sales*</u>				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Volume (000,000's)	\$ 200	\$ 600	\$1200	\$2400	\$4000
Average Price/Unit	\$1950	\$2000	\$2180	\$2340	\$2600
Unit Sales (000's)	105	300	550	1025	1540
Installed Base (000's)	150	450	1000	2025	3565
Penetration	0.5%	1.5%	3.1%	6.1%	11.1%

*Estimated by Perspective Research, At Retail Value

As can be seen in the accompanying table, volume growth has been dramatic to date. It should also be noted that the average price per system has risen and will continue to rise. This results from the fact that as users become more sophisticated their requirements for peripheral, software and other additions increase. This trend should accelerate over the next two years as users begin to realize the benefits from the inclusion of on-line mass storage devices. (That is, various peripheral suppliers have begun to make available the Winchester disc which will allow users to store between 5 - 20 million bytes of information on line. These devices should add a few hundred dollars to the average systems price.)

We estimate that Apple has about 15% of the installed base for the industry; however, the company's current market share is running at about 20%. We expect that Apple will be able at least to maintain this market share over the next two years. Importantly, the company is benefiting from the increasing value of unit sales. In the case of Apple this trend should accelerate over the next few years.

The Company

Marketing is the key to the success of any company in the competitive environment; this is especially true for the computer industry. Not so unexpectedly, a fair proportion of the success of Apple is due to superior marketing skills. The company has positioned itself in the marketplace with the image of being the product to own if you are going to own a personal computer; this results from the status associated with the way Apple has promoted its product. Most importantly, though, and of greater lasting value, is the emphasis on the part of the company's management regarding the development of software for use with its product line.

Software has always been a key component in the sale of computer hardware. This is especially true in the personal computer marketplace. That is, there are a number of systems available which a user can buy for an outlay of a few thousand dollars. The successful companies in the industry, Tandy and Apple, got an early lead in market share and have since expanded that lead by the reinvestment of profits into the development of software packages. Additionally, because of the large population of their machines in the field, most independent software producers have first developed their software products for the more populous machines. At this point in time, especially when taken in light of the expected entrance into the market of new competitors, the software lead enjoyed by Apple grows with each passing day. The management of this company is especially mindful of this key to their success and has been plowing even more money back into the development of software for use in their systems.

The company markets its products through a large and growing number of retail computer stores which have sprung up over the last five years. It is difficult to estimate a total number of retail stores in existence today; their numbers are proliferating at too rapid a pace. However, it is a fair assumption that there are at least 3,000 stores in America at this time. Apple is currently marketing through about 1,000 retail outlets.

The company's management of the retail distribution network is especially good. This task is made easier by the fact that Apple accounts for between 20 and 50% of the individual retailers' sales in those locations. The company is mindful of the pitfalls potentially before them in dealing with this diverse and newly organized group of companies. In this regard, its credit policies are fifteen days net (i.e. full payment within fifteen days and if the retailer exceeds that, then interest charges are added to the bill); because it enjoys a large share of each outlet's volume, the retailer is dependent upon Apple for its own success and growth. As a result, Apple has had very few bad debt problems through its relatively short history.

The company anticipates that it will be able to expand its domestic retail base substantially in coming months. Because it is the "hot product" in the marketplace, retailers are literally lining up at the door, and the company is able to pick and choose among the many distributors available. Needless to say, an expansion in the number of retail outlets handling Apple's product bodes well for sales growth. We feel that the company could sell through up to at least 2,000 retail outlets in the next few years.

We expect greater growth for the company as it gears up its marketing to corporate America. The company has recently organized an OEM marketing campaign for sale of its products to major firms. These opportunities take many forms but generally breakdown as follows: 1) The utilization of Apple computers as work stations throughout corporations in word processing, distributed processing, managerial analysis, etc. applications. As we mentioned earlier, in this case the company packages entire systems (both hardware and software) for use as standardized units within a corporation. This is not to say that the individual users cannot create their own software; however, a standard application package is included to "get the user off the ground." 2) Apple is marketing to major firms systems which are in turn packaged for sale to/or use by this company's customers. As an example Bell & Howell has developed a package on the Apple II for marketing to educational institutions. Another example is American Hospital Supply which has packaged standardized systems in conjunction with the sale of its products to those institutions. Because of the low cost of personal computer systems, we expect this marketplace to be quite large; Apple's marketing thrust in this area appears to be quite successful at this early stage.

Foreign sales had been made primarily to an independent distributor, Eurapple, under the agreement providing some exclusive rights to distribute the company's products in foreign countries up to August 1980. At that time, Apple acquired Eurapple's distribution rights and currently sells its products directly to 21 independent foreign distributors. In September 1980, the company established its European headquarters 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.

Foreign activities, including Canadian, were approximately 24% of fiscal 1979 and 25% of fiscal 1980 net sales. Given Apple's recent thrust into these markets, we anticipate a higher portion of future sales to come from international markets. The establishment of its own marketing force and manufacturing facilities will give the company improved control over these

operations. The acceptance of the personal computer in foreign markets has been equivalent in its enthusiasm to that of this country. We anticipate that the market for Apple's products is at least as large as the domestic one, and that some day sales overseas could equal those in the U.S.

Product Line

Apple currently produces two models of small computers, Apple II and Apple III. To date, the vast preponderance of sales has been in the Apple II category.

A stripped down version of Apple II markets for about \$1,000 on a retail basis. This is the product that got the company off the ground and carried it through 1978. In 1979, a small floppy disc drive was introduced to be used in conjunction with this computer. Over the last two years the typical system sale has included the Model II computer, a video monitor, at least one floppy disc drive, and a printer. The average system sales price has been increasing through time and is currently above \$1,500 (to Apple).

Apple's popularity has been based upon, and is constantly reinforced by, the widespread availability of software. The company's management has long recognized that this is the key to the successful exploitation of the marketplace. Currently a user can buy an Apple machine which uses the Pascal language, the "in computer language" among knowledgeable persons in this field; the company was the first to recognize this trend. Another popular software tool which is offered is Visicalc. Visicalc is used by professionals to create computer based models in conjunction with forecasting which is perhaps the most common utilization of small computer systems. Importantly, Apple users can buy literally hundreds of application programs for use with their machine. The price ranges from a few dollars to well over \$100. There are software directories published, by sources other than the company, which list these programs and make them readily available to users.

We estimate that Apple's management has established the Apple II as clearly being the product of choice for those needing a "starter system." The low price and clean design of the hardware are one factor. The wide and growing availability of software is clearly another very important factor. The third factor in this regard is the company's earlier recognition that users need the flexibility to hook-up their Apples to as many peripheral devices as possible. The early introduction of small floppy discs was the first of these key decisions on management's part. Witness, printers can be also attached to these machines. (In this respect, it is noteworthy to mention that Apple markets under its brand name printers, video monitors and other peripherals manufactured by Xerox, Sanyo, Centronics and others.)

Because of the company's size and its broad penetration of the market, we anticipate Apple will continue to dominate the many applications developing in the personal computer field in the future.

The Apple III has been talked about for some time as the company's entry into the small business marketplace; as is typical with products in this field, Apple III has not been without its start-up problems. We believe that the company has overcome these early difficulties and is now capable of shipping this product in large quantities.

The Apple III is based upon much of the same technology as its predecessor. The differences, though, include a 10-key numeric keypad to facilitate the use of this machine by business professionals. Importantly as well, Apple III includes a minidisc drive housed within the basic system rather than an add-on. The last major difference is a significantly larger main memory facility (120K bytes vs. 48K in the Apple II).

The advantages of Apple III, as far as investors are concerned, are two-fold. Firstly, it places the company well into the small business computer market. We find the aesthetics in design of Apple III will be an advantage in this environment. The performance of this machine will be suitable for the many first time users who wish to adopt computer processing as an integral part of running their businesses. The second factor of importance to investors is that the average system price for Apple III will be on the order of \$3,000 - \$4,000 vs. \$1,500 for Apple II. As in any successful manufacturing company, Apple has recognized the need to increase the value of added components to the products that it markets.

Manufacturing

Apple Computer's manufacturing capabilities have developed considerably in its relatively short history. At the outset, the company was primarily an assembler of already manufactured parts. Although it has made progress in this regard, this is still a true characterization of much of the company's manufacturing capabilities. Over the next few years this area offers Apple an opportunity to integrate backwards (as is similar to most computer start-up operations) and thereby garner a larger portion of the gross profit margin for its efforts.

Manufacturing is performed at three areas in the U.S., e.g. numerous sites near its headquarters in Cupertino, California, near Los Angeles in Garden Grove, California and Carrollton, Texas. In October 1980, Apple commenced manufacturing systems in a new 43,000 square foot plant in Cork, Ireland, primarily designed to serve Europe. This summer the company will go on stream with an

assembly operation in Singapore to be housed in 75,000 square feet of leased space; at a later date it will occupy its own 100,000 square foot building nearby. These facilities will supply the Far East market with computer systems.

Overall, the company's manufacturing capabilities, on a square foot basis, should at least double this year. We understand that plans are currently being made to again double manufacturing space in fiscal 1981. As we have indicated, manufacturing is still of an assembly nature; over the next two years as the rate of growth slows from its currently heady pace, we would expect the company to integrate backwards through the automated manufacturing of many of the subsystems and components that it now buys on the outside.

Management

The management team assembled at Apple Computer is as strong as that of any company we have observed at such an early phase in its history. This results from the fact that the company was able to attract venture capital from some of the most knowledgeable businessmen/investors in its early days. Arthur Rock, who had previously helped finance the start-up of Scientific Data Systems and Intel among others, was an early investor in the company and has been a participant on the Board of Directors. Henry E. Singleton, the founder of Teledyne, has been an investor and active Director for some time. Philip S. Schlein, President and Chief Executive Officer of Macy's in California (a division of R.H. Macy & Co., where Mr. Schlein is also a Director), has been another active investor and Director of the company. We feel the combination of these "elder statesmen" of the American business establishment has given the company guidance that is seldom found in firms as young as Apple Computer.

Mike Markkula was named President and Chief Executive Officer of Apple on March 19, 1981; previously he had served as Chairman of the Board of Directors of the company since May of 1977. From 1971 to December of 1976, he was Marketing Manager of Intel Corporation. It should be noted that Intel was the prime mover of the micro-processor/micro-computer industry in the early 1970's. We feel that Mr. Markkula brings to the company as great a knowledge of the micro-computer industry as any executive in America, and his skills in the marketing field should be invaluable over the next few years as the company attempts to exploit the many new and varied applications for its product line.

The company's management is populated by executives who have been successful in the high technology field with companies such as National Semiconductor, Computer Automation, Hewlett-Packard, Tymshare and American Microsystems. The blending of expertise among the top management people at Apple gives it as strong a management team for this business as any firm in its industry - including those potential competitors waiting in the wings.

Operating Results

Apple computer is enjoying a dramatic rate of growth as the personal computer marketplace expands rapidly in 1981. Industry statistics are not available; however, we believe that Apple's rate of growth mirrors that of the industry. We estimate that sales for the full year will be \$380 million or something more than three times the \$118 million generated in fiscal 1980.

Almost all of the sales in this fiscal year will be generated by the Apple II product line. In the early part of the fiscal year, monthly production of Apple II was averaging about 12,000 units per month. Because of substantial increases in manufacturing capabilities, the company is now able to produce this model at a rate of 20,000 per month. Under these circumstances, profit margins from this segment of the business are improving, even above the generous margins of prior years.

Quarterly Results* -in thousands-

	<u>1st Qt.</u> <u>12/26</u>	<u>2nd Qt.</u> <u>3/27</u>	<u>3rd Qt.</u> <u>6/26 E</u>	<u>4th Qt.</u> <u>9/30 E</u>	<u>F/Y Est.</u> <u>9/30/81</u>
Revenue:					
Net Sales	\$ 67621	\$ 74965E	\$ 98000	\$129400	\$370000
Interest Inc.	314	3800E	3500	2400	10000
Total	<u>\$ 67935</u>	<u>\$ 78765</u>	<u>\$101500</u>	<u>\$131800</u>	<u>\$380000</u>
Cost & Expenses:					
Cost of Sales	\$ 38017	\$ 42604E	\$ 56200	\$ 73200	\$210000
Research & Dev.	3814	5300E	6200	8700	24000
Marketing	6820	7300E	9600	12300	36000
General & Adm.	4056	5200E	7000	10300	26600
Interest Exp.	387	-	-	-	400
Total	<u>\$ 53094</u>	<u>\$ 60404</u>	<u>\$ 79000</u>	<u>\$104500</u>	<u>\$297000</u>
Pre-tax Income	\$ 14841	\$ 18361	\$ 22500	\$ 27300	\$ 83000
Taxes	7420	9186	11250	14100	42000
Net Income	<u>\$ 7421</u>	<u>\$ 9175</u>	<u>\$ 11250</u>	<u>\$ 13200</u>	<u>\$ 41000</u>
EPS	\$ 0.14	\$ 0.16	\$ 0.20	\$ 0.25	\$ 0.75

*Estimated by Perspective Research
Annual results rounded from quarterly

Operating Results
-in thousands-

<u>F/Y Ending 9/30</u>	<u>1979</u>	<u>1980</u>	<u>1981E</u>	<u>1982E</u>
Revenues:				
Net Sales	\$ 47867	\$117126	\$370000	\$745000
Int. Inc.	72	776	10000	5000
Total	<u>\$ 47939</u>	<u>\$117902</u>	<u>\$380000</u>	<u>\$750000</u>
Cost & Expenses:				
Cost of Sales	\$ 27450	\$ 67329	\$210000	\$395000
Research & Dev.	3601	7282	24000	48000
Marketing	4097	12109	36000	70000
General & Adm.	2616	6819	26600	51000
Int. Exp.	69	209	400	1000
Total	<u>\$ 37834</u>	<u>\$ 93750</u>	<u>\$297000</u>	<u>\$ 65000</u>
Pre-tax Income	\$ 10105	\$ 24152	\$ 83000	\$185000
Taxes	5032	12454	42000	92500
Net Income	<u>\$ 5073</u>	<u>\$ 11698</u>	<u>\$ 41000</u>	<u>\$ 92500</u>
EPS	\$ 0.12	\$ 0.24	\$ 0.75	\$ 1.50
Apple II Units	35100	79100	193750	214700
Unit Price	\$ 1364	\$ 1481	\$ 1600	\$ 1700
Sales	\$ 47867	\$117126	\$310000	\$365000
Apple III Units	-	-	18750	114925
Unit Price	-	-	\$ 3200	\$ 3350
Sales	-	-	\$ 60000	\$385000

Apple computer has demonstrated an ability throughout its history to generate acceptable levels of profitability in the face of a highly competitive marketplace. This results from the company's well thought out strategy regarding the manufacturing of its product as well as its ability to capture a superior market share in its industry. The company, from the beginning, has concentrated on the manufacturing (in its case assembly) of a single standardized product. As time went by, it assumed a greater portion of the manufacturing content as this became economically feasible. As a result, in its first full year of operation, and each succeeding one, the company has generated a net of tax profit margin of 10%.

The company is plowing back the additional manufacturing profits generated by higher sales of Apple II into the development of manufacturing capabilities for the new Apple III. We estimate that it is capable of shipping, at this time, several thousand per month of the new models. We anticipate profit margins in fiscal 1981 will rise somewhat from the prior year's level. We expect pre-tax margins this year to be on the order of 21.8% compared with 20.3% in the prior year. The tax rate averages about 50%. We estimate per share earnings for the year ending September 30, 1981 will be \$0.75, representing a three fold expansion over the \$0.24 reported in fiscal 1980 in spite of the larger number of shares now outstanding.

We expect a continued substantial rise in sales for Apple in fiscal 1982, albeit at a smaller rate than is currently being experienced. We expect Apple II sales for the year to be higher than in the current year. Moreover, we anticipate substantial growth from the company's new Apple III line. Production volume for Apple III could average 10,000 units per month; at an average price of something more than \$3,000 per unit (to Apple) this product will account for the healthy part of the sales increment in fiscal 1982. Overall, we expect revenues to rise to the \$750 million level in fiscal 1982 vs. our estimate of \$380 million in the current year.

As the Apple II continues large production runs throughout the year, profit margins should improve somewhat. Again, we anticipate that the company will plow some of this excess into the development of a new generation of equipment; this product will most likely be a Winchester Disc based version of a micro-computer system. We expect it will be introduced in the first six months of next fiscal year.

We project pre-tax margins in fiscal 1982 will be on the order of 24.7%. We expect that the company will realize a lower tax rate next year as foreign manufacturing becomes a more important portion of the total; on a reported basis, though, the tax rate will be about 50% as Apple will conservatively accrue federal taxes for possible repatriation of the earnings. As a result, we expect earnings per share to rise to the \$1.50 level or a growth of 100% over the current year.

Financial

Apple Computer's financial condition is quite strong. This results from the nature of the manufacturing and marketing of personal computers, all of which are attractive from a financial point of view, especially when considering the market dominance of a company like Apple. Basically, this industry is not capital intensive - in the "bricks and mortar sense." As an example, at the beginning of last year it had slightly over \$1 million invested in plant and equipment which generated over \$117 million in revenues.

Cash Flow -in thousands-

F/Y Ending 9/30	<u>1979</u>	<u>1980</u>	<u>1981E</u>	<u>1982E</u>
Operations:				
Net Income	\$ 5073	\$ 11698	\$ 41000	\$ 92500
Dep. & Amort.	201	1377	3500	7000
Other Net	175	747	1500	4500
Total	<u>\$ 5449</u>	<u>\$ 13822</u>	<u>\$ 46000</u>	<u>\$104000</u>
Other Sources:				
Common Stock	\$ 2209	\$ 3454	\$100000	-
Other	1085	1261	200	1000
Total	<u>\$ 8744</u>	<u>\$ 18537</u>	<u>\$146200</u>	<u>\$105000</u>
Uses of Funds:				
Capital Spending	\$ 800	\$ 4126	\$ 12000	\$ 31000
Other	1160	6845	2000	4000
Total	<u>\$ 1960</u>	<u>\$ 10971</u>	<u>\$ 24000</u>	<u>\$ 35000</u>
Increase In				
Working Capital	\$ 6783	\$ 7565	\$122200	\$ 70000

The personal computer industry, like its predecessor the minicomputer industry, is characterized by the intensive use of current assets. Apple is fortunate in the respect that it can demand and get favorable terms regarding its accounts receivable; that is, the company's terms are 15 day net (cash payment within 15 days, otherwise interest charges accrue) on its accounts receivable. If it wanted to, it could stretch out its suppliers to the more normal 30 day, or even 45 day, on payables. It is more important, though, for Apple to be able to demand favorable delivery and quantity terms from its suppliers because of the rapid nature of the manufacturing cycle of this product. Theoretically, in its growth phase, inventories are the company's largest asset. That is, the company should be in a position to maintain inventories in order to assure timely shipment to its customers as demand expands.

Balance Sheet
-in thousands-

	<u>3/27/81</u>
Current assets	\$173,152
Property, plant & equipment net	10,288
Other assets	7,299
Total assest	<u>\$190,739</u>
Current liabilities	\$ 39,428
Other liabilities	4,265
Stockholders' equity	147,046
Total liabilities & stockholders' equity	<u>\$190,739</u>

In the company's most recently reported period, March 28, 1981, the balance sheet of Apple was quite strong. The current ratio was 4.1:1.0, and working capital was in excess of \$130 million. Because of its recent financing, the quick ratio is greater than one. We expect that the company will be able to maintain a strong financial posture, much like Digital Equipment and Data General throughout their histories, because of the foregoing factors. As can be seen in the accompanying table, the cash flow is quite strong.

The company has always generated a very high return on invested capital. In fiscal 1980 its return on end-of-the-year shareholder equity was about 45%. Even given the large equity financing at the beginning of this fiscal year, its return on shareholder equity should be at least 23% on end-of-the-year equity, which is attractive. Because of the high multiple that the company has (and probably will continue to achieve), we anticipate that it will be able to finance future growth of its operations in a very favorable manner with the sale of small amounts of common stock on a periodic basis. In any event, we do not anticipate that offering of new stock should be deleterious to the company's position in the stock market as this has proven to be an acceptable modus vivendi on the part of rapidly growing high technology companies.

The company has announced a secondary stock offering to be made in the near future. The stock being sold was purchased by employees under stock options; upon exercise of the options, these employees incurred capital gain taxes on yet to be realized profits. Consequently, they are selling a portion of their positions to pay these taxes.

Balance Sheet

Apple Computer, Inc.
-in thousands-

Assets

Dec. 26, 1980

Cash & temporary cash investments	\$ 74,688
Accounts receivable	32,484
Inventories	38,051
Prepaid expenses	497
Total current assets	<u>\$145,720</u>
Property, plant & equipment, at cost	\$ 11,146
Accumulated depreciation and amortization	<u>(1,918)</u>
Net property, plant and equipment	\$ 9,228
Reacquired distribution rights	\$ 4,965
Other assets	<u>2,209</u>
TOTAL	<u>\$162,122</u>

Liabilities

Dec. 26, 1980

Notes & accounts payable	\$ 15,625
Accrued liabilities	8,741
Income taxes payable	4,339
Deferred taxes on income	161
Total current liabilities	<u>\$ 28,866</u>
Non-current obligations under capital leases	\$ 800
Deferred tax on income	1,451
Shareholders' equity:	
Common stock, no par value:	
issued & outstanding	\$109,942
54,621,932 in 1980	25,027
Retained earnings	<u>\$134,969</u>
Notes receivable from shareholders	<u>(3,964)</u>
Total shareholders' equity	<u>\$131,005</u>
TOTAL	<u>\$162,122</u>

Summary & Conclusion

Apple Computer participates in one of the most rapidly growing markets in the history of American Industry. In a very real sense, this is a market that the company itself has created; needless to say, the demand was there and Apple came along with a superior product at a reasonable price. This is not to say that there will not be increased competition in the industry. We believe, though, that the company will be able to hold its own because of its lead time, large market share and knowledge of the growing needs of the marketplace. Its superior capitalization and marketing strength should allow Apple to at least maintain market share in coming years. Market share captured by the new entrants will come at the expense of the many weakly capitalized and poorly organized firms in this industry.

We expect substantial growth for the company on a quarter by quarter basis as it realizes its production capacity in the Apple II product and begins to gear up Apple III manufacturing. The company's plan with regard to product development has proven itself to be effective in the past, and current plans seem sound and achievable. In a very real sense, Apple II is growing at this time from its own momentum in the marketplace. The company has put its resources behind Apple III; and we anticipate this product should take off over the next year. Once that product has achieved a successful penetration of its rapidly growing marketplace, we expect the company will introduce the next generation of equipment as we have outlined.

Overall, we estimate sales will at least reach the \$380 million level in the current fiscal year ending September 30, 1981. We estimate that pre-tax profit margins in the current year will improve. Furthermore, the company should begin to realize a lessening of its effective tax rate as foreign manufacturing comes on stream. As a result, we expect earnings this year to be on the order of \$0.75 per share vs. the \$0.24 reported in its last fiscal year.

The dynamics of this stock, now selling at a very high price earnings multiple, are dictated in our estimation by the relatively unlimited future growth. We expect earnings in fiscal 1982 to at least double, and progress after that should continue to be at a rapid pace. Therefore, even as substantial earnings begin to come through in the next few quarters, we expect the stock to continue to be accorded a high price earnings multiple.

We advise purchase of Apple's common stock in accounts desirous of capital gains but willing to assume the inherent risk of high P/E multiple stock. Periodically, we anticipate new product announcements on the part of major competitors which could have near term impact on the price of this stock. As we

indicated, though, we expect Apple to at least maintain market share in this highly competitive and rapidly growing market. The history of the computer industry is filled with examples of companies which because of their creativity, knowledge and hard work achieved early dominance. This domination was recognized by investors, and these companies were accorded high multiples throughout their early history in spite of the threat of giant competitors entering their fields.

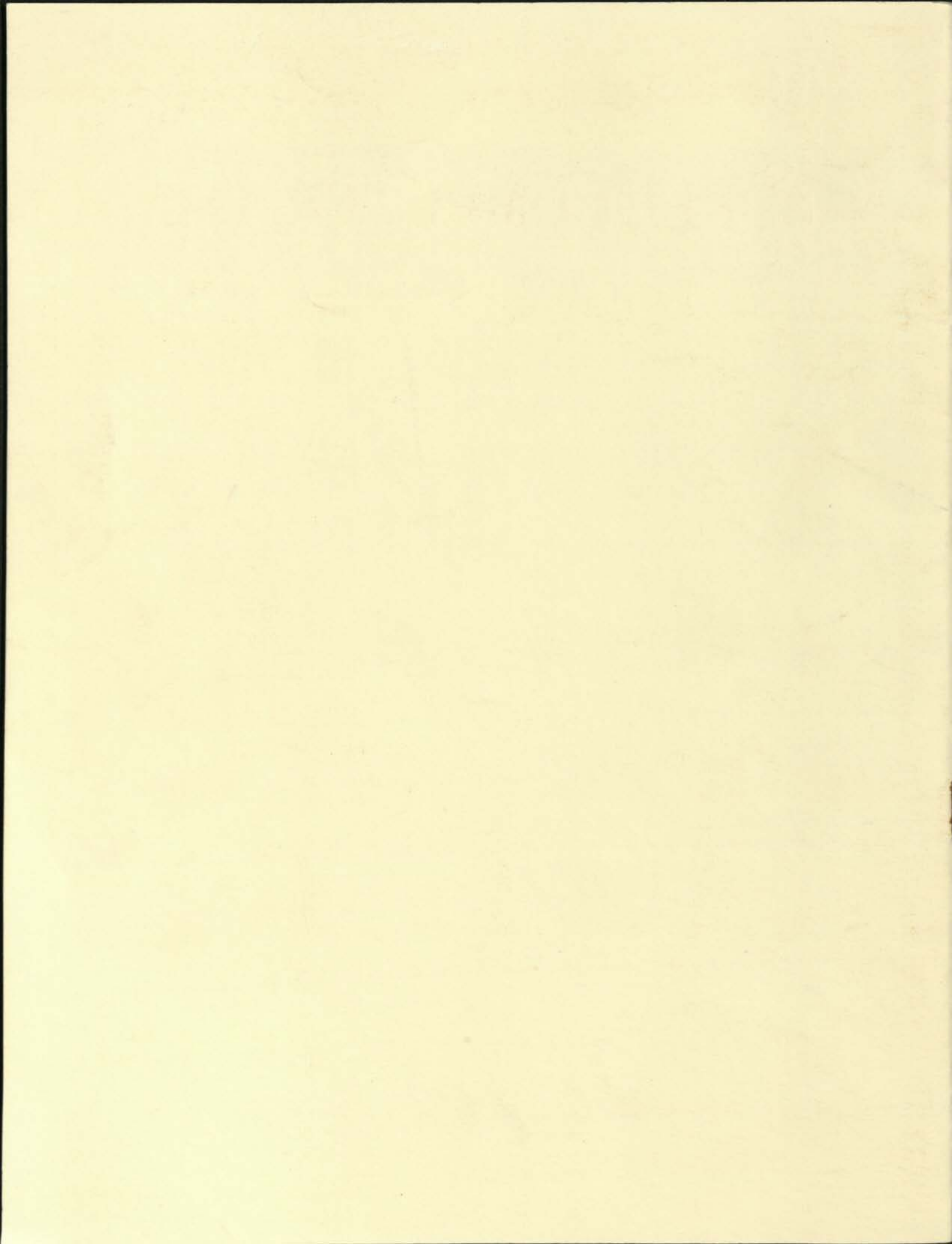
We expect substantial growth for the company on a quarterly basis as it realizes its production capacity in the Apple II product line. The company's investment in product development has proven itself to be effective in the past, and current plans seem sound and achievable. In a very real sense, Apple II is growing at this time from its own momentum in the marketplace. The company has put its resources behind Apple II, and we anticipate this product should take off over the next year. Once that product has achieved a substantial penetration of the rapidly growing marketplace, we expect the company will introduce the next generation of equipment as we have outlined.

Overall, we estimate sales will at least reach the \$500 million level in the current fiscal year ending September 30, 1981. We estimate that pre-tax profit margins in the current year will improve. Furthermore, the company should begin to realize a lessening of its effective tax rate as foreign manufacturing comes on stream. As a result, we expect earnings this year to be on the order of \$0.15 per share vs. the \$0.11 reported in its last fiscal year.

The dynamics of this stock, now selling at a very high price earnings multiple, are reflected in our estimation by the relatively limited future growth. We expect earnings in fiscal 1982 to be about double, and we believe that should continue to be at a rapid pace. Therefore, even though earnings begin to come through in the next few quarters, we expect the stock to continue to be accorded a high price earnings multiple.

We advise purchase of Apple's common stock in accordance with the terms of the plan. We believe that the inherent risk of high P/E multiple stock, particularly in the case of new product announcements on the part of major competitors which could have a negative impact on the price of this stock. As we







HIGHLIGHTS

Three months ended (In thousands, except per share amounts)	Dec. 25, 1981	Dec. 26, 1980
Net sales	\$133,553	\$67,621
Net income	\$ 13,562	\$ 7,421
Earnings per share	\$.24	\$.14

Apple's net sales for the first quarter of fiscal 1982 increased 98 percent, to \$133.6 million, from \$67.6 million a year ago. Net income for the quarter rose 83 percent to \$13.6 million, or \$.24 per share, compared to \$7.4 million, or \$.14 per share, in the same period last year. These are both record performances for Apple.

Compared to the immediately preceding quarter, net sales increased 37 percent and net income grew 24 percent.

First quarter results included a one-time, after-tax charge of approximately \$700,000, accrued for an extra week's vacation awarded to Apple employees with three-months' service as the company exceeded \$100 million in quarterly sales for the first time.

Investment in research and development reached a new quarterly high of \$7.9 million, a 26 percent increase over the preceding period and more than twice the amount in the same quarter a year ago.

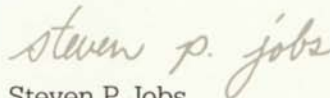
Sales were particularly gratifying in view of the generally sluggish retail environment. Unit shipments of the Apple II, which included the 'family system' introduced in November, increased significantly over the prior three months.

Apple III sales were also up, evidence of growing market demand for this powerful microcomputer. Six major Apple III software packages were delivered during the quarter, and assembly operations for the Apple III began at our volume manufacturing facility in Dallas. We also commenced production of ProFile, our hard-disk mass storage system for the Apple III.

Apple has obtained land on which to construct our own manufacturing and test facility in Singapore, where we currently occupy a 133,000-square-foot leased building. Plans call for the first phase of this project, a 140,000-square-foot plant, to be completed in 1984.



A. C. Markkula, Jr.
President and
Chief Executive Officer



Steven P. Jobs
Chairman of the Board

January 28, 1982



Large-scale data-base management applications have entered the capability of personal computing with Apple's introduction of its hard-disk personal mass-storage system, ProFile. Initially implemented for the Apple III, ProFile increases by nearly nine times the computer's on-line storage capacity. It enables users to store in one location information that would fill 35

floppy diskettes (five megabytes), or 1200 full pages of text.

ProFile is significant because of its large capacity and high speed. With it, the user can: (1) draw on a greater data base, important in such applications as forecasting and budgeting; (2) display plots, charts and graphics many times faster than using conventional diskettes; (3) develop software faster and easier.

ProFile is a complete personal mass storage system based on Winchester hard-disk technology. Unlike the floppy disk drive which entails manual insertion of flexible diskettes, ProFile relies on rigid, non-removable, 5 1/4 inch disks to store data. The unit's external design is styled to allow stacking the system between the video monitor and the mainframe as shown in the right-hand photo.

An intelligent controller assures reliability and allows accessing of data nearly 10 times faster than with conventional floppy disk drives. The controller automatically scans for errors and relocates marginal data blocks elsewhere on the disk, if necessary, thereby assuring data integrity.

ProFile can be used to store data files generated with such Apple software packages as Apple III Pascal, Apple Business BASIC, Visicalc III, and Apple Writer III. Hard disk drives have been previously available for Apple III computers from other vendors.



CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

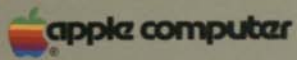
Three months ended (In thousands, except per share amounts)	Dec. 25, 1981	Dec. 26, 1980
Net sales	\$133,553	\$ 67,621
Costs and expenses:		
Cost of sales	70,934	38,017
Research and development	7,929	3,814
Marketing	23,564	6,820
General and administrative	7,901	4,056
	110,328	52,707
Operating income	23,225	14,914
Interest, net	2,607	(73)
Income before taxes on income	25,832	14,841
Provision for taxes on income	12,270	7,420
Net income	\$ 13,562	\$ 7,421
Earnings per common and common equivalent share	\$.24	\$.14
Common and common equivalent shares used in the calculation of earnings per share	57,415	52,770

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)	Dec. 25, 1981	Dec. 26, 1980*
Assets		
Current assets:		
Cash and temporary cash investments	\$ 76,157	\$ 72,828
Accounts receivable	65,043	29,920
Inventories	100,970	38,051
Other current assets	6,990	4,921
Total current assets	249,160	145,720
Property, plant and equipment:		
Land and buildings	6,586	3,125
Machinery and equipment	16,972	5,674
Office furniture and equipment	8,520	2,554
Leasehold improvements	6,794	1,002
	38,872	12,355
Accumulated depreciation and amortization	(11,006)	(2,327)
Net property, plant and equipment	27,866	10,028
Reacquired distribution rights	3,579	4,965
Other assets	4,581	1,409
	\$285,186	\$162,122

*Reclassified for comparative purposes.

(Dollars in thousands)	Dec. 25, 1981	Dec. 26, 1980*
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 12,358	\$ —
Accounts payable	20,128	14,375
Accrued compensation and employee benefits	9,187	2,750
Income taxes payable	17,361	4,500
Other current liabilities	24,918	7,241
Total current liabilities	83,952	28,866
Non-current obligations under capital leases	1,688	800
Deferred taxes on income	7,254	1,451
Shareholders' equity:		
Common stock, no par value; 160,000,000 shares authorized, 55,420,893 shares outstanding	124,568	109,942
Retained earnings	70,588	25,027
	195,156	134,969
Notes receivable from shareholders	(2,864)	(3,964)
Total shareholders' equity	192,292	131,005
	\$285,186	\$162,122



20525 Mariani Avenue
Cupertino, California 95014



HIGHLIGHTS

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	March 26, 1982	March 27, 1981	March 26, 1982	March 27, 1981
Net sales	\$131,019	\$ 78,765	\$264,572	\$146,386
Net income	\$ 13,817	\$ 9,175	\$ 27,379	\$ 16,596
Earnings per share	\$.24	\$.16	\$.48	\$.30

Apple Computer's net sales for the second quarter of fiscal 1982 rose 66 percent to \$131 million, from \$78.8 million a year ago. Net income for the quarter increased 51 percent to \$13.8 million, or \$.24 per share, compared to \$9.2 million, or \$.16 per share, in the comparable period last year.

For the first six months of fiscal 1982 Apple's sales were \$264.6 million compared to \$146.4 million in the first half of fiscal 1981. Net income was \$27.4 million compared to \$16.6 million a year ago. Earnings per share amounted to \$.48 in the fiscal 1982 first half versus \$.30 in the prior year.

Apple invested \$9 million in new product research and development in the second fiscal quarter, 14 percent more than the first fiscal quarter and 70 percent more than the same period last year.

Marketing expenses, reduced 11 percent compared to the immediately preceding quarter, were more than double the amount in the same period last year.

We are pleased with our performance considering the general sluggishness of the economy and the increasing competition in the personal computer industry.

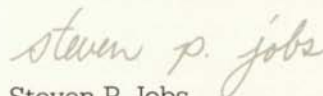
Apple II sales, while remaining strong, were adversely affected in the second fiscal quarter by the impact of discontinued mail order sales.

Sales of the Apple III and the ProFile hard-disk mass-storage system continued to increase on a monthly basis. Coupled with three new software packages, these products should see healthy growth in the future.

The Apple III is now in volume production in three locations around the world — Cork, Ireland; Dallas, Texas and San Jose, California.



A. C. Markkula, Jr.
President and
Chief Executive Officer



Steven P. Jobs
Chairman of the Board

April 22, 1982



ProFile, Apple's hard-disk personal mass-storage system, began volume production during the fiscal second quarter at a new 102,000-square-foot manufacturing facility in San Jose, California. Above, assembler Lisa Wakefield helps monitor ProFile performance during a five-day quality analysis.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	March 26, 1982	March 27, 1981	March 26, 1982	March 27, 1981
Net sales	\$131,019	\$ 78,765	\$264,572	\$146,386
Costs and expenses:				
Cost of sales	70,317	44,600	141,251	82,617
Research and development	9,019	5,297	16,948	9,111
Marketing	20,998	9,558	44,562	16,378
General and administrative	7,272	4,463	15,173	8,519
	107,606	63,918	217,934	116,625
Operating income	23,413	14,847	46,638	29,761
Interest, net	2,905	3,514	5,512	3,441
Income before taxes on income	26,318	18,361	52,150	33,202
Provision for taxes on income	12,501	9,186	24,771	16,606
Net income	\$ 13,817	\$ 9,175	\$ 27,379	\$ 16,596
Earnings per common and common equivalent share	\$.24	\$.16	\$.48	\$.30
Common and common equivalent shares used in the calculation of earnings per share	57,717	57,331	57,566	55,051

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)	March 26, 1982	March 27, 1981*
Assets		
Current assets:		
Cash and temporary cash investments	\$101,313	\$ 74,086
Accounts receivable	58,122	34,538
Inventories	97,893	52,852
Other current assets	5,812	11,676
Total current assets	263,140	173,152
Property, plant and equipment:		
Land and buildings	6,496	2,084
Machinery and equipment	19,862	8,173
Office furniture and equipment	10,977	3,317
Leasehold improvements	8,615	1,678
	45,950	15,252
Accumulated depreciation and amortization	(14,335)	(3,380)
Net property, plant and equipment	31,615	11,872
Reacquired distribution rights	3,233	4,619
Other assets	4,401	1,096
	\$302,389	\$190,739

*Reclassified for comparative purposes.

(Dollars in thousands)

**March 26,
1982**

March 27,
1981*

Liabilities and Shareholders' Equity

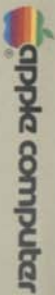
Current liabilities:

Notes payable to banks	\$ 11,935	\$ —
Accounts payable	21,831	23,458
Accrued compensation and employee benefits	11,163	5,404
Income taxes payable	6,075	1,446
Other current liabilities	21,296	9,120
Total current liabilities	72,300	39,428

Non-current obligations under capital leases	1,680	1,179
Deferred taxes on income	11,120	3,086

Shareholders' equity:

Common stock, no par value: 160,000,000 shares authorized, 56,488,278 shares issued and outstanding	135,658	116,800
Retained earnings	84,405	34,202
	220,063	151,002
Notes receivable from shareholders	(2,774)	(3,956)
Total shareholders' equity	217,289	147,046
	\$302,389	\$190,739



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computer of all.



Apple Computer, Inc.

Annual Report

1 9 8 2

Apple Computer, Inc. Annual Report to Shareholders, fiscal year ended September 24, 1982.

Contents

To Our Shareholders	1
Financial Performance	6
Operating Performance	8
Prospects	14
Perspectives	18
Financials	22

Profile

Apple Computer develops, produces and markets personal computer systems for business, education, science, industry and the home.

Financial Highlights

*Apple Computer, Inc.
For the fiscal years ended September 24, 1982 and September 25, 1981*

(Dollars and shares in thousands, except per share amounts)

	'82	'81	Change
Net sales	\$583,061	\$334,783	+74%
Net income	\$ 61,306	\$ 39,420	+56%
Earnings per share	\$ 1.06	\$ 0.70	+51%
Pre-tax return on net sales	20.0%	22.9%	-2.9 pts.
Income tax rate	47.5%	48.5%	-1.0 pt.
Return on net sales	10.5%	11.8%	-1.3 pts.
Cash and cash equivalents	\$153,056	\$ 72,834	+110%
Accounts receivable	\$ 71,478	\$ 42,330	+69%
Inventories	\$ 81,229	\$103,873	-22%
Total assets	\$357,787	\$254,838	+40%
Shareholders' equity	\$257,092	\$177,387	+45%
Return on equity	28%	39%	-11 pts.
Return on assets	20%	25%	-5 pts.
Research and development	\$ 37,979	\$ 20,956	+81%
Marketing and distribution	\$119,945	\$ 55,369	+117%
Employees	3,391	2,456	+38%
Common and common equivalent shares	57,798	56,161	+3%

Cover Quotation

In light of advances in personal computers, the words John F. Kennedy spoke 20 years ago have exceptional relevance today. Apple's technologies and products are created by the most extraordinary computers of all: our employees.

To Our Shareholders:

Fiscal 1982, Apple's most demanding year yet, was a year of substantial accomplishment and record results.

It was a year in which more than 100 competitors vied for a share of the personal computer market. They included some of the world's most familiar and respected names. Despite competitive product entries and worldwide recessionary pressure, Apple's sales grew 74 percent, earnings rose 56 percent and the total population of Apple computers approached two-thirds of a million units—the largest installed base of any computer company in the world.

Our sixth fiscal year proved to be a period of maturation for the company as we prepared for our next growth phase. Its cornerstone will be the new generation of personal computer products Apple will bring to market in 1983.

In fiscal 1982 we strengthened our retail distribution network, qualified 160 national account support dealers, and added two service and support centers for a worldwide total of 12. We created two new divisions—Accessory Products and Distribution, Service and Support—and further developed our management information system, emphasizing long-term planning in such functional areas as telecommunications, record management, and future staffing requirements.

Manufacturing productivity almost doubled last year. Profit margins remained strong, our cash position improved significantly and we achieved healthy returns on both equity and assets. Apple today is a Fortune 500-size company, employing approximately 3,400 people in 1.6 million square feet of facilities around the world.

Shipments

Despite the wide range of competitive alternatives, people who buy personal computers continue to make Apple the product of choice. We shipped 55 percent more Apple IIs in fiscal 1982 and Apple III shipments nearly tripled compared to 1981.

Apple not only represents the largest and fastest selling personal computer in the world, it also commands the broadest range of application programs. For the Apple III alone, more than 100 major software packages were introduced both by Apple and independent software developers in the past year. We will continue to promote our existing products in terms of quality, performance and value.

In the words of one of the business journals that cover our industry: "Everyone wants to know what Apple Computer will do next." We intend to make the most of the technological and marketing advantages such a position brings us. We believe we have correctly identified what the next stage of personal computer development should be, and expect our future hardware and software products to join the Apple II and Apple III family as industry benchmarks—effectively redefining the field.

Apple possesses unequalled strength, experience and expertise in the development, manufacture, marketing and support of personal computer systems. It is a form of equity accumulated during six years devoted exclusively to personal computing. Our ability to concentrate our resources on a single business has solidified our leadership and will sustain our market position in this important growth industry. Bringing technology to individuals through personal computers is, we believe, the extraordinary business of this decade.

Sales and Earnings

Worldwide sales rose 74 percent to \$583.1 million in 1982 from \$334.8 million in the preceding year. Net income was \$61.3 million, 56 percent higher than the \$39.4 million in 1981. Earnings per share amounted to \$1.06, up 51 percent from last year's \$.70.

In the fourth quarter, sales grew 80 percent to \$175.8 million from \$97.7 million in the same period last year. Net income rose 71 percent to \$18.7 million, or \$.32 per share, compared to \$11 million, or \$.19 per share, a year ago.

Compared to the immediately preceding quarter, sales and net income in the fourth fiscal quarter were up 23 percent each. Special promotions still underway led to sharp sales increases during the quarter for the Apple II and Apple III.

Inventories continued to be reduced during the fourth fiscal quarter. By fiscal year end they amounted to \$81.2 million, a reduction of 22 percent compared to the prior year. Apple's year-end cash level stood at more than \$153 million, more than double a year ago.

Research and Development

Investment in research and development was 6.5 percent of sales in fiscal 1982, a total of \$38 million, or 81 percent more than last year. Several major products resulting from this effort will be announced in calendar 1983, including enhancements to the present line. A significant breakthrough in personal office systems will be among these introductions, aimed at professionals, managers and administrators within medium- to large-sized corporations.



Steve Jobs (left) and Mike Markkula

Bringing technology to individuals through personal computers is, we believe, the extraordinary business of this decade.

Marketing and Distribution

Marketing, advertising and merchandising expenditures reflect the importance we place on creating an indelible competitive identity for the company and raising public awareness of the benefits of personal computing. Successful retail promotions in 1982 preceded a major advertising campaign now underway in both print and broadcast media.

Balancing aggressive marketing strategies with controlled and efficient distribution remains a challenge. We view distribution as a technology in its own right as we seek to establish complementary channels according to the needs and dictates of our markets. Apple intends to provide the mechanisms by which customers who want to purchase our products can do so in the most comfortable manner.

Two decisions made last year add strength to the integrity of our retail network and ensure high quality support to our customers. First, the company discontinued mail order sales in the belief that mail order could not provide for adequate after-sale service and support. Second, we moved to achieve better geographic deployment of our independent retail outlets, which now number more than 3,000 worldwide.

In 1982 we launched a far-reaching program of retail sales and vertical market development, as well as technical support for customers and dealers. Most of our 1,400 independent retail dealers in North America provide local service for products and are backed up by Apple's own service and support centers. The result is the most comprehensive support capability that exists in the personal computer industry. In addition, the program addresses training, merchandising, financial assistance, recruitment, store design, business planning and communications.

Ahead

Business and education are two markets of early and continued emphasis for Apple. We are well positioned to serve both. Education, currently accounting for one-fifth of Apple revenues, represents a major corporate philanthropy as well as an important growth market. The Apple Education Foundation has contributed more than \$1 million worth of personal computers to schools since 1979. The Technology Education Act of 1982, known as the "Apple bill"—currently under consideration by Congress—would, if passed, allow us to commence a separate donation program to schools.

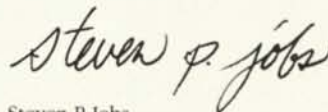
In the business market, we see an opportunity to offer personal computing as a total office system in an affordable, quickly learned package. By virtue of not being an office system in the standard, word-processing sense, the personal computer can be perceived by the office market as a means to improve the productivity of 70 percent of today's U.S. workforce. Promoting our product as a multi-purpose, utility appliance designed for versatility, simultaneous functions and ease of use will help Apple avoid many of the problems faced by our competitors in the word and data processing markets.

Finally, we will introduce in the coming year improvements to our Apple II and Apple III series which will both extend the life cycle of these products and create a new standard of value for personal computers.

What Apple accomplished in 1982 is a tribute to our employees—the men and women who are Apple Computer. They remain our greatest asset. They are motivated by their association with the company and continue to generate record results. It is to them that we dedicate this annual report, our second as a public company, and also to them that we owe a debt of thanks for the achievements of 1982.



A. C. Markkula, Jr.
President and Chief Executive Officer



Steven P. Jobs
Chairman of the Board

November 12, 1982

Apple's financial goals and strategies to create value for shareholders are based on the purposes we set for ourselves as a company. Our commitments include considerations of people, products, markets and customers. Toward that end, we have drawn the following qualitative objectives:

- To concentrate on businesses in which we can be a leader and innovator.
- To help Apple employees share in the company's success.
- To produce superior quality products of lasting value that fill utilitarian needs.

Cash flow is one of the best indicators of overall business performance and positive cash generation in a high growth environment such as Apple's represents significant value. Apple more than doubled its cash and cash equivalents by the end of fiscal 1982 compared to the same period last year.

Individual productivity, as measured and improved upon in 1982, should continue to benefit shareholders. In 1982 productivity gains resulted in better use of assets primarily in manufacturing operations. Partly as a result, large additions in operating assets normally required to support high growth in revenue were not necessary last year.

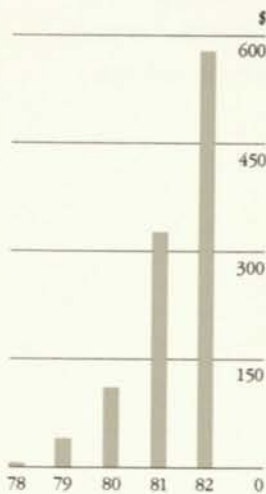
Apple intends to apply its own technologies toward improving productivity, thereby maintaining the basis for attractive profit-sharing. Sales and earnings per employee will continue to serve as useful indicators for employee participation in company success.

Apple refined its planning process in 1982, adopting a methodology consistent with company-wide operations. The process is based on a quarterly update program, during which changes from previous plan expectations can be communicated and acted upon as needed. In 1983, emphasis will be placed on strengthening distribution channels, recruiting and retaining top-quality individuals, developing middle-management personnel and increasing Apple's presence in all markets.

We will continue to emphasize measures such as return on equity and return on assets to guide fundamental decision making, from pricing strategies to future capital requirements.

Financial Performance

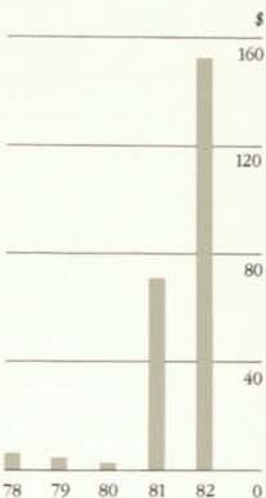
Net Sales
(In Millions)



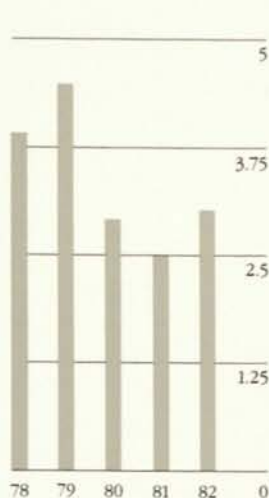
Net Income
(In Millions)



Cash and Cash Equivalents
(In Millions)



Inventory Turnover





Apple's executive staff (clockwise from top-center): Ann Bowers, Ken Zerbe, Gene Carter, Joe Graziano, Wil Houde, John Vennard, Rod Holt, John Couch, Steve Jobs, Mike Markkula, Roy Weaver, Al Eisenstat, Del Yocam, Mike Muller, and Fred Hoar.

Operating Performance



Like all Apple computers, present and future, the Apple III is designed to facilitate development of high quality software by third-party developers, and in-house professionals such as Carol Hausman.

Product Highlights

Apple II: The best-selling computer in the world, Apple II has become an industry standard in quality, reliability and expandability. More than 15,000 applications programs have been developed for the system and more than 60 companies now produce Apple II attachments. By improving the technology inside the Apple II and lowering the cost of manufacture, the company intends to maintain demand for the product for years to come.

Apple III: Positioned for professional-managerial use, with software tailored for small business owners and managers, Apple III combined with the ProFile hard-disk mass-storage device is the most powerful personal computer available today. Seven major software products designed specifically by Apple for this system were made available last year, the most for any product in its class.

Peripherals: Apple strove for a "systems solution" product concept in 1982, combining mainframe products with accessory products and supplies, in response to user needs and typical applications. Divisionalization of the company continued in 1982 with formation of a Distribution, Service and Support Division and an Accessory Products Division for such products as printers, monitors and modems. Two new Apple-branded printers designed to utilize the capabilities of the Apple II and Apple III were announced in 1982, a dot-matrix unit and a letter-quality model.

Software: More than 20 software products the company introduced in 1982 expand the utility of personal computing for Apple users and add to the momentum being generated by the nearly 1,000 third-party suppliers of applications software for Apples. Two such products included a powerful programming language that makes the Apple III particularly attractive to programmers and system integrators, and Apple Logo—a discovery-oriented approach to learning computer programming.



Better individual operator performance in 1982 led to improvements in productivity in the manufacture of the Apple II, the classic personal computer. Above, William Cashman, manufacturing technician.



Some 1,400 independent retailers, including 160 dealers who service Apple's large national accounts, provide Apple's primary channel of distribution in North America.

At Apple facilities nationwide, personalized training covers subjects from product instruction for customers to development seminars for dealers.



Sales and Marketing

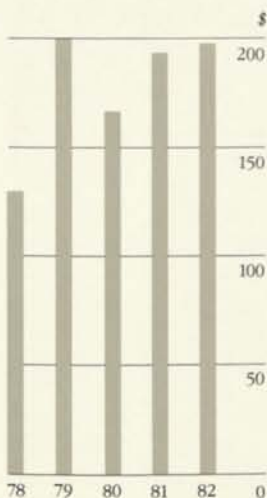
Effective promotional packages and incentive programs continued to influence dealers in supporting products and programs consistent with Apple's business strategies in 1982. Such programs complement the company's aggressive tactics in advertising and merchandising. In 1982 Apple took action on several fronts to further support its dealers, including financial assistance programs combined with credit terms provided by the company, training in salesmanship and technical competence and development of additional, non-conflicting sales channels that represent new revenue to the company.

In the past two years Apple has staffed a vertical market development group focusing on the Fortune 1000 companies and industrial/scientific, education, government, financial and business consultant markets, among others. Since the start of calendar 1982, 160 national account support dealers have been qualified and developed to penetrate the evolving corporate market. They are supported within Apple by a staff of account executives that will number 100 during 1983.

Two groups of technical personnel, sales support analysts and technical support engineers, support Apple customers. They operate telephone hotlines located at Apple's 12 service and support centers and work through the company's 12 regional sales offices as well as corporate headquarters, supplying technical information, training and dealer demonstration development.

Outside the U.S., Apple divides its sales structure between the countries of Western Europe and an intercontinental territory of 25 other countries in various stages of development, including the Far East. Sales performance in the countries of Western Europe was affected in 1982 by poor economies and lack of localized products. The company remains committed, however, to achieving substantial growth and presence in the European marketplace. In 1983, tactics to achieve this objective will include strengthening distribution channels to increase the availability of Apple products and tailoring products to specific countries.

Net Sales Per Employee
(In Thousands)





The markets of Western Europe are the destination of Apple's full product line assembled at the 100,000-square-foot manufacturing plant in Ireland. Above, assembler Trevor Lane outside the Cork facility.

Manufacturing

Apple nearly doubled productivity on the Apple II in 1982 and more than doubled it on Disk II and III. Apple III manufacturing productivity also increased. Apple measures this productivity in units per person per day. Emphasizing automation in U.S. operations, Apple plans further manufacturing economies in 1983—as well as a fully-automated manufacturing facility—to extend and broaden the achievements of 1982. Better utilization of existing manufacturing plants in Texas, Ireland and Singapore last year provides Apple the capability to effectively double capacity for manufacturing in 1983.

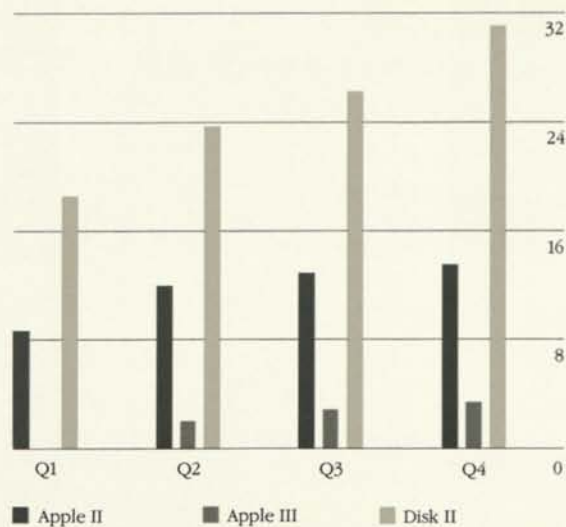
Apple implemented a technique in 1982 dubbed just-in-time scheduling. Trucks containing inventory materials are backed into docks and unloaded daily, “just in time,” as needed at each manufacturing site. The procedure reduces inventories, warehousing and storage space needs, and cuts handling costs.

Primarily an assembly manufacturer, Apple plans to continue to control material costs through effective relationships and negotiations with multiple third-party sources.



As part of a quality control procedure that begins during assembly and ends at the dealer destination, assembler Vincent MacShate monitors video and sound functions of an Apple III.

1982 Unit Output Per Person Per Day
(Domestic Operations)



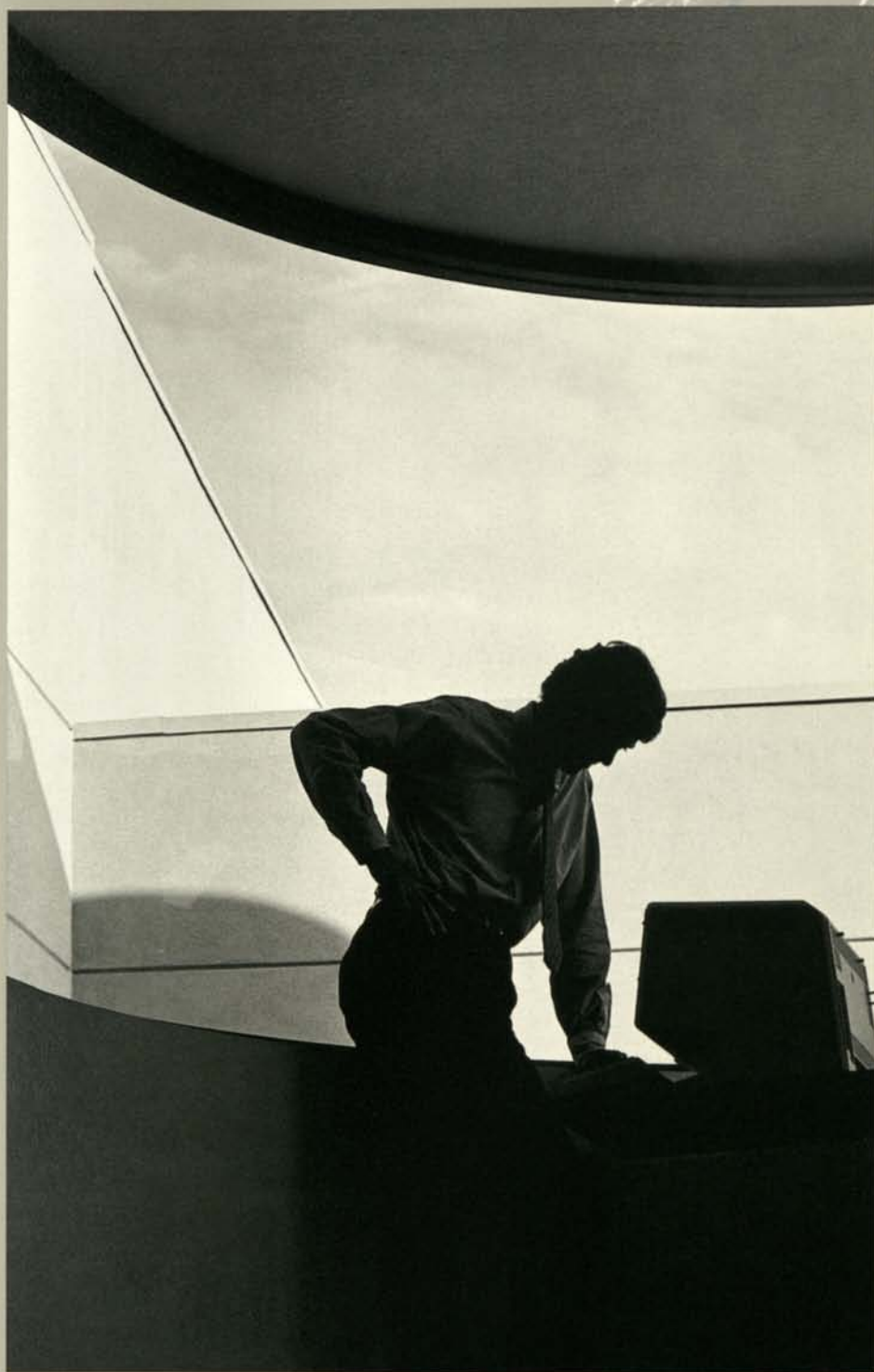
Apple nearly doubled its investment in research and development in 1982 compared to the year-ago figure, resulting in an amount that exceeded the total of the previous five years. New products planned for introduction in 1983 were the focal point of these efforts. They represent the culmination of 200 person-years of advanced hardware and software development. They were conceived and developed primarily for the business market, which has steadily contributed to Apple revenues since 1980.

Prospects

To further enhance our business market position Apple intends to produce the first personal computer designed specifically for the office workplace and the millions of managers, administrators, secretaries and professionals inside medium-to-large organizations. Apple sees an untapped market for the personal computer for the individual who daily creates, transfers, analyzes and stores information in all its forms: text, numeric and graphic. Today's products require users to familiarize themselves with computer techniques and adapt to the one-task-at-a-time limitations of the machine. Apple plans to fill this gap with a product that is genuinely the first of its



Plans call for Apple's national account customers to assume ever-greater importance in company growth. Fortune 1000 corporations and other large institutions provide the market for Apple products which debut in 1983.



Breaking technological barriers that have placed limitations on products aimed at the office market, Apple's new personal office system will represent what amounts to two person-centuries of advanced hardware and software development (100 software professionals in a two-year effort).



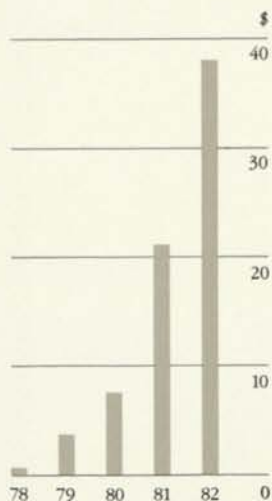
Computer literacy among schoolchildren remains one of Apple's prime social concerns. In California, legislation signed in 1982 will allow the company to enlarge its product donations to schools.

kind: a personal computer designed to accommodate the way people deal with typical tasks and manipulate various forms of information. Where the Apple III is an evolutionary version of the Apple II personal computer, our newest product is a revolutionary entry: the first personal office system.

Apple will emphasize versatility, integration of functions, analysis, decision-making and ease-of-use in positioning the product for the person who views himself or herself as a contributor to an organization. Users of the system, just as users of prior generations of Apple products, will be more productive and effective at what they do.

Two principles continue to guide the company's product development philosophy and influence strategic corporate direction. First, computers that are the easiest and most convenient to use will be the ones most people will want. Second, more people will want personal computers when they know what the products can do for them.

Research and Development
(In Millions)





Mr. Schlein, chairman of the board and chief executive officer of Macy's California, became an Apple director in June, 1979. He also serves as a director of R. H. Macy & Co., parent of Macy's California.

Philip S. Schlein

"In a business as young as personal computing, identifying trends is no easy task. One that is not so difficult, however, is the increasing importance of software and a declining significance—and price—of computer hardware. Such a trend has marketing implications, especially for manufacturers interested in the home market, where mass appeal will depend on packages—the right combination of hardware and software. I would expect that the most successful competitors will be those who can best serve the needs of diverse levels of users, from novice to sophisticated. There is clearly a major market on the horizon, the dimensions of which are likely to resemble two-car families.

"From a retail perspective, we seem to be at an early stage in the industry where it is important to be especially sensitive to the needs of dealers. Making sure the knowledge level of those who are selling the product is as high as possible is critical during this phase. As the cycle continues and the products themselves become simpler to use, a more normal retail pattern should begin to emerge over time. Customers will want to shop around for the best price, package

and service. One thing will remain the same, however: the manufacturer who gains market share will be the one who can best relate to the market, particularly as buyers become more knowledgeable. The future of personal computing will be shaped to a great extent by how consumers perceive the product. That perception should grow dramatically with each generation. We're just at the beginning.

"Apple's ability to develop technology and maintain market sensitivity seems to position the company quite well. Organizationally, too, the company made real strides in '82 in terms of divisional relationships and effective communication, both of which are vital in a fast-growth setting. At the same time, Apple brought important new products closer to reality and moved ahead in production automation.

"Much has happened at Apple in a very short time. That the company has been able to grow rapidly and at the same time deal with growth problems says something significant about its people. This is not to downplay what remains to be done, however. The right decisions must be made about marketing and packaging each product to the right customers. Apple must make sure it relates better than anybody else to those customers' needs and markets. In each of these areas real progress was made at Apple in 1982. The same must occur in 1983 and beyond. This industry is not short of challenges."

Henry E. Singleton

"To me, personal computing is the most exciting segment of the computer industry and I expect it to see explosive growth for some time to come, particularly in business applications. It's not difficult to envision a future in which there is a personal computer on every office desk. Personal computers fill a basic need and people will continue to snap them up.

"As competitive as 1982 was, we should see even more competitors during 1983. Thereafter I would expect a gradual contraction in the number of producers that should not take more than two or three years. As with most of the great growth industries, the number of competing manufacturers will stabilize before the industry itself. Looking back on the aircraft industry, for example, the number of companies grew rapidly for a time, then began to shrink even though the field continued to grow as more people used the product. The same should hold true for personal computers.

"In any industry there are certain milestone products. The DC-3 comes to mind for the aircraft industry, as does the Model T Ford for automobiles. Apple produced the industry classic for personal computers in the Apple II. It was years ahead of its time and has a good future still ahead of it. Of course, only time will tell if Apple's future innovations will have similar impact but the company seems as well—or better—positioned as anyone else to make that happen. Innovation is perhaps the most necessary ingredient for success in this industry, specifically in the software development area. Apple is implementing innovative concepts and technologies to a considerable extent."



For 22 years Dr. Singleton has been chairman and chief executive officer of Teledyne, Inc., a diversified manufacturing company. He became a director of Apple in October, 1978.

1982 compared to 1981

Apple's liquidity continued to improve in 1982 with cash and temporary cash investments more than doubling during the year from \$73 million at the end of 1981 to \$153 million at the end of 1982. The major sources of liquidity in 1982 were provided by operations (\$85 million) and the sale of common stock to employees under stock option plans (\$16 million) and stock purchase plans (\$2 million). Tax benefits from the exercise of stock options, which were included in the option proceeds, were \$15 million. In addition, as a result of management's continuing efforts to improve inventory turnover, inventories decreased to \$81 million at the end of 1982 from \$104 million at the end of 1981. This represents an increase in inventory turnover from 2.6 times in 1981 to 3.1 times in 1982.

Apple's liquidity was reduced during 1982 by increases in accounts receivable and property, plant and equipment. Accounts receivable were \$71 million at September 24, 1982 compared to \$42 million at the end of 1981. This increase reflects the higher sales level in 1982 and a reduction in the number of days' sales outstanding from 39 to 37 days. Investments in property, plant and equipment were \$26 million during 1982, reflecting the expansion of Apple's manufacturing facilities, distribution network and corporate headquarters.

At September 24, 1982, Apple's unused sources of liquidity consisted primarily of \$153 million of cash and temporary

cash investments and unused credit lines with domestic and foreign banks of \$146 million. Apple's capital resource commitments at the end of 1982 consisted principally of obligations under operating leases.

1981 compared to 1980

Apple's liquidity improved significantly during 1981. The major sources of liquidity were provided by operations (\$52 million) and from the sale of common stock (\$112 million). Apple received \$90 million from the public offering of common stock in the first quarter of 1981. Sales of common stock to employees under stock option plans and stock purchase plans provided \$20 million and \$1 million, respectively, during 1981. Tax benefits resulting from the exercise of stock options were \$18 million.

Apple's liquidity was reduced during 1981 primarily by increases in accounts receivable, inventory and property, plant and equipment. Accounts receivable nearly tripled in 1981 reflecting a similar increase in the annual sales volume. Inventory also more than tripled in 1981 due to higher sales levels and the need to support additional products and distribution centers. The investment in property, plant and equipment of \$25 million during 1981 was principally due to the construction of additional manufacturing facilities in Ireland and Texas and the related purchase of equipment to outfit these facilities.

Consolidated Statements of Income

Three years ended September 24, 1982

(In thousands, except per share amounts)

	1982	1981	1980
Net sales	\$583,061	\$334,783	\$117,126
Costs and expenses:			
Cost of sales	288,001	170,124	66,490
Research and development	37,979	20,956	7,282
Marketing and distribution	119,945	55,369	12,619
General and administrative	34,927	22,191	7,150
	480,852	268,640	93,541
Operating income	102,209	66,143	23,585
Interest, net	14,563	10,400	567
Income before taxes on income	116,772	76,543	24,152
Provision for taxes on income	55,466	37,123	12,454
Net income	\$ 61,306	\$ 39,420	\$ 11,698
Earnings per common and common equivalent share	\$ 1.06	\$.70	\$.24
Common and common equivalent shares used in the calculation of earnings per share	57,798	56,161	48,412

See accompanying notes.

Consolidated Balance Sheets

September 24, 1982 and September 25, 1981
(Dollars in thousands)

	1982	1981
Assets		
Current assets:		
Cash and temporary cash investments	\$153,056	\$ 72,834
Accounts receivable, net of allowance for doubtful accounts of \$3,606 (\$1,823 in 1981)	71,478	42,330
Inventories	81,229	103,873
Other current assets	11,312	8,067
Total current assets	317,075	227,104
Property, plant and equipment:		
Land and buildings	7,220	4,815
Machinery and equipment	26,136	14,688
Office furniture and equipment	13,423	6,192
Leasehold improvements	10,515	5,129
	57,294	30,824
Accumulated depreciation and amortization	(22,811)	(8,453)
Net property, plant and equipment	34,483	22,371
Other assets	6,229	5,363
	\$357,787	\$254,838
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 4,185	\$ 10,745
Accounts payable	25,125	26,613
Accrued compensation and employee benefits	11,774	7,759
Income taxes payable	15,307	8,621
Accrued advertising	8,815	3,540
Other current liabilities	20,550	13,002
Total current liabilities	85,756	70,280
Non-current obligations under capital leases	2,052	1,909
Deferred taxes on income	12,887	5,262
Shareholders' equity:		
Common stock, no par value, 160,000,000 shares authorized	141,070	123,317
Retained earnings	118,332	57,026
	259,402	180,343
Notes receivable from shareholders	(2,310)	(2,956)
Total shareholders' equity	257,092	177,387
	\$357,787	\$254,838

See accompanying notes.

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock		Retained Earnings	Notes Receivable From Shareholders	Total Shareholders' Equity
	Shares	Amount			
Balance at September 30, 1979	43,306	\$ 4,298	\$ 5,908	\$ (525)	\$ 9,681
Sale of common stock under stock option plans and related tax benefits	4,293	4,831	—	(1,399)	3,432
Sale of common stock under officers and directors under key employee stock purchase plan	798	2,299	—	(2,299)	—
Repayments of notes receivable from shareholders	—	—	—	217	217
Stock to be issued in business combination	153	920	—	—	920
Net income	—	—	11,698	—	11,698
Balance at September 26, 1980	48,550	12,348	17,606	(4,006)	25,948
Sale of common stock to public	4,400	90,361	—	—	90,361
Sale of common stock under stock option plans and related tax benefits	2,747	19,827	—	—	19,827
Sale of common stock under employee stock purchase plan	52	969	—	—	969
Repayments of notes receivable from shareholders, net of shares repurchased	(440)	(188)	—	1,050	862
Net income	—	—	39,420	—	39,420
Balance at September 25, 1981	55,309	123,317	57,026	(2,956)	177,387
Sale of common stock under stock option plans and related tax benefits	1,741	16,354	—	—	16,354
Sale of common stock under employee stock purchase plan	110	1,624	—	—	1,624
Repayments of notes receivable from shareholders, net of shares repurchased	(37)	(225)	—	646	421
Net income	—	—	61,306	—	61,306
Balance at September 24, 1982	57,123	\$141,070	\$118,332	\$(2,310)	\$257,092

See accompanying notes.

Consolidated Statements of Changes in Financial Position

Three years ended September 24, 1982 (In thousands)	1982	1981	1980
Working capital was provided by:			
Operations:			
Net income	\$ 61,306	\$ 39,420	\$11,698
Charges to operations not affecting working capital:			
Depreciation and amortization	16,556	8,590	1,377
Deferred taxes on income (non-current)	7,625	4,311	747
Total working capital provided by operations	85,487	52,321	13,822
Increases in common stock and related tax benefits, net of changes in notes receivable from shareholders	18,399	112,019	4,569
Increases in non-current obligations under capital leases	1,172	1,747	752
Total working capital provided	105,058	166,087	19,143
Working capital was applied to:			
Purchase of property, plant and equipment, net of retirements	26,470	24,529	4,878
Reacquisition of distribution rights	—	—	5,401
Other	4,093	1,060	1,298
Total working capital applied	30,563	25,589	11,577
Increase in working capital	\$ 74,495	\$140,498	\$ 7,566
Increase (decrease) in working capital by component:			
Cash and temporary cash investments	\$ 80,222	\$ 72,471	\$ (200)
Accounts receivable	29,148	26,516	6,688
Inventories	(22,644)	69,682	24,089
Other current assets	3,245	4,329	3,685
Notes payable to banks	6,560	(2,895)	(7,850)
Accounts payable	1,488	(12,118)	(9,084)
Accrued compensation and employee benefits	(4,015)	(5,206)	(1,727)
Income taxes payable	(6,686)	(486)	(4,205)
Accrued advertising and other current liabilities	(12,823)	(11,795)	(3,830)
Increase in working capital	\$ 74,495	\$140,498	\$ 7,566

See accompanying notes.

Notes to Consolidated Financial Statements

Three years ended September 24, 1982

Summary of 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 intercompany accounts and transactions.

Fiscal Year

Apple's fiscal year ends on the last Friday in September.

Inventories

Inventories are valued at the lower of cost or market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market is based upon estimated net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are computed principally by use of declining balance methods over the estimated useful lives of the assets.

Distribution Expenses

Certain distribution and other costs, which were previously included in cost of sales, have been included in marketing and distribution and general and administrative expenses in 1982. The 1981 and 1980 consolidated statements of income have been reclassified to conform to the current presentation.

Earnings Per Share

Earnings per share are computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period.

Inventories

Inventories consist of the following:

(In thousands)	1982	1981
Raw materials and purchased parts	\$38,642	\$ 45,175
Work-in-process (including materials held by subcontractors)	12,660	23,571
Finished goods	29,927	35,127
Total	\$81,229	\$103,873

Borrowing Arrangements

Apple has short-term unsecured lines of credit with domestic and foreign banks totalling \$150 million. There are no compensating balance requirements or fees associated with these credit lines and the lines are cancellable at any time by either the banks or Apple. At September 24, 1982, Apple had borrowed approximately \$4.2 million against these lines in various European currencies to hedge against foreign exchange fluctuations. The weighted average interest rate on these borrowings was 11.7% at September 24, 1982.

Taxes on Income

The provisions for taxes on income consist of the following:

(In thousands)	1982	1981	1980
Federal:			
Current	\$40,548	\$26,303	\$10,893
Deferred (prepaid)	4,008	5,769	(372)
	44,556	32,072	10,521
State:			
Current	9,365	4,116	2,205
Deferred (prepaid)	(756)	331	(272)
	8,609	4,447	1,933
Foreign:			
Current	2,505	604	—
Deferred (prepaid)	(204)	—	—
	2,301	604	—
Provision for taxes on income	\$55,466	\$37,123	\$12,454

There were approximately \$23.7 million and \$11.2 million of foreign pretax earnings in 1982 and 1981, respectively, upon which federal and state taxes have been provided. There were no foreign earnings in 1980.

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Other current assets in 1982 include prepaid taxes of \$2,089,000. Income taxes payable in 1981 include current deferred taxes of \$2,488,000. The sources of these differences and the tax effect of each are as follows:

(In thousands)	1982	1981	1980
Bad debt, warranty and advertising provisions	\$ (1,568)	\$ (664)	\$ (2,642)
Inventory valuation differences	(4,866)	3,191	810
Income of Domestic International Sales Corporation	3,070	98	1,136
Income of foreign subsidiaries not taxable in current year	8,987	4,753	—
Financial statement depreciation in excess of current tax deduction	(3,090)	(663)	—
Other	515	(615)	52
Total deferred (prepaid) taxes	\$ 3,048	\$ 6,100	\$ (644)

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:

(In thousands)	1982	1981	1980
Computed expected tax, net of surtax exemption	\$53,696	\$35,191	\$11,091
State taxes, net of federal benefit	4,649	2,401	1,044
Investment tax credits (flow-through method)	(1,100)	(650)	(197)
Research and development credit	(3,400)	(600)	—
Other	1,621	781	516
Provision for taxes on income	\$55,466	\$37,123	\$12,454

Leases

Apple leases various facilities and equipment under noncancellable lease arrangements. The major facilities leases are for terms of five to ten years and generally provide renewal options of five additional years. The equipment leases are for terms of three to seven years.

Certain equipment leases are accounted for as the acquisition of an asset and the incurrence of a liability ("capital leases"). This equipment is classified as machinery and equipment in the balance sheet and is being depreciated over the lease terms using the double declining balance method.

Minimum future lease payments under all non-cancellable leases as of September 24, 1982 are as follows:

(In thousands)	Capital Leases	Operating Leases
1983	\$1,556	\$11,575
1984	971	11,587
1985	681	10,266
1986	617	7,450
1987	199	5,149
Later years	—	7,749
Total minimum lease payments	\$4,024	\$53,776

The present value of total minimum lease payments under capital leases was \$3,221,000 at September 24, 1982. Rent expense under all operating leases was \$11,698,000, \$5,427,000 and \$1,810,000 in 1982, 1981 and 1980, respectively.

Employee Benefit Plans

Stock Option Plans

Apple has three non-qualified stock option plans under which officers, directors, employees and contractors may be granted options to purchase shares of Apple's common stock at the fair market value on the date of grant. The options become exercisable over varying periods and expire seven to eight years after the grant date. In the first quarter of 1982, the 1981 Stock Option Plan was amended to permit the granting of incentive stock options. Proceeds from the exercise of stock options, including income tax benefits of \$14,591,000, \$18,362,000 and \$3,392,000 in 1982, 1981 and 1980, respectively, have been added to shareholders' equity.

Information regarding stock option plans at September 24, 1982 is summarized below.

(In thousands, except per share amounts)	Number of Shares	Price per Share
Outstanding	5,298	\$.09 - \$20.63
Exercisable	1,313	\$.09 - \$16.94
Reserved for issuance	8,375	
Available for future grant	3,077	

In April 1982, the Board of Directors adopted a resolution to increase the number of shares reserved for issuance under the 1981 Stock Option Plan by 3.5 million shares. This action is subject to approval by the shareholders. In June 1982, the Board of Directors adopted a resolution which gave employees the opportunity to exchange higher priced stock options for new options with a price of \$13.31, the fair market value on the date of the Board's action. The information presented above reflects these actions.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted an Employee Stock Purchase Plan under which one million 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.

Preferred Stock

Five million shares of preferred stock have been authorized for issuance 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.

Litigation

In June 1980, High Technology, Inc., a terminated distributor, filed suit against Apple alleging, among other things, violations of federal antitrust laws, breach of contract and tortious interference with contractual relationships. A second lawsuit was filed by High Technology in July 1982 against Apple alleging claims for copyright infringement and breach of contract. Apple denied all material allegations and asserted numerous affirmative defenses in both actions. The cases were settled in November 1982 with no material impact to Apple. A lawsuit filed against Apple by Omega Northwest, Inc., another former distributor, alleging claims under state antitrust and franchise acts and common law claims for breach of contract and defamation, was also settled in January 1982 with no material impact.

In December 1981, six dealers filed suit against Apple seeking to restrain implementation of its prohibition of mail order sales. The dealers' motion for a preliminary injunction was denied. Plaintiffs' application for permanent injunction and Apple's counterclaims are pending.

Apple has instituted several lawsuits against companies alleging patent, trademark and copyright infringement, unfair competition and misappropriation. Among them is Franklin Computer Corp. Franklin has asserted various counterclaims against Apple seeking to invalidate some of Apple's patents and copyrights. Franklin also seeks to assess liability for alleged antitrust violations, alleged unfair competition and alleged unlawful interference with business relations. Franklin seeks over \$50 million plus punitive damages. Apple denies the counterclaims' substantive allegations and will vigorously defend its position. In the opinion of Apple's management, the outcome of all of the above unresolved litigation will result in no material loss to Apple.

Notes to Consolidated Financial Statements (continued)

Industry Segment and Geographic Information

Apple operates in one principal industry segment: the design, manufacture, sale and servicing of personal computers and related software and peripheral products.

Apple's foreign operations consist of manufacturing facilities in Ireland and Singapore and distribution facilities in Europe and Canada. Prior to 1981, Apple had no significant foreign operations. Foreign exchange gains and losses were not material in 1982 and 1981. Geographic financial information for 1982 and 1981 is as follows:

(In thousands)	Geographic Operations				Total
	United States	Europe	Other	Eliminations	
1982					
Net sales to unaffiliated customers in:					
United States	\$440,895	\$ —	\$ —	\$ —	\$440,895
Europe	—	92,725	—	—	92,725
Other	29,682	—	19,759	—	49,441
Transfers between geographic areas	470,577	92,725	19,759	—	583,061
Total revenue	\$540,322	\$109,173	\$56,432	\$(122,866)	\$583,061
Operating income	\$ 80,976	\$ 15,423	\$ 6,225	\$ (415)	\$102,209
Unallocated income					14,563
Income before taxes on income					\$116,772
Identifiable assets	\$161,118	\$ 37,160	\$ 7,100	\$ (647)	\$204,731
Corporate assets					153,056
Total assets					\$357,787
1981					
Net sales to unaffiliated customers in:					
United States	\$244,141	\$ —	\$ —	\$ —	\$244,141
Europe	7,717	51,591	—	—	59,308
Other	21,374	—	9,960	—	31,334
Transfers between geographic areas	273,232	51,591	9,960	—	334,783
Total revenue	\$307,176	\$ 52,689	\$ 9,960	\$ (35,042)	\$334,783
Operating income	\$ 60,278	\$ 11,247	\$ 997	\$ (6,379)	\$ 66,143
Unallocated income					10,400
Income before taxes on income					\$ 76,543
Identifiable assets	\$147,095	\$ 36,293	\$ 4,933	\$ (6,317)	\$182,004
Corporate assets					72,834
Total assets					\$254,838

Transfers between geographic areas are accounted for at amounts generally above cost and are in accordance with the rules and regulations of governing tax authorities. Operating income is total revenue less operating expenses and does not include either net interest or taxes on income.

Identifiable assets are assets that are identifiable with the operations in each geographic area. Corporate assets are cash and temporary cash investments.

Sales by Apple's domestic operations to unaffiliated foreign customers, principally in Europe, were 25% of total sales in 1980. Sales to one retail dealer were 10% and 14% of total sales in 1981 and 1980, respectively.

Supplementary Financial Information Adjusted for Changing Prices (Unaudited)

Under generally accepted accounting principles, the primary financial statements reflect dollar amounts paid for goods and services on the date of acquisition or receipt (historical cost). In periods of changing prices, financial information prepared on this basis may not provide an adequate measure of a company's financial performance or its ability to sustain its reported historical financial results. The following supplementary financial information is intended to show how inflation and other price changes affected Apple's financial performance. As required by the Financial Accounting Standards Board, historical dollar amounts for selected financial data have been adjusted to reflect the effects of inflation (constant dollar) and changes in specific prices (current cost). Since these adjustments were computed using various assumptions and estimates, the financial information presented is only an approximation of the effect which inflation and other price changes have had on Apple's financial performance.

Following is a statement of income and other financial information for the year ended September 24, 1982 adjusted for changing prices:

(In millions, except per share amounts)

	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales	\$583.1	\$583.1	\$583.1
Cost of sales	288.0	294.4	288.3
Other operating costs and expenses	192.9	193.1	193.0
Interest income, net	14.6	14.6	14.6
Provision for taxes on income	55.5	55.5	55.5
Net income	\$ 61.3	\$ 54.7	\$ 60.9
Earnings per common and common equivalent share	\$ 1.06	\$.95	\$ 1.05
Depreciation and amortization expense included in costs and expenses above	\$ 14.4	\$ 15.2	\$ 14.8
Inventories and property, plant and equipment (net) at September 24, 1982	\$115.7	\$116.9	\$117.1
Decrease in current cost of inventories and property, plant and equipment (net) held during the year			\$.8
Effect of increase in general price level			4.9
Excess of increase in general price level over decrease in specific prices			\$ 5.7

Constant Dollar

Inflation causes dollars earned and spent in the current year to have less value than dollars earned and spent in previous years. To measure the effect of inflation, historical dollar amounts are restated into constant dollars (dollars with the same purchasing power) using the Consumer Price Index for All Urban Consumers (CPI-U). Using this method, the historical cost of inventories and related cost of sales, and property, plant and equipment were restated into average 1982 dollars. Depreciation and amortization expense for 1982 was restated based upon the average 1982 dollar value of property, plant and equipment. The depreciation methods and lives used in this calculation were the same as those used in the historical cost financial statements. Net sales, other expenses and net interest for 1982 have not been adjusted since they already approximate average 1982 dollars. The provision for taxes on income has not been adjusted to reflect the difference between income computed on the constant dollar basis and income reported in the primary financial statements.

Inflation caused the value of inventory sold during 1982 to increase when stated in average 1982 dollars. This resulted in an increase of approximately \$5.8 million to cost of sales for the year. Inflation also caused the value of property, plant and equipment acquired before 1982 to increase, resulting in an increase of \$.8 million to depreciation and amortization expense. Apple's net assets, stated in average 1982 dollars, were \$254.6 million at September 24, 1982.

Current Cost

To measure the effect on Apple's financial performance for the difference between the historical cost and the cost of replacing property, plant and equipment at the end of 1982 (current cost), specific price indices were applied against these assets. Depreciation and amortization expense for 1982 was restated using these calculated current costs and the same depreciation and amortization methods and lives used in the historical cost financial statements. No adjustment was made to inventories or cost of sales (other than the restated depreciation component) because historical cost approximates current cost. No adjustment has been made to net sales, other expenses and net interest since they already approximate current cost. The provision for taxes on income has not been adjusted to reflect the difference between income computed on the current cost basis and income reported in the primary financial statements.

During 1982, increases in specific prices for property, plant and equipment acquired before 1982 resulted in a \$.4 million increase to depreciation and amortization expense. The current cost of net assets, stated in average 1982 dollars, was \$251.9 million at September 24, 1982.

Other Information

Apple's net monetary position is also impacted by inflation. In periods of inflation, companies which hold cash and other monetary assets lose purchasing power since these assets will purchase fewer goods and services. Conversely, companies which have liabilities of fixed amounts gain purchasing power during periods of inflation because these obligations are payable in dollars of reduced value. The net effect is the gain or loss in the purchasing power of net monetary assets. During 1982, Apple held more monetary assets than liabilities and consequently experienced a purchasing power loss on net monetary assets of \$4.0 million.

Following is a five-year comparison of selected financial information adjusted for changing prices:

	<i>Net Sales in Millions of Constant 1982 Dollars</i>	<i>Market Price Per Common Share at Year End in Constant 1982 Dollars</i>	<i>Average Annual Consumer Price Index - Urban (CPI-U)</i>
1982	\$583.1	\$17.78	285.3
1981	\$358.8	\$14.56	266.2
1980	\$139.4	—	239.7
1979	\$ 64.7	—	211.0
1978	\$ 11.7	—	191.3

Prior to 1981, Apple's common stock was not publicly traded. The average annual CPI-U for 1982 is estimated.

Report of Certified Public Accountants

To the Shareholders and Board of Directors of Apple Computer, Inc.

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. at September 24, 1982 and September 25, 1981 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 24, 1982. 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 24, 1982 and September 25, 1981 and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 24, 1982 in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
October 15, 1982,
except as to Litigation
note, as to which the date is
November 3, 1982

Board of Directors

Steven P. Jobs
Chairman of the Board
Apple Computer, Inc.

Peter O. Crisp
General Partner
Venrock Associates
Venture capital investments

A. C. Markkula, Jr.
President and Chief Executive Officer
Apple Computer, Inc.

Arthur Rock
Principal in Arthur Rock & Co.
Venture capital investments

Philip S. Schlein
Chairman of the Board
Macy's California
Retail department store chain

Dr. Henry E. Singleton
Chairman of the Board
Teledyne, Inc.
Diversified manufacturing company

Officers

A. C. Markkula, Jr.
President and
Chief Executive Officer

Steven P. Jobs
Chairman of the Board and
Vice President

Kenneth R. Zerbe
Executive Vice President
Finance and Administration

Ann S. Bowers
Vice President
Human Resources

Gene P. Carter
Vice President
Sales

John D. Couch
Vice President and General Manager
Personal Office Systems

Albert A. Eisenstat
Vice President
Secretary and General Counsel

Joseph A. Graziano
Vice President
Chief Financial Officer

Frederick M. Hoar
Vice President
Communications

Wilfrid J. Houde
Vice President
Special Projects

Michael Muller
Vice President and General Manager
Accessory Products

John Vennard
Vice President and General Manager
Peripherals

Roy H. Weaver
Vice President and General Manager
Distribution, Service and Support

Delbert W. Yocam
Vice President and General Manager
Manufacturing

Charles W. Berger
Treasurer

Trademarks

Apple Computer, Inc. and its subsidiaries have applied for or have received registered trademarks on the following names appearing in this report: Apple, Disk II and ProFile.

Stock Trading

The Company's common stock is traded in the over-the-counter market and is listed on the NASDAQ National List. Symbol: AAPL

Transfer Agent and Registrar

The First National Bank of Boston
Boston, Massachusetts

Certified Public Accountants

Arthur Young & Company
San Jose, California

SEC Form 10-K

If you would like a copy of our Annual Report on SEC Form 10-K for the fiscal year ended September 24, 1982, you may obtain it without charge. Please direct your request to Albert A. Eisenstat, corporate secretary, Apple Computer, 20525 Mariani Ave., Cupertino, California 95014.

Corporate Information

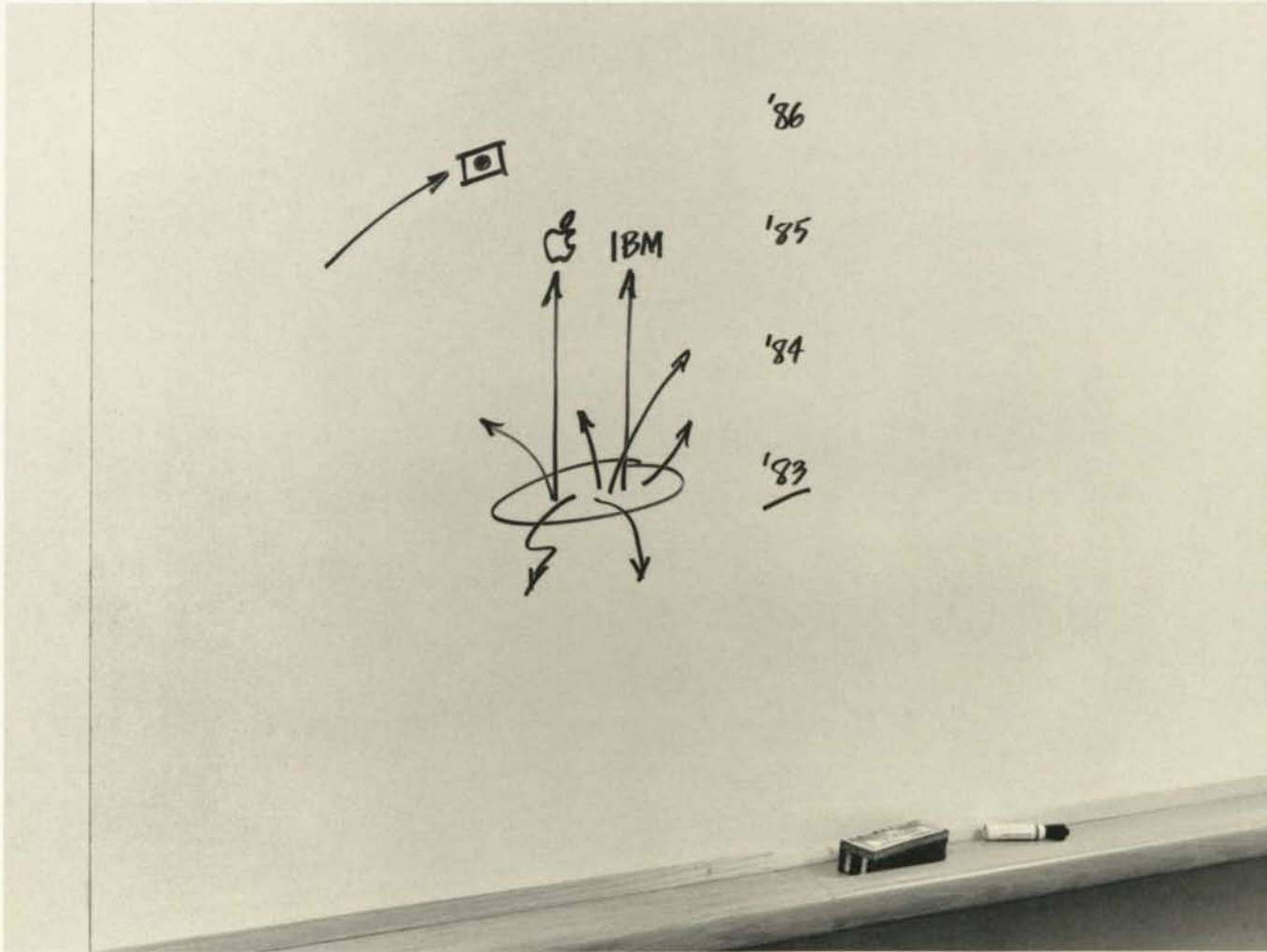
Please direct inquiries to Stanley W. DeVaughn, manager, investor and press relations, Apple Computer, 20525 Mariani Avenue, Cupertino, California 95014.

Annual Meeting

The annual meeting of shareholders will be held on January 19, 1983 at 10:00 A.M. local time at Flint Center, DeAnza Community College, 21240 Stevens Creek Blvd., Cupertino, California.



Apple Computer, Inc.
20525 Mariani Avenue
Cupertino, California
95014



Apple Computer, Inc.
Annual Report to Share-
holders, fiscal year ended
September 30, 1983.

Company Profile

Apple Computer, Inc.
develops, manufactures
and markets personal
computer systems—
the productivity tools of
the 1980s—for busi-
ness, education, science,
industry and the home.

Cover

The cover graphically
portrays the current
turmoil in the personal
computer industry and
the direction it may
take in the years ahead.

Financial Highlights

Apple Computer, Inc.
For the fiscal years ended September 30, 1983 and September 24, 1982

	1983	1982	Change
Net sales	\$982,769	\$583,061	+69%
Net income	\$ 76,714	\$ 61,306	+25%
Earnings per share	\$ 1.28	\$ 1.06	+21%
Pre-tax return on net sales	14.9%	20.0%	-5.1 pts.
Income tax rate	47.5%	47.5%	—
Return on net sales	7.8%	10.5%	-2.7 pts.
Cash and temporary cash investments	\$143,284	\$153,056	-6%
Accounts receivable	\$136,420	\$ 71,478	+91%
Inventories	\$142,457	\$ 75,368	+89%
Total assets	\$556,579	\$357,787	+56%
Shareholders' equity	\$377,901	\$257,092	+47%
Return on equity	24%	28%	-4 pts.
Return on assets	17%	20%	-3 pts.
Research and development	\$ 60,040	\$ 37,979	+58%
Marketing and distribution	\$229,961	\$119,945	+92%
Employees	4,645	3,391	+37%
Common and common equiva- lent shares	59,867	57,798	+4%

“Apple’s future is being questioned as never before. So we welcome the chance in this annual report to tell Apple’s story and reveal the company exactly as it is: financially sound and technologically superior.”

Steve Jobs
John Sculley

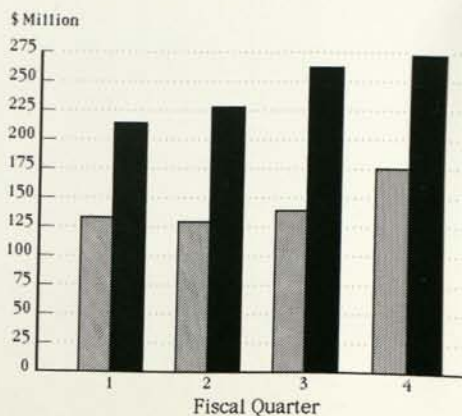
November 11, 1983

To Our Shareholders:

Fiscal 1983 was the seventh straight year of record results for Apple. We detail our financial performance elsewhere in this report. Knowing only last year's results, however, does not lead to an understanding of Apple's place in the personal computer industry today. They are impressive, but the numbers don't tell you what you need to know about who and what Apple is and—most importantly—where we intend to be in the coming years. Standard information about the company's products, markets and organizational structure is equally limited. A glossy snapshot of Apple, as striking and dramatic as it would surely be, would be just a snapshot. This year, in particular, you need something of greater depth. Thus, we want to use this opportunity to tell you, in some detail, what we believe are the key issues for your company and its future. We want you to know the crucial questions facing Apple Computer.

By conventional definitions Apple had a phenomenal year in fiscal 1983. One way to view the past four quarters is to consider that we grew, in effect, another Apple Computer—having increased our net sales from \$583 million in fiscal 1982 to \$983 million in 1983. Of course, Apple has never been measured in conventional terms or according to standard expectations, but 1983 was a year of extraordinary achievements. We introduced two major products, Lisa and the Apple IIe, in North America and Europe on the same day. We manufactured the one-millionth Apple computer. We rolled out the California "Kids Can't Wait" product donation program to schools within the state. We named a new president and chief executive officer. We appointed an executive vice president of marketing and sales, and a vice president of marketing, both new positions. We launched a major credit card program for retail purchases—the first of its kind in the personal computer industry. As fiscal 1984 began, we appointed a new vice president and general manager of the Personal Computer Systems division. We invested more than \$60 million in research and development, accelerated new product development and began a major television advertising campaign. We centralized our marketing activities, consolidated our manufacturing operations and improved control of overhead and variable expenses. Our presence in the home, business and education markets grew to even greater prominence. These markets are critically important now and will remain so. We ended the year with \$143 million in cash, working capital of \$340 million, shareholders' equity of \$378 million and total assets of \$557 million.

Net Sales
Fiscal Years 1982 & 1983





John Sculley and Steve Jobs.

Still, doubt and uncertainty about the future of our industry and Apple's place within it seemed to overshadow these achievements. Despite our successes, record results, financial soundness and presence in the marketplace, our prospects were—and are—being questioned as never before.

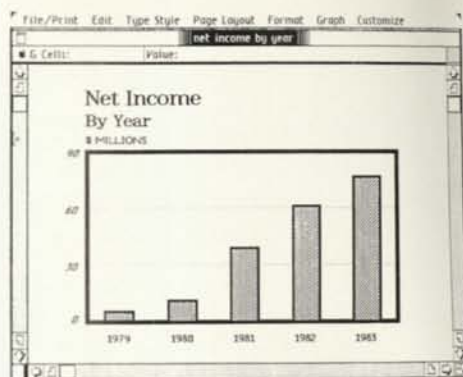
The so-called shakeout in the personal computer industry expected to occur in 1985 began in 1983. We entered fiscal 1983 with more than 100 companies attempting to capture 10 percent to 20 percent of the personal computer market. But, as we illustrate on the cover of this report, we feel it is unlikely that more than a few companies will emerge in a leadership position. At one point in 1983, the combined losses in the home computer segment of the market exceeded the profits being earned in the total industry. Throughout the year, we read with disturbing regularity the stories of declining sales, plummeting earnings, layoffs, even bankruptcy.

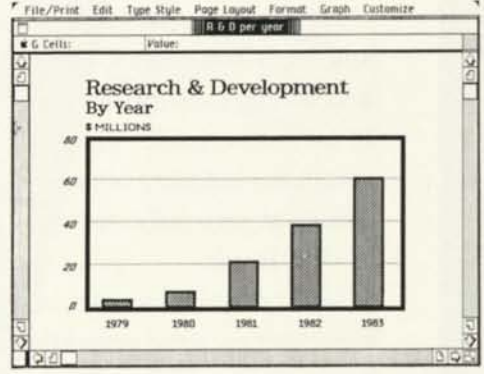
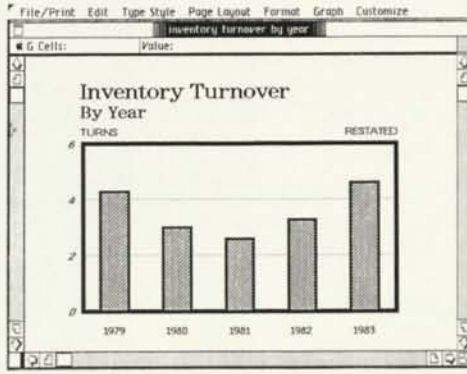
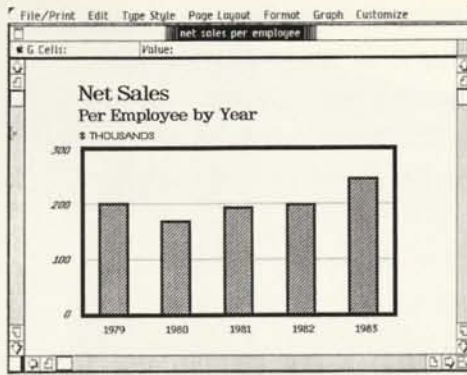
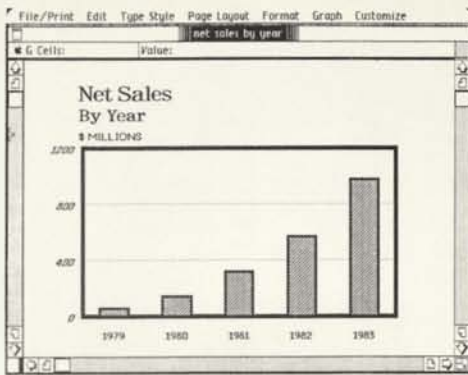
One way to understand what has happened is to look at the brief history of this industry in terms of milestone products and how they relate to a concept of price/value for consumers. The 1977 introduction of the Apple II was such a milestone. The advent of VisiCalc® software was probably the next major event, bringing the electronic spreadsheet to the Apple II and hundreds of thousands of personal computer buyers. IBM's 1981 entry into this business was a milestone, lending to the new industry the credibility of the world's largest computer company. Other software such as Lotus 1-2-3™ has been important as well. Each of these products brought enhanced value to personal computer users by increasing the utility of the computer itself and stimulating the growth of the industry.

At the same time, we have seen the price/value equation violated, especially at the lower end of the personal computer market where manufacturers chose to compete on price in a self-destructive effort to gain market share. The products promised more than they delivered and the result has been consumer disappointment. The market demonstrated that if you have a product that doesn't do very much, it is of no value at any price.

At the higher-priced segment of the market where Apple competes, we've entered an era where size—economy of scale—is key to survival. The day of the Apple-like garage start-up is past. Personal computers are now major consumer products. This means broad distribution channels, TV advertising, high-volume, low-cost manufacturing, and costly research and development. For example, the investment Apple alone made in new product development and advertising for personal computers in 1983 amounted to over \$100 million. If this money is spent wisely, it will enable Apple to continue to bring to the market new and exciting products of technical excellence and market them through highly visible and exceptionally creative advertising campaigns.

At Apple, we must take into account the importance of the price/value relationship as we look at the future of this industry.





Well over one million
Apples are at work today
in offices, classrooms,
and homes.



We can't predict trends merely by extrapolating what is occurring today and so, as we manage Apple, we must consider what the milestone products of the future are going to be and which ones we can contribute. We intend to continue being a major factor and leading innovator in the personal computer industry. What must we do to achieve this?

Consider our mission as a company. We bring technology to individuals. We want to translate highly-advanced technology into top quality, affordable and easy-to-use products. We are, in essence, tool builders for individuals. We sell products for people—to people. But we can never take off-the-shelf tool technology and merely market it better than anyone else. What we can and will do is continue to innovate. Lisa technology is an example. In fact, we consider Lisa the latest milestone in the personal computer industry because we think it defined what the technology of personal computing will be for the entire industry in this decade.

Sales of the Lisa system, while on track with our early, modest expectations, were generally disappointing in fiscal 1983. Partly because of lengthy evaluation and purchasing cycles, we did not receive the volume orders we would have liked from the Fortune 1000 market, upon which we focused to the exclusion of other segments. To fully exploit Lisa as more of a mainstream personal computer product, as we announced in September, we took steps to capitalize on Lisa's broad market appeal. These included unbundling Lisa's software and offering the product on a hardware-only basis—thereby allowing a lower suggested retail price (\$6995)—and increasing the number of authorized Lisa dealers. Our dealers are enthusiastic about Lisa and the marketing adjustments we've made. Based on this initial positive response, we expect interest at the retail level to compensate for the initially slow rate of orders by the large office market. We expect the product to be a strong entry in the small business market and other market segments we are now targeting.

Lisa should be viewed as much as a beginning—the threshold of new technology that will give rise to a family of new products from Apple—as it is an end in itself. Lisa technology is what Apple Computer is all about—in terms of the elegance of the product, ease of learning how to use it, and what its development says about Apple's commitment to innovation. Apple leapfrogged the industry with Lisa technology. And it represented our willingness to boldly and substantially invest in a new technology that will serve as a foundation for development this decade.

Apple must continue to conceive and develop products based on innovative technology such as the Lisa system. It is also imperative that we be a great technology-product marketing company. To us, this means three things: product design of unsurpassed quality, the ability to get those products to market quickly—no more than a year from time of conceptualization—and low-cost, high-volume manufacturing. We attach the highest priority to the long-term achievement of those things. We'll



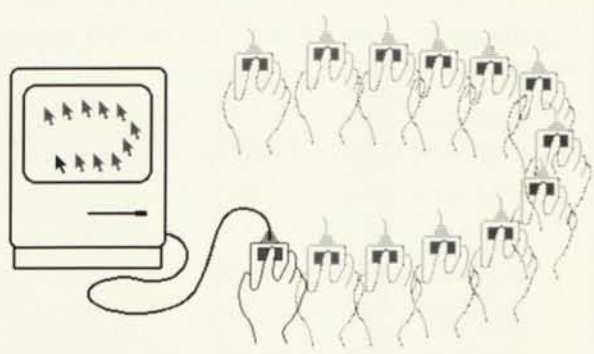
Pushing productivity to ever higher standards, the Lisa system represents the first genuine breakthrough in personal computer technology since the advent of the Apple II.

Lisa

What Apple
Must Do



A simple device known as the mouse, a key element of present and future Apple systems, controls a pointer on the computer screen and allows easy selection of operations. When the hand-held mouse is moved across the desktop, a pointer moves across the computer screen, allowing the user to point to graphic symbols or instructions and activate them by pressing the button on the mouse. (Refer to text lines 35-43.)

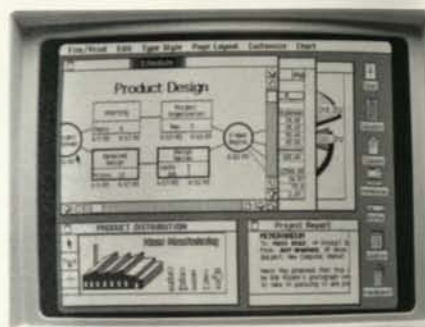


invest in them even at the expense of short-term profits.

Apple can best serve market needs by staying ahead of them. So one of the things we need to do is resume our position ahead of the product development "power curve." Part of what this means is that we must stay ahead of the market and bring to it on a timely basis products that preempt competitors. The Apple II was—and is—just such a product and we've gotten a tremendous amount of life from the Apple II product line. It commands an installed base of more than a million units, thousands of software products and it provides Apple with a unique market advantage. But looking around the competitive environment today, you can see that there will be other products which will have large installed bases as well. As the industry grows, the competitive environment will increasingly be a reflection of the influence competitors' products have. We must shorten the interval between Apple product conception and delivery to market. It has become too long.

The company must keep the Apple II and Apple III product family—the 6502 CPU products—vital as we go forward. This represents our major revenue generator and will remain a key component of sales for some time to come. No other personal computer product has assumed more of a cult stature than the Apple II—the Volkswagen of computers. It is important to keep this product up to date because we want people who buy Apple IIs to know they are joining a product family in which they can grow. We can and will do this by enhancing product performance, adding peripherals and accessories such as the mouse—and upgrading available software packages to keep them viable in the future. Expect to see us bring in even more of the know-how we gained during the four year development of Lisa technology. In addition to mouse technology, there are other equally exciting things we have learned that we can translate into our 6502 technology products. Expect to see them unfold over the next 12 months.

To understand Apple in 1984, you must appreciate the priority we have attached to the development and delivery of a family of new products, based on Lisa technology with a price/value ratio that appeals to a broader market. Although we cannot at this moment describe specifics, we are confident that the products in various stages of development right now are going to let Apple Computer fulfill its role as the technology innovator of the personal computer industry. As for Lisa itself, our decision to add capabilities that allow it entry into the IBM environment of large offices represents the depth of our commitment to a clear product line strategy. It has nothing to do with a desire to be more like IBM. We believe that standards are not determined by manufacturers, but by customers and third party software developers. Customers will always buy the products that are most desirable and software developers will always write for those products that customers buy. Standards do not create advantages for individuals—technology does. We have



A comparison of Lisa's graphics with others in the industry makes evident the premium Apple places on creating computers that are easy to learn and useful to people.

Buying Apples became easier in 1983 through the Apple credit plan. At participating authorized dealerships customers can qualify for on-the-spot credit via the Apple Card.



Apple intends to continually add value to its existing products by bringing its new technology to those who already own Apples. The Apple mouse—a key component of Lisa technology—will enhance both the Apple II and Apple III. (Refer to text lines 18-34.)

always designed products and managed our business according to that precept.

Thus, in terms of what we must deliver to the marketplace, we recognize the importance of technology innovation and product families, product line strategies, compatibility between products, and the dominance of competition in the large office market and how it is incumbent upon us to design capabilities into our systems products accordingly.

Productive management of our internal resources and organizing ourselves for the job we face is another key challenge. The primary task for Apple in previous years was how to grow the organization as fast as the business. The job today is making sure the organization doesn't *outgrow* the business. We will continue investing for the long term, even at the expense of short term performance, but we want those investments to contribute to Apple's success and not merely add to the infrastructure. In a highly competitive marketplace, the optimum time to control expenses is during good times. We redoubled our efforts to gain better control of overhead expenses during the third and fourth quarters of fiscal 1983 and those efforts continue today. Just before the end of the fiscal year, we announced our decision to improve our return on internal resources by reducing efforts in disk drive manufacture and shifting to sources outside the company. There's no need for us to manufacture everything that goes into our product line. We intend to stay with our external-source strategy, which has been applied to other accessory products as well, and we may expand it in the future. Along those lines you should also note that we've been establishing tighter, stronger links to independent software developers. It is critical that we have innovative software.

We announced in September that Lisa production would be consolidated at our high-volume plants in Texas and Ireland sooner than originally planned to benefit from higher volume output. Such a move should illustrate the urgency of our commitment to control costs.

We have made organizational changes. As we move toward the second quarter of fiscal 1984, approximately 25 percent of our senior management team is different from the executive staff at the end of fiscal 1982. There are four new members of this team and it's gratifying that Apple continues to attract exceptional management talent. The changes did not stop at the senior level. We completed a major reorganization in the product groups so they will be better able to bring products to market faster. We are aiming at two objectives: setting tighter priorities so we have a shorter list of things that have to get done, and improving our organizational processes.

The value Apple bestows upon attracting and keeping exceptional people is evident in our past success. The key to retaining those people lies in the kind of organizational environment we provide for them. The small, entrepreneurial team that conceives and develops industry-milestone products is the heart of Apple





From left to right: Wayne Rosing, General Manager, Lisa Division; Del Yocam, Vice President and General Manager, Operations; Floyd Kvamme, Executive Vice President, Marketing and Sales; Joe Graziano, Vice President and Chief Financial Officer; John Cavalier, Vice President and General Manager, Personal Computer Systems Division; Mike Muller, Vice President and General Manager, Accessory Products Division. (Refer to text lines 36-46.)



From left to right: Roy Weaver, Vice President and General Manager, Distribution, Service and Support; Jay Elliot, Vice President, Human Resources; Gene Carter, Vice President, Sales; Bill Campbell, Vice President, Marketing; Al Eisenstat, Vice President and General Counsel; Ken Zerbe, Executive Vice President, Finance and Administration. (Refer to text lines 36-46.)

Computer. We have no intention of tampering with it. Rather, we want to nourish this environment by improving the responsibility that people have at Apple to get things done on time, improve the quality of communication between groups and upgrade the processes through which our divisions interact. This is happening right now and we are gratified by the early results.

High-volume, low-cost manufacturing is central to our own long-term profitability. It is also an issue of national significance. So strongly do we feel about the need for state-of-the-art, automated assembly processes that we have designed and constructed a custom facility near our headquarters for production of a major new product. With this plant, a 160,000-square foot facility located in Fremont, California, we expect to be able to annually produce units valued at approximately \$1 billion. This facility is one of the most highly-automated of its kind in our industry.

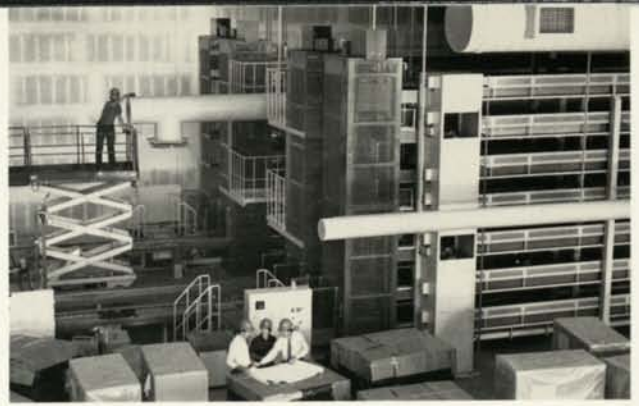
In our view, too many American industries were not only late to recognize the integral role of manufacturing technology in the delivery of affordable, quality products, but they remain slow to react to the progress made by their Japanese counterparts.

Japan's preeminence today in industries once the reserve of American enterprise can be traced to the emergence of Japanese manufacturing technology. Watches, calculators, televisions, stereos, motorcycles and automobiles are dominated by Japanese companies today because those companies can build products of higher quality and lower cost than we can in America. At Apple, we think we have approximately three to four years to become one of the world's lowest cost, highest quality manufacturers or suffer the fate of those American companies who have succumbed to competitive pressure from Japanese rivals.

There is little doubt that Japan will, inevitably, have a major presence in personal computers, perhaps in as little as two years. But the industry can and should remain an American one. Apple believes one of the best ways of assuring this is to have a manufacturing capability as advanced and innovative as the products we manufacture.

There is no question that the next several quarters will be a time of testing for Apple. It will be characterized by intense competition and rapidly changing circumstances. There will be further turbulence in the industry, more shaking out, more consolidation. Consumers, retailers and third party software developers will be watching the industry from their respective vantages, sorting out the significance of each new development and reacting accordingly.

Apple Computer moves into this period as a financially sound, technologically superior, focused organization making a steady and deliberate transition to a more disciplined, multi-product, multi-market, multi-billion-dollar company. We enjoy a unique advantage in our industry because of our technological superiority. Our products have a competitive edge because they are software appliances to a much greater degree than anything else available. This means they are the simplest to learn,



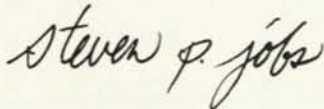
Apple's newest manufacturing facility—featuring the world's most advanced automated assembly technology—will produce a new Apple computer every 27 seconds. The state-of-the-art manufacturing equipment and techniques allow exacting quality of high-volume, low-cost manufacturing, which is essential to long-term profitability and market strength. (Refer to text lines 7-15.)



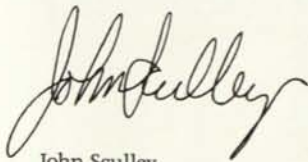
easiest to use and most powerful.

We see a tougher period ahead than at any time in the company's life, but there is no question as to our being prepared. As a billion-dollar company right now, we can generate the research and development dollars (with the accent on development) it will take for us to remain technologically innovative and bring to people the more powerful, easier-to-use and valuable products synonymous with the Apple name. A billion-dollar company such as Apple can utilize broadcast media for powerful, memorable advertising messages as part of an aggressive, creative, overall marketing program. With substantial resources at our command, we can attract, stimulate and retain very bright, creative people.

At Apple, there is extraordinary emphasis placed upon company values and corporate character. The best measure of an organization's character is how well it responds to the stresses, adversities and challenges it faces year after year. In 1984, Apple will once again have the opportunity to demonstrate its essential character—the stuff that sets Apple apart from the rest of our industry and the rest of corporate America. Despite the turbulence of the moment, the personal computer business will emerge as one of the preeminent industries of the 1980s. We hope you share our belief that Apple will figure prominently during this time as the industry's major technological innovator and contributing force—nothing less than a great American company. We want you to know that the vision and promise of Apple Computer prevails.



Steven P. Jobs
Chairman of the Board



John Sculley
President and Chief Executive Officer

November 11, 1983



If America is to maintain its technological leadership, American students of all ages must be trained in the computer technology of today. California students were the beneficiaries of Apple's donation of an Apple IIe system to most of California's 9,250 schools under a program aptly named the "Kids Can't Wait."

Selected Financial Information

Annual

Five years ended September 30, 1983

(In thousands, except per share amounts)

	1983	1982	1981	1980	1979
Net sales	\$982,769	\$583,061	\$334,783	\$117,126	\$47,867
Net income	\$ 76,714	\$ 61,306	\$ 39,420	\$ 11,698	\$ 5,073
Earnings per common and common equivalent share	\$ 1.28	\$ 1.06	\$.70	\$.24	\$.12
Common and common equivalent shares used in the calculation of earnings per share	59,867	57,798	56,161	48,412	43,620
Cash and temporary cash investments	\$143,284	\$153,056	\$ 72,834	\$ 363	\$ 563
Total assets	\$556,579	\$357,787	\$254,838	\$ 65,350	\$21,171
Non-current obligations under capital leases	\$ 1,308	\$ 2,052	\$ 1,909	\$ 671	\$ 203

Apple has not paid any cash dividends on its common stock. The present policy is to reinvest earnings to finance future growth.

Quarterly (Unaudited)*(In thousands, except per share amounts)*

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
1983				
Net sales	\$273,210	\$267,284	\$227,982	\$214,293
Gross profit	\$115,893	\$128,310	\$116,916	\$115,885
Net income	\$ 5,108	\$ 24,204	\$ 23,883	\$ 23,519
Earnings per common and common equivalent share	\$.08	\$.40	\$.40	\$.40
Price range per common share	\$47½-\$22¾	\$62⅝-\$39⅜	\$48⅛-\$27½	\$33⅞-\$18⅛
1982				
Net sales	\$175,808	\$142,681	\$131,019	\$133,553
Gross profit	\$ 90,556	\$ 72,784	\$ 65,316	\$ 66,404
Net income	\$ 18,734	\$ 15,193	\$ 13,817	\$ 13,562
Earnings per common and common equivalent share	\$.32	\$.26	\$.24	\$.24
Price range per common share	\$19-\$11⅛	\$17¾-\$12¾	\$22⅛-\$14⅛	\$22⅞-\$14⅜

The price range per common share is the highest and lowest closing bid quotation for Apple's common stock during each quarter. Prior to April 1, 1982 such prices reflect inter-dealer quotations without mark-ups, mark-downs or commissions, and do not necessarily represent actual transactions.

At September 30, 1983 there were approximately 29,000 shareholders of record.

Management's Discussion

Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion that follows is management's analysis of significant events and trends that have affected Apple's financial performance and condition over the last three years.

Results of Operations

1983 compared to 1982

Net sales in 1983 were \$983 million, a 69% increase over 1982. Sales of the Apple II and related peripheral products increased during 1983, reflecting the increased demand for these products and the introduction of the Apple IIe, an enhanced version of the Apple II, in the second fiscal quarter. The continuation of sales promotion programs offering price reductions to dealers on purchases of bundled Apple II systems also contributed to the increase in sales. Sales of the Apple III and related peripheral equipment remained constant with 1982 sales, in spite of a price reduction made in the third quarter of 1983. Lisa sales increased steadily each quarter since its introduction in the second quarter of 1983. The price of the Lisa was reduced late in the fourth quarter of 1983; however this price reduction did not have a significant impact on net sales for the year.

Gross margin was 48.5% of sales in 1983, a 2.1 percentage point decrease from 1982. This decrease was due to the price reductions discussed above and certain unusual costs incurred during the year, which were partially offset by lower material costs. Unusual costs incurred in the fourth quarter of 1983 were due to reserves for excess inventory and pur-

chase commitments, and Apple's decision to obtain disk drives from external sources as much as possible instead of manufacturing them. In addition, fourth quarter of 1983 included costs resulting from the consolidation of Apple's manufacturing operations, including the transfer of Lisa production from Cupertino to Texas and Ireland. Earlier in 1983, gross margin was negatively impacted by costs associated with the initial shipments of Lisa and air freight costs incurred to meet the unexpectedly high demand for the Apple IIe.

Research and development expenses decreased as a percentage of net sales to 6% from 7% in 1982. Research and development spending in 1982 culminated in the introduction of the Apple IIe and Lisa in the second quarter of 1983. Although research and development expenses decreased as a percentage of sales due to the development cycle of these products, actual spending increased to \$60 million from \$38 million in 1982, reflecting Apple's continuing emphasis on new product development. These product development expenditures are expected to result in new product introductions during the next 18 months.

Marketing and distribution expenses increased to 23% of sales, compared to 21% in 1982, due to higher levels of advertising and promotion expenses and to increased selling expenses resulting from the increased volume of direct sales to schools during the last six months of the year. In addition, the costs associated with the "Kids Can't Wait" program were charged to marketing and distribution expense in the fourth quarter. Under this program, more than 8,000 Apple IIe computer systems were donated to California schools.

General and administrative expenses remained constant at 6% of sales.

Interest income, net of expense, was \$16 million in 1983, an increase of \$2 million over

1982. This increase was due to higher average short term investments during 1983 which more than offset declining interest rates.

In 1984, Apple will be adopting the Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." If adopted in 1983, the effect on the 1983 consolidated financial statements would have been immaterial.

The impact of inflation on Apple's financial performance is discussed in the notes to the consolidated financial statements.

1982 compared to 1981

Net sales in 1982 were \$583 million, a 74% increase over 1981. Sales of the Apple II and Apple III increased during 1982, reflecting the continuing demand for these products. The increased sales level was also attributable to the introduction of new products in 1982, including software packages and peripheral equipment, which expanded the practical applications of the personal computer systems. Late in the third quarter of 1982, special sales promotion programs were initiated under which price reductions were offered to dealers on purchases of bundled Apple II and Apple III systems, which included both hardware and software.

Gross margin was 50.6% of sales in 1982, a 1.4 percentage point improvement over 1981. This improvement resulted from lower material costs and increased manufacturing productivity, partially offset by lower margins on bundled Apple II and Apple III systems and unusually high scrap and obsolete inventory costs. Such costs were due principally to the introduction of the improved Apple III system, whereby purchasers of the original Apple III model were given the opportunity to exchange it at no cost, and the identification of excess amounts of certain software products. In addition, cost of sales in 1981 included

expenses resulting from the expansion of Apple's foreign manufacturing facilities and costs related to reliability problems with the Apple III.

Research and development expenses increased to 7% of sales in 1982 from 6% in 1981. This increase in spending culminated in the introduction of major new products in 1983. Marketing and distribution expenses increased to 21% of sales in 1982 from 17% in 1981. This increase reflects higher levels of advertising and promotion as well as higher distribution costs in 1982 due to the expansion of Apple's domestic and European distribution network. General and administrative expenses decreased slightly as a percentage of sales to 6% in 1982 from 7% in 1981.

Interest income, net of expense, was \$15 million in 1982, an increase of \$4 million over 1981. This increase was primarily due to increased temporary cash investments, which more than doubled during 1982. This increase was partially offset by lower interest rates on such investments during 1982.

Liquidity and Capital Resources

Apple's ability to generate the cash necessary to meet its needs ("liquidity") results from operations and the sale of common stock. Apple's liquidity is improved by the tax benefit recognized upon the exercise of non-qualified 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. In 1982, Apple began granting incentive stock options under the 1981 Stock Option Plan which, upon exercise, may not result in the same tax benefits.

1983 compared to 1982

Apple's liquidity remained strong during the year with cash and temporary cash investments of \$143 million at the end of 1983. The major sources of liquidity during the year were provided by operations (\$135 million) and the sale of common stock to employees under stock option plans (\$39 million, including tax benefits of \$29 million) and the employee stock purchase plan (\$4 million).

Apple's liquidity was reduced during 1983 by increases in accounts receivable, inventories and property, plant and equipment. Net accounts receivable were \$136 million at September 30, 1983 compared to \$71 million at the end of 1982. This increase reflects the higher sales level in 1983 and an increase in the number of days' sales outstanding to 45 days. Net inventories were \$142 million at September 30, 1983, an 89% increase over the \$75 million at the end of 1982. Inventory turnover increased to 4.6 times from 3.3 times at the end of 1982. Net investments in property, plant and equipment amounted to \$53 million during 1983, reflecting expansion of Apple's manufacturing facilities and corporate headquarters.

At September 30, 1983, Apple's unused

sources of liquidity consisted primarily of \$143 million of cash and temporary cash investments, and unused credit facilities with domestic and foreign banks of \$125 million. Apple's capital resource commitments at the end of 1983 consisted principally of obligations under operating leases and commitments to expand manufacturing facilities.

1982 compared to 1981

Apple's liquidity improved in 1982 with cash and temporary cash investments more than doubling during the year to \$153 million at the end of 1982. The major sources of liquidity in 1982 were provided by operations (\$85 million) and the sale of common stock to employees under stock option plans (\$16 million, including tax benefits of \$15 million) and the employee stock purchase plan (\$2 million). In addition, as a result of management's efforts to improve inventory turnover, inventories decreased by \$23 million during 1982.

Apple's liquidity was reduced during 1982 by increases in accounts receivable and property, plant and equipment. Accounts receivable increased by \$29 million, reflecting the higher sales level in 1982 and a reduction in the number of days' sales outstanding to 37 days. Investments in property, plant and equipment were \$26 million during 1982, reflecting the expansion of Apple's manufacturing facilities, distribution network and corporate headquarters.

Consolidated Statements of Income

Three years ended September 30, 1983			
<i>(In thousands, except per share amounts)</i>			
	1983	1982	1981
Net sales	\$982,769	\$583,061	\$334,783
Costs and expenses:			
Cost of sales	505,765	288,001	170,124
Research and development	60,040	37,979	20,956
Marketing and distribution	229,961	119,945	55,369
General and administrative	57,364	34,927	22,191
	853,130	480,852	268,640
Operating income	129,639	102,209	66,143
Interest, net	16,483	14,563	10,400
Income before taxes on income	146,122	116,772	76,543
Provision for taxes on income	69,408	55,466	37,123
Net income	\$ 76,714	\$ 61,306	\$ 39,420
Earnings per common and common equivalent share	\$ 1.28	\$ 1.06	\$.70
Common and common equivalent shares used in the calculation of earnings per share	59,867	57,798	56,161

See accompanying notes.

Consolidated Balance Sheets

September 30, 1983 and September 24, 1982		
<i>(Dollars in thousands)</i>		
	1983	1982
Assets		
Current assets:		
Cash and temporary cash investments	\$143,284	\$153,056
Accounts receivable, net of allowance for doubtful accounts of \$5,124 (\$3,606 in 1982)	136,420	71,478
Inventories	142,457	75,368
Prepaid income taxes	27,949	2,089
Other current assets	18,883	9,223
Total current assets	468,993	311,214
Property, plant and equipment:		
Land and buildings	19,993	7,220
Machinery and equipment	51,445	26,136
Office furniture and equipment	22,628	13,423
Leasehold improvements	15,894	10,515
	109,960	57,294
Accumulated depreciation and amortization	(42,910)	(22,811)
Net property, plant and equipment	67,050	34,483
Other assets	20,536	12,090
	\$556,579	\$357,787
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ —	\$ 4,185
Accounts payable	52,701	25,125
Accrued compensation and employee benefits	15,770	11,774
Income taxes payable	—	15,307
Accrued marketing and distribution	21,551	12,575
Other current liabilities	38,764	16,790
Total current liabilities	128,786	85,756
Non-current obligations under capital leases	1,308	2,052
Deferred taxes on income	48,584	12,887
Shareholders' equity:		
Common stock, no par value, 160,000,000 shares authorized, 59,198,397 shares issued and outstanding	183,715	141,070
Retained earnings	195,046	118,332
	378,761	259,402
Notes receivable from shareholders	(860)	(2,310)
Total shareholders' equity	377,901	257,092
	\$556,579	\$357,787

See accompanying notes.

Consolidated Statements of Shareholders' Equity

<i>(In thousands)</i>	Common Stock		Retained Earnings	Notes Receivable From Shareholders	Total Shareholders' Equity
	Shares	Amount			
Balance at September 26, 1980	48,550	\$ 12,348	\$ 17,606	\$ (4,006)	\$ 25,948
Sale of common stock to public	4,400	90,361	—	—	90,361
Sale of common stock under stock option plans and related tax benefits	2,747	19,827	—	—	19,827
Sale of common stock under employee stock purchase plan	52	969	—	—	969
Repayments of notes receivable from shareholders, net of shares repurchased	(440)	(188)	—	1,050	862
Net income	—	—	39,420	—	39,420
Balance at September 25, 1981	55,309	123,317	57,026	(2,956)	177,387
Sale of common stock under stock option plans and related tax benefits	1,741	16,354	—	—	16,354
Sale of common stock under employee stock purchase plan	110	1,624	—	—	1,624
Repayments of notes receivable from shareholders, net of shares repurchased	(37)	(225)	—	646	421
Net income	—	—	61,306	—	61,306
Balance at September 24, 1982	57,123	141,070	118,332	(2,310)	257,092
Sale of common stock under stock option plans and related tax benefits	1,914	38,837	—	—	38,837
Sale of common stock under employee stock purchase plan	231	3,972	—	—	3,972
Repayments of notes receivable from shareholders, net of shares repurchased	(70)	(164)	—	1,450	1,286
Net income	—	—	76,714	—	76,714
Balance at September 30, 1983	59,198	\$183,715	\$195,046	\$ (860)	\$377,901

See accompanying notes.

Consolidated Statements of Changes in Financial Position

Three years ended September 30, 1983			
(In thousands)	1983	1982	1981
Working capital was provided by:			
Operations:			
Net income	\$ 76,714	\$ 61,306	\$ 39,420
Charges to operations not affecting working capital:			
Depreciation and amortization	22,440	16,556	8,590
Deferred taxes on income (non-current)	35,697	7,625	4,311
Total working capital provided by operations	134,851	85,487	52,321
Increases in common stock and related tax benefits, net of changes in notes receivable from shareholders	44,095	18,399	112,019
Increases in non-current obligations under capital leases	—	1,172	1,747
Total working capital provided	178,946	105,058	166,087
Working capital was applied to:			
Purchase of property, plant and equipment, net of retirements	52,666	26,470	24,529
Other	11,531	4,421	6,102
Total working capital applied	64,197	30,891	30,631
Increase in working capital	\$114,749	\$ 74,167	\$135,456
Increase (decrease) in working capital by component:			
Cash and temporary cash investments	\$ (9,772)	\$ 80,222	\$ 72,471
Accounts receivable	64,942	29,148	26,516
Inventories	67,089	(22,972)	64,640
Prepaid income taxes	25,860	2,089	—
Other current assets	9,660	1,156	4,329
Notes payable to banks	4,185	6,560	(2,895)
Accounts payable	(27,576)	1,488	(12,118)
Accrued compensation and employee benefits	(3,996)	(4,015)	(5,206)
Income taxes payable	15,307	(6,686)	(486)
Accrued marketing and distribution and other current liabilities	(30,950)	(12,823)	(11,795)
Increase in working capital	\$114,749	\$ 74,167	\$135,456

See accompanying notes.

Notes to Consolidated Financial Statements

Three years ended September 30, 1983

Summary of 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 intercompany accounts and transactions.

Fiscal Year

Apple's fiscal year ends on the last Friday in September.

Inventories

Inventories are valued at the lower of cost or market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market is based upon estimated net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are computed principally by use of declining balance methods over the estimated useful lives of the assets.

Service Parts

Service parts, which were previously included in inventories, have been reclassified to other assets in 1983. The 1982 and 1981 consolidated financial statements have been reclassified to conform to the current presentation.

Earnings Per Share

Earnings per share are computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period.

Inventories

Inventories consist of the following:

<i>(In thousands)</i>	1983	1982
Raw materials and purchased parts	\$ 44,488	\$32,781
Work-in-process (including materials held by subcontractors)	28,069	12,660
Finished goods	69,900	29,927
Total	\$142,457	\$75,368

Borrowing Arrangements

Apple has short-term unsecured credit facilities with domestic and foreign banks totalling \$125 million. There are no compensating balance requirements or fees associated

with these credit facilities and they are cancelable at any time by either the banks or Apple. There were no borrowings against these credit facilities at September 30, 1983.

Taxes on Income

The provisions for taxes on income consist of the following:

<i>(In thousands)</i>	1983	1982	1981
Federal:			
Current	\$28,705	\$40,548	\$26,303
Deferred	26,981	4,008	5,769
	55,686	44,556	32,072
State:			
Current	9,760	9,365	4,116
Deferred (prepaid)	(366)	(756)	331
	9,394	8,609	4,447
Foreign:			
Current	5,218	2,505	604
Deferred (prepaid)	(890)	(204)	—
	4,328	2,301	604
Provision for taxes on income	\$69,408	\$55,466	\$37,123

There were approximately \$58.8 million, \$23.7 million and \$11.2 million of foreign pretax earnings in 1983, 1982 and 1981, respectively, upon which federal and state taxes have been provided.

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Included in prepaid income taxes are prepaid taxes relating to such timing differences of \$12,061,000 and \$2,089,000 in 1983 and 1982, respectively. The sources of these differences and the tax effect of each are as follows:

<i>(In thousands)</i>	1983	1982	1981
Inventory valuation differences	\$ (3,693)	\$(4,866)	\$3,191
Income of Domestic International Sales Corporation	2,450	3,070	98
Income of foreign subsidiaries not taxable in current year	25,533	8,987	4,753
Financial statement depreciation in excess of current tax deduction	(4,899)	(3,090)	(663)
Other	6,334	(1,053)	(1,279)
Total deferred (prepaid) taxes	\$25,725	\$ 3,048	\$6,100

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 difference and the tax effect of each are as follows:

<i>(In thousands)</i>	1983	1982	1981
Computed expected tax, net of surtax exemption	\$67,192	\$53,696	\$35,191
State taxes, net of federal benefit	5,073	4,649	2,401
Investment tax credits (flow-through method)	(1,200)	(1,100)	(650)
Research and development credit	(5,000)	(3,400)	(600)
Other	3,343	1,621	781
Provision for taxes on income	\$69,408	\$55,466	\$37,123

Leases

Apple leases various facilities and equipment under noncancellable lease arrangements. The major facilities leases are for terms of five to ten years and generally provide renewal options of five additional years. The equipment leases are for terms of three to seven years.

Certain equipment leases are accounted for as the acquisition of an asset and the incurrence of a liability ("capital leases"). This equipment is classified as machinery and equipment in the balance sheet and is being depreciated over the lease terms using the double declining balance method.

Minimum future lease payments under all noncancellable leases as of September 30, 1983 are as follows:

<i>(In thousands)</i>	Capital Leases	Operating Leases
1984	\$ 928	\$16,101
1985	718	14,556
1986	624	11,152
1987	172	8,652
1988	—	6,474
Later years	—	11,271
Total minimum lease payments	\$2,442	\$68,206

The present value of total minimum lease payments under capital leases was \$2,014,000 at September 30, 1983. Rent expense under all operating leases was \$17,363,000, \$11,698,000 and \$5,427,000 in 1983, 1982, and 1981, respectively.

Employee Benefit Plans

Stock Option Plans

Apple has three stock option plans under which officers, directors, employees and contractors may be granted options to purchase shares of Apple's common stock at the fair

market value on the date of grant. The options become exercisable over varying periods and expire six to eight years after the grant date. The 1981 Stock Option Plan permits the granting of both incentive stock options and non-qualified stock options. Proceeds from the exercise of stock options, including income tax benefits of \$28,581,000, \$14,591,000 and \$18,362,000 in 1983, 1982 and 1981, respectively, have been added to shareholders' equity.

Information regarding stock option plans at September 30, 1983 is summarized below:

<i>(In thousands, except per share amounts)</i>	Number of Shares	Price per Share
Outstanding	7,220	\$.09-\$59.31
Exercisable	878	\$.09-\$18.06
Reserved for issuance	13,210	
Available for future grant	5,990	

In June 1983, the Board of Directors adopted a resolution to increase the number of shares reserved for issuance under the 1981 Stock Option Plan by seven million shares. This action is subject to approval by the shareholders at the Annual Meeting. The information presented above reflects this action.

In October 1983, the Board of Directors adopted a resolution allowing employees to exchange certain higher priced options for new options at \$21.19, the fair market value on the date of the Board's action. The information presented above does not reflect the new price.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted an Employee Stock Purchase Plan under which one million 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.

Preferred Stock

Five million shares of preferred stock have been authorized for issuance 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.

Notes to Consolidated Financial Statements (continued)

Litigation

In December 1981 six dealers filed suit against Apple seeking to restrain the Company from implementing a prohibition of mail order sales by authorized Apple dealers. The dealers' request for a preliminary injunction was denied as was Apple's motion for summary judgment. The plaintiff's application for permanent injunction and Apple's counterclaims are pending.

Apple has instituted many law suits against companies throughout the world alleging patent and copyright infringement, unfair competition and misappropriation. Among these suits is one against Franklin Computer Corp. brought in the U.S. District Court for the Eastern District of Pennsylvania. Franklin has asserted counterclaims against Apple seeking to invalidate some of Apple's patents and copyrights and also seeking to assess liability for alleged antitrust violations, alleged unfair competition, and alleged unlawful interference with business relations. With respect to these counterclaims Franklin seeks compensatory damages in excess of \$50 million, plus punitive damages. On August 30, 1983, the U.S. Court of Appeals for the Third Circuit reversed the District Court and held that the computer programs of the type involved in the suit were eligible for copyright protection and remanded the case to the District Court for further proceedings and subsequently denied Franklin's petition for rehearing.

In December 1982, a former Apple distributor in Milan filed an action against Apple in Italy alleging the premature termination of his dealership and claimed monetary damages.

In the opinion of Apple's management the outcome of all of the above unresolved litigation will result in no material loss to Apple.

Industry Segment and Geographic Information

Apple operates in one principal industry segment: the design, manufacture, sale and servicing of personal computers and related software and peripheral products. Apple's products are sold primarily to the business, education and home markets. The principal method of distribution has been the independent retail dealer, although Apple has recently opened additional channels, such as department stores and direct sales.

Apple's foreign operations consist of manufacturing facilities in Ireland and Singapore and distribution facilities in Europe, Canada and Australia. Foreign exchange gains and

losses were not material in 1983, 1982 and 1981. Geographic financial information for 1983, 1982 and 1981 is as follows:

(In thousands)	1983	1982	1981
Net sales to unaffiliated customers in:			
United States	\$764,416	\$440,895	\$244,141
Europe	124,571	92,725	59,308
Other	93,782	49,441	31,334
Total net sales	\$982,769	\$583,061	\$334,783
Transfers between geographic areas (eliminated in consolidation):			
United States	\$ 88,641	\$ 69,745	\$ 33,944
Europe	26,760	16,448	1,098
Other	152,540	36,673	—
Total transfers	\$267,941	\$122,866	\$ 35,042
Operating income:			
United States	\$ 78,833	\$ 80,976	\$ 60,278
Europe	19,834	15,423	11,247
Other	32,463	6,225	997
Eliminations	(1,491)	(415)	(6,379)
Unallocated	16,483	14,563	10,400
Income before taxes on income	\$146,122	\$116,772	\$ 76,543
Identifiable assets:			
United States	\$337,494	\$161,118	\$147,095
Europe	58,812	37,160	36,293
Other	19,888	7,100	4,933
Eliminations	(2,899)	(647)	(6,317)
Corporate assets	143,284	153,056	72,834
Total assets	\$556,579	\$357,787	\$254,838

Transfers between geographic areas are accounted for at amounts generally above cost and are in accordance with the rules and regulations of governing tax authorities. Operating income is total revenue less operating expenses and does not include either net interest or taxes on income.

Identifiable assets are assets that are identifiable with the operations in each geographic area. Corporate assets are cash and temporary cash investments.

Sales to one retail dealer were 10% of total sales in 1981.

Supplementary Financial Information Adjusted for Changing Prices (Unaudited)

The following supplementary financial information is intended to show how inflation and other price changes affected Apple's financial performance. As required by the Financial Accounting Standards Board, historical dollar amounts for selected financial

data have been adjusted to reflect the effects of inflation (constant dollar) and changes in specific prices (current cost). Since these adjustments were computed using various assumptions and estimates, the financial information presented is only an approximation of the effect which inflation and other price changes have had on Apple's financial performance.

Following is a statement of income and other financial information for the year ended September 30, 1983 adjusted for changing prices:

<i>(In millions, except per share amounts)</i>			
	<i>As Reported in the Primary Financial Statements (Historical Cost)</i>	<i>Adjusted for General Inflation (Constant Dollar)</i>	<i>Adjusted for Changes in Specific Prices (Current Cost)</i>
Net sales	\$982.8	\$982.8	\$982.8
Cost of sales	505.8	509.2	506.0
Other operating costs and expenses	347.4	347.9	347.7
Interest income, net	16.5	16.5	16.5
Provision for taxes on income	69.4	69.4	69.4
Net income	\$ 76.7	\$ 72.8	\$ 76.2
Earnings per common and common equivalent share	\$ 1.28	\$ 1.22	\$ 1.27
Depreciation expense included in costs and expenses above	\$ 20.1	\$ 21.2	\$ 20.6
Inventories and property, plant and equipment (net) at September 30, 1983	\$209.5	\$211.2	\$211.3
Decrease in current cost of inventories and property, plant and equipment (net) held during the year			\$.4
Effect of increase in general price level			3.7
Excess of increase in general price level over decrease in specific prices (\$5.7 in 1982)			\$ 4.1

Constant Dollar

Inflation causes dollars earned and spent in the current year to have less value than dollars earned and spent in previous years. To measure the effect of inflation, historical dollar amounts are restated into constant dollars (dollars with the same purchasing power) using the Consumer Price Index for All Urban Consumers (CPI-U). Using this method, the historical cost of inventories and related cost of sales, and property, plant and equipment were restated into average 1983 dollars. Depreciation expense for 1983 was restated based upon the average 1983 dollar value of property, plant and equipment. The depreciation methods and lives used in this calculation were the same as those used in the historical cost financial statements. Net sales, other expenses and net interest for 1983 have not been adjusted since they already approximate average 1983 dollars. The provision for taxes on income has not been adjusted to reflect the difference between income computed on the constant dollar basis and income reported in the primary financial statements.

Inflation caused the value of inventory sold during 1983 to increase when stated in average 1983 dollars. This resulted in an increase of approximately \$2.8 million to cost of sales for the year. Inflation also caused the value of property, plant and equipment acquired before 1983 to increase, resulting in an increase of \$1.1 million to depreciation expense. Apple's net assets, stated in average 1983 dollars, were \$377.1 million at September 30, 1983 (\$263.4 million at September 24, 1982). Constant dollar net income for 1982, stated in average 1983 dollars, was \$56.6 million, or \$.98 per share.

Current Cost

To measure the effect on Apple's financial performance of the difference between the historical cost and the cost of replacing property, plant and equipment at the end of 1983 (current cost), specific price indices were applied to these assets. Depreciation expense for 1983 was restated using these calculated current costs and the same depreciation methods and lives used in the historical cost financial statements. No adjustment was made to inventories or cost of sales (other than the restated depreciation component) because historical cost approximates current cost. Net sales, other expenses and net interest were not adjusted since they already approximate current cost. The provision for taxes on income has not been adjusted to reflect the

Notes to Consolidated Financial Statements (continued)

difference between income computed on the current cost basis and income reported in the primary financial statements.

During 1983, increases in specific prices for property, plant and equipment acquired before 1983 resulted in a \$.5 million increase to depreciation expense. The current cost of net assets, stated in average 1983 dollars, was \$374.1 million at September 30, 1983 (\$260.6 million at September 24, 1982). Current cost net income for 1982, stated in average 1983 dollars, was \$63.0 million, or \$1.09 per share.

Other Information

Apple's net monetary position is also impacted by inflation. In periods of inflation, companies which hold cash and other monetary assets lose purchasing power since these assets will purchase fewer goods and services. Conversely, companies which have liabilities of fixed amounts gain purchasing power during periods of inflation because these obligations are payable in dollars of reduced value. The net effect is the gain or loss in the purchasing power of net monetary assets. During 1983, Apple held more monetary assets than liabilities and consequently experi-

enced a purchasing power loss on net monetary assets of \$4.4 million. Apple's purchasing power loss in 1982, stated in average 1983 dollars, was \$4.1 million.

Following is a five-year comparison of selected financial information adjusted for changing prices:

	Net Sales in Millions of Constant 1983 Dollars	Market Price Per Common Share at Year End in Constant 1983 Dollars	Average Annual Consumer Price Index- Urban (CPI-U)
1983	\$982.8	\$22.91	295.9
1982	\$603.3	\$18.41	286.0
1981	\$372.1	\$15.10	266.2
1980	\$144.6	—	239.7
1979	\$ 67.1	—	211.0

Prior to 1981, Apple's common stock was not publicly traded. The average annual CPI-U for 1983 is estimated.

Report of Certified Public Accountants

To the Shareholders and Board of Directors
of Apple Computer, Inc.

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. at September 30, 1983 and September 24, 1982 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 30, 1983. 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 30, 1983 and September 24, 1982 and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 30, 1983 in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
October 21, 1983

Board of Directors

Steven P. Jobs
Chairman of the Board
Apple Computer, Inc.

A.C. Markkula, Jr.
Vice Chairman of the Board
Apple Computer, Inc.

Peter O. Grigg
General Partner
Venrock Associates
Venture capital investments

Arthur Rock
Principal in Arthur Rock & Co.
Venture capital investments

Phillip S. Schlein
Chairman of the Board
Macy's California
Retail department store chain

John Sculley
President and Chief Executive Officer
Apple Computer, Inc.

Henry Singleton
Chairman of the Board
Teledyne, Inc.
Diversified manufacturing company

Officers

John Sculley
President and
Chief Executive Officer

Steven P. Jobs
Chairman of the Board and
Vice President

E. Floyd Kvamme
Executive Vice President
Marketing and Sales

Kenneth R. Zerbe
Executive Vice President
Finance and Administration

William V. Campbell
Vice President
Marketing

Gene P. Carter
Vice President
Sales

John C. Cavalier
Vice President and General Manager
Personal Computer Systems

Jay R. Elliot
Vice President
Human Resources

Albert A. Eisenstat
Vice President
Secretary and General Counsel

Joseph A. Graziano
Vice President
Chief Financial Officer

Michael Muller
Vice President and General Manager
Accessory Products

Roy H. Weaver
Vice President and General Manager
Distribution, Service and Support

Delbert W. Yocam
Vice President and General Manager
Operations

Charles W. Berger
Treasurer

Trademarks

Apple Computer, Inc. and its subsidiaries have applied for or have received registered trademarks on the following names appearing in this report: Apple, the Apple logo and Lisa. VisiCalc is a registered trademark of VisiCorp. IBM is a registered trademark of International Business Machines Corporation. Lotus and 1-2-3 are trademarks of Lotus Development Corporation.

Stock Trading

The Company's common stock is traded in the over-the-counter market and is listed on the NASDAQ National List. Symbol: AAPL

Transfer Agent and Registrar

The First National Bank of Boston
Boston, Massachusetts

Certified Public Accountants

Arthur Young & Company
San Jose, California

SEC Form 10-K

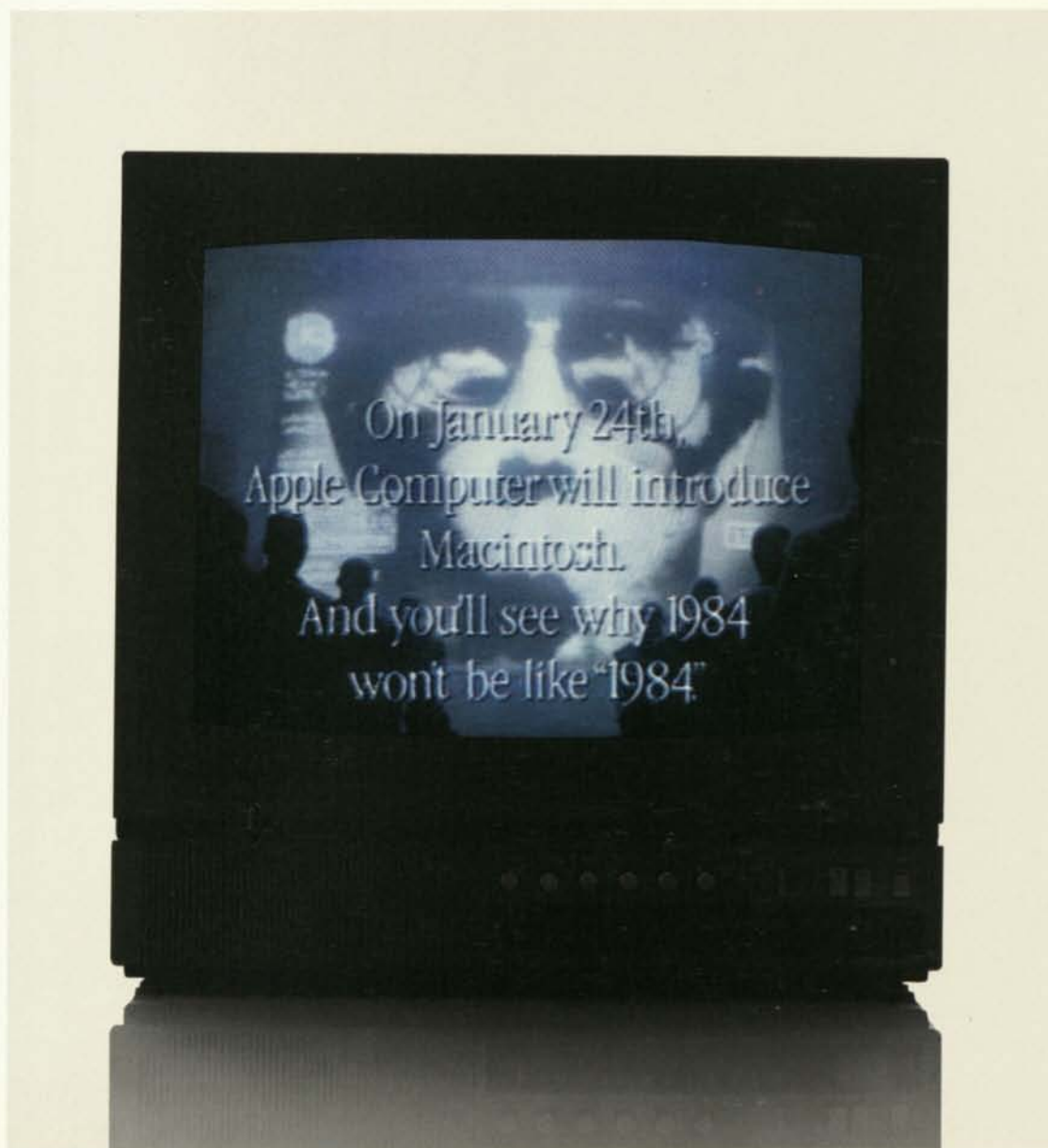
If you would like a copy of our Annual Report on SEC Form 10-K for the fiscal year ended September 30, 1983, you may obtain it without charge. Please direct your request to Albert A. Eisenstat, corporate secretary, Apple Computer, 20525 Mariani Ave., Cupertino, California 95014.

Corporate Information

Please direct inquiries to Charles W. Berger, Treasurer, Apple Computer, 20525 Mariani Avenue, Cupertino, California 95014.

Annual Meeting

The annual meeting of shareholders will be held on January 24, 1984 at 10:00 A.M. local time at Flint Center, DeAnza Community College, 21240 Stevens Creek Blvd., Cupertino, California.



“We must keep an eye on planning [the personal computer’s] integration into the full IBM product line and carefully manage its role in our total business....

“...avoid an undue focus on the significance of the personal computer to IBM’s total business success, both in 1984 and the future. The phrase we often use is ‘PC Myopia.’...

“...While the PC has been a good contributor to 1984’s growth, we fully expect large processors, mainframes, storage devices, peripherals, and software to carry their fair share of IBM growth now and beyond 1984.”

IBM
June 13, 1984

Mailed to Shareholders on
or about December 14, 1984

APPLE COMPUTER, INC.
2053 Mariani Avenue
Cupertino, California 95014

APPLE COMPUTER, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

January 23, 1985

To Apple Shareholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of APPLE COMPUTER, INC. ("Apple"), a California corporation, will be held on Wednesday, January 23, 1985 at 10:00 a.m., local time, at Flint Center, DeAnza College, 21250 Stevens Creek Boulevard, Cupertino, California, for the following purposes, as more fully described in the accompanying Proxy Statement:

1. To elect seven (7) directors to serve for the ensuing year and until their successors are elected;
2. To ratify the appointment of Arthur Young & Company as independent public accountants of Apple for the 1985 fiscal year; and
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on November 26, 1984 are entitled to notice of and to vote at the meeting.

All shareholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are requested to mark, date, sign, and return the enclosed proxy card as promptly as possible in the envelope provided. Shareholders attending the meeting may vote in person even if they have returned a proxy.

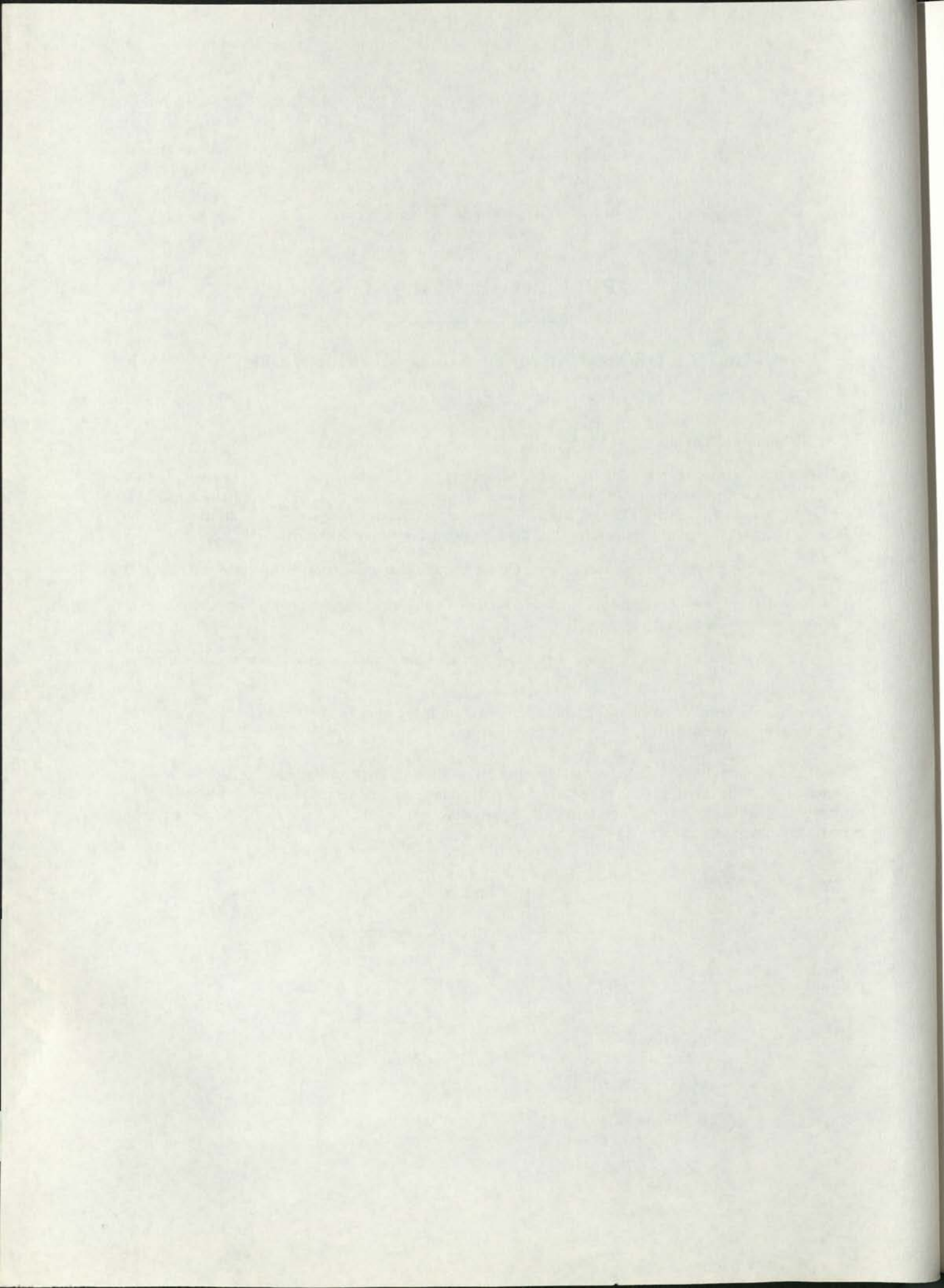
Principal Sincerely,

Albert A. Eisenstat, *Secretary*

Cupertino, California
December 14, 1984

Name	Shares of Common Stock Beneficially Owned	
	Number of Shares	Percent of Total
Steven P. Jobs	6,850,001	11.3%
A. C. Markkula, Jr.	5,465,875(1)	9.12%

(1) The number includes (i) shares held of record by Anna Clifford Markkula and Linda Kathryn Markkula, Trustees of the Artis Trust A/D/T dated May 26, 1980, and (ii) shares held by ACM Aviation, Inc., all of which shares are beneficially owned by Mr. Markkula.



APPLE COMPUTER, INC.
20525 Mariani Avenue
Cupertino, California 95014

PROXY STATEMENT

The enclosed Proxy is solicited on behalf of APPLE COMPUTER, INC. ("Apple" or the "Company") for use at its Annual Meeting of Shareholders to be held Wednesday, January 23, 1985 at 10:00 a.m., local time, or at any adjournment thereof. The purposes of the meeting are set forth herein and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at Flint Center, DeAnza College, 21250 Stevens Creek Boulevard, Cupertino, California.

Apple will bear the cost of this solicitation. Apple has retained the services of The First National Bank of Boston to assist in soliciting proxies from brokers and nominees for the Annual Meeting. The estimated cost of such services is \$6,500 plus out of pocket expenses. In the event that it becomes necessary to make a second distribution of proxy cards and reminder notices to brokers and nominees and/or to shareholders owning 10,000 shares or more, there would be additional charges, which could be significant. Apple does not currently believe that it will be necessary to incur such additional expense.

Shareholders of record at the close of business on November 26, 1984 are entitled to notice of and to vote at the meeting. At the record date, 60,607,946 shares of Apple's Common Stock, no par value, were issued and outstanding.

Shareholders may revoke any proxy given pursuant to this solicitation by delivering to Apple a written notice of revocation or a duly executed proxy bearing a later date or by attending the meeting and voting in person.

Shareholders voting in the election of directors may cumulate their votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which each shareholder's shares are entitled, or may distribute their votes on the same principle among as many candidates as they choose, provided that votes cannot be cast for more than the total number of directors to be elected at the meeting. However, no shareholder may cumulate votes unless the candidate's name has been placed in nomination prior to the voting and at least one shareholder at the meeting has given notice of the intention to cumulate votes prior to the voting. Each share has one vote on all other matters.

Shareholders of Apple who intend to present proposals at Apple's 1985 Annual Meeting of Shareholders must send such proposals to Apple no later than September 15, 1985 in order to be included in the proxy statement and form of proxy relating to the meeting.

Principal Shareholders

As of November 26, 1984, the following persons were known by Apple to be the beneficial owners of more than 5% of Apple's Common Stock:

Name	Shares of Common Stock Beneficially Owned	
	Number of Shares	Percent of Total
Steven P. Jobs	6,850,001	11.3%
A. C. Markkula, Jr.	5,465,875(1)	9.02%

(1) This number includes (i) shares held of record by Armas Clifford Markkula and Linda Kathryn Markkula, Trustees of the Arlin Trust U/D/T dated May 29, 1980, and (ii) shares held by ACM Aviation, Inc., all of which shares are beneficially owned by Mr. Markkula.

ELECTION OF DIRECTORS

Nominees

A board of seven directors is to be elected at the meeting. Unless otherwise instructed, proxy holders will vote the proxies received by them for Apple's seven nominees named below, all of whom are current directors of Apple. If any nominee of Apple is unable or declines to serve as a director at the time of the Annual Meeting, proxies will be voted for any nominee designated by the present Board of Directors to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director. If additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them according to the cumulative voting rules to assure the election of as many of the nominees listed below as possible. In such event, the specific nominees to be voted for will be determined by the proxy holders. The term of office of each person elected as a director will continue until the next Annual Meeting of Shareholders or until his successor has been elected and qualified.

The names of the nominees and certain information about them are set forth below:

Name, Principal Occupation, and Directorships	Age	Director Since	Shares of Common Stock Beneficially Owned as of November 26, 1984	
			Number of Shares	Percent of Total
John Sculley President and Chief Executive Officer of Apple since 1983; President and Chief Executive Officer of Pepsi-Cola Company from 1977 to 1983.	45	1983	124,700	.21%
A.C. Markkula, Jr. Vice Chairman of the Board since 1983; President and Chief Executive Officer from 1981 to 1983; Chairman of the Board from 1977 to 1981; Executive Vice President from 1980 to 1981; and Vice President of Marketing from 1977 to 1980.	42	1977	5,465,875(1)	9.02%
Steven P. Jobs Chairman of the Board since 1981; Executive Vice President and General Manager, Macintosh Division since 1984; Vice President since 1977; and Vice Chairman from 1979 to 1981.	29	1977	6,850,001	11.3%
Peter O. Crisp..... General Partner of Venrock Associates (a venture capital limited partnership) since 1969; limited partner of Hambrecht & Quist (an investment banking firm) from January 1982 to December 1982; and a director of Eastern Air Lines, Inc., Evans & Sutherland Computer Corp., Thermo Electron Corp., Galileo Electro-Optics Corp., and Thermedics, Inc.	52	1980	302,999(2)	.50%
Arthur Rock Principal of Arthur Rock & Co. (a venture capital investment firm) since 1969; limited partner of Hambrecht & Quist from 1980 to 1983; general partner of Arthur Rock & Assoc. from 1969 to 1980; and a director of Dasonics, Inc., Intel Corp. and Teledyne, Inc.	58	1980	537,195	.89%
Philip S. Schlein..... President and Chief Executive Officer of Macy's California (a retail department store chain) since 1974; and a director of Macy's California and R.H. Macy & Co., Inc.	50	1979	56,500	.09%
Henry E. Singleton..... Chairman of the Board and Chief Executive Officer of Teledyne, Inc. (a diversified manufacturing company) since 1960; and a director of Unicoa Corp., a publicly held subsidiary of Teledyne, Inc.	67	1978	475,000	.78%
All present Officers and Directors as a group (17 persons)			14,648,488(3)	24.17%

- (1) See footnote to the Principal Shareholders table.
- (2) Includes (i) 575 shares held by Mr. Crisp's wife, as to which shares he disclaims beneficial ownership, and (ii) 9,600 shares held in trust for Mr. Crisp's children, as to which shares he disclaims beneficial ownership.
- (3) Includes 247,748 shares subject to outstanding options held by 9 officers, which options were exercisable at November 26, 1984, or within 60 days of such date.

Board Meetings and Committees

The Board of Directors of Apple held a total of seven meetings during the fiscal year ended September 28, 1984.

The Audit Committee of the Board of Directors consisting of directors Crisp, Rock, Schlein and Singleton met three times during the last fiscal year. This Committee is primarily responsible for reviewing the services performed by Apple's independent public accountants and internal audit department and evaluating Apple's accounting principles and its system of internal accounting controls.

The Stock Option Committee of the Board of Directors consists of directors Schlein, Markkula, Jobs and Rock. This Committee is primarily responsible for administering Apple's 1978, 1980 and 1981 Stock Option Plans.

There are no nominating or compensation committees or any committees performing those functions.

No director attended fewer than 75% of all meetings of the Board of Directors and the committees, if any, upon which such director served during the 1984 fiscal year.

Executive Compensation

The following table sets forth certain information as to each of the five most highly compensated executive officers of Apple and as to all executive officers as a group for the fiscal year ended September 28, 1984:

<u>Individual or Persons in Group</u>	<u>Cash Compensation(1)</u>
John Sculley	\$2,164,068
President and Chief Executive Officer	
Steven P. Jobs	338,931
Executive Vice President and General Manager, Macintosh Division and Chairman of the Board	
William V. Campbell.....	317,314
Executive Vice President, Sales	
Delbert W. Yocam	272,507(2)
Executive Vice President and General Manager, Apple // Division	
Kenneth R. Zerbe	259,431
Vice President and General Manager, Americas, Far East, and Africa	
All Executive Officers as a group (15 persons)	\$4,942,575(2)(3)

- (1) Includes bonuses earned and disclosed below under "Employee Benefit Plans—Senior Management Bonus Plan" and amounts contributed by officers and Apple to the Apple Savings and Investment Plan. See "Employee Benefit Plans—Apple Savings and Investment Plan."
- (2) Excludes amounts paid as non-recurring tax equalization settlements as disclosed under "Certain Transactions."

- (3) Includes remuneration for 3 former officers. No executive officer received other compensation in excess of the lesser of \$25,000 or 10% of such officer's cash compensation, nor did all executive officers as a group receive other compensation in excess of the lesser of \$25,000 times the number of such officers or 10% of all executive officers' aggregate cash compensation, except as disclosed under "Certain Transactions" and "Employee Benefit Plans."

See "Employee Benefit Plans" for information as to certain remuneration paid during fiscal 1984 and proposed to be paid in the future.

Certain Transactions

Apple has periodically accepted promissory notes from officers and directors in payment for shares of Apple's Common Stock issued to such officers and directors upon the exercise of options under Apple's stock option plans, under the 1980 Key Employee Stock Purchase Plan and under restricted stock purchase agreements. All outstanding notes bear interest at the rate of 6% per annum, are due four or five years from their dates and are secured by the shares purchased. The largest aggregate amounts outstanding during fiscal 1984, all of which remained outstanding at fiscal year end, were as follows for such officers and directors: Albert A. Eisenstat (\$220,000); Michael Muller (\$151,250); John Sculley (\$2,388,750) and Kenneth R. Zerbe (\$137,500).

In addition, during fiscal 1984 the Company extended Mr. Roy H. Weaver, Jr., Vice President, Field Operations, an unsecured demand loan in the amount of \$170,000 bearing interest at 6% per annum for the purpose of meeting a margin call on Apple stock and an unsecured relocation loan to Mr. Michael Muller, Vice President and General Manager, Accessory Products, in the amount of \$100,000 due and payable by the end of calendar 1984, bearing interest at 6% per annum, for the purchase of a new personal residence, which loan was repaid in full with interest during the year.

In connection with the employment arrangement between Apple and John Sculley, Apple agreed to pay Mr. Sculley a cash bonus of \$2,500,000, of which \$1,500,000 was paid in fiscal 1983 and 1,000,000 has been paid in fiscal 1984. In addition, in April 1983, Apple purchased from Mr. Sculley his residence in Greenwich, Connecticut, for \$1,300,000 cash, based upon an appraisal of the property. On August 30, 1983, the property was sold by Apple to an independent financial agency at the same price paid by Apple, with a provision for indemnification of the agency if the property were resold at a lesser price. The property was subsequently resold by the agency for \$1,000,000 on November 30, 1983, and Apple paid \$300,000 to the agency under the indemnification provisions plus related expenses of approximately \$78,000.

In late 1982 certain officers of the Company exercised non-statutory options to purchase stock granted pursuant to the Company's stock option plans. At the time of exercise no elections under section 83(b) of the Internal Revenue Code of 1954, as amended, were filed on behalf of those officers. Because of certain restrictions on the sale of those option shares at the time of their purchase pursuant to section 16(b) of the Securities Exchange Act of 1934, increases in the market value of the shares, and no elections having been filed, more taxes were due from those officers than if valid elections had been filed. The Company entered into settlements with each of them to partially defray the increased taxes due. Messrs. Yocam and Joseph Graziano, Vice President, Finance and Chief Financial Officer, received \$160,000 and \$252,244 respectively, and \$1,110,000 was paid to three former officers of the Company, for a total of \$1,522,244. The Company realized a net after-tax benefit of approximately \$1,300,000 as compared to the tax incidents otherwise arising out of proper and timely filing of effective 83(b) elections.

During fiscal 1984, Apple provided collateral for Messrs. Graziano, Weaver and Charles Berger, Treasurer of the Company, in the amounts of \$100,000, \$133,000, and \$67,000, respectively, as security for loans.

Employee Benefit Plans

The following is a brief summary of plans in effect during the past fiscal year under which Apple officers and employees received benefits. The closing price of Apple's Common Stock on the NASDAQ National Market System on November 26, 1984 was \$24.00 per share.

Senior Management Bonus Plan

For fiscal 1984, Apple's Board of Directors adopted a bonus plan for its senior managers, including officers, general managers, operational directors, and certain other senior employees. Participants in such plan may not participate in any other bonus or profit participation plans of Apple. Under this plan, a target bonus is established for all participants based upon a percentage of their base compensation. Payment of 50% of this target is contingent upon Apple's achievement of certain sales and profit goals and payment of the remaining 50% is contingent upon the individual's achievement of established personal employment goals and objectives. If Apple's performance requirements are not achieved, no bonus awards would be paid from the Senior Management Bonus Plan unless the President, at his discretion, awards bonuses on a case-by-case basis. Apple's President administers the plan. Bonus plans differing slightly in the method of bonus calculation were in effect in each fiscal year since fiscal 1979. The Board has adopted a similar plan for fiscal 1985.

In addition to the Senior Management Bonus Plan, Apple had an agreement with Mr. Sculley pursuant to which he was paid a bonus of \$1,000,000 in fiscal 1984 as part of a total bonus of \$2,500,000. See "Certain Transactions."

The following table sets forth, as to certain officers and as to all officers as a group, the amounts earned under all of Apple's bonus plans and agreements for fiscal 1984.

<u>Name of Individual or Identity of Group</u>	<u>Bonuses Earned</u>
John Sculley	\$1,600,000
Steven P. Jobs	147,000
William V. Campbell	90,000
Delbert W. Yocam	120,000
Kenneth R. Zerbe.....	107,500
All officers as a group (12 persons).....	\$2,530,250

Stock Option Plans

Apple had a 1978 Stock Option Plan (the "1978 Option Plan"), which was terminated by the Board in December 1979, and a 1980 Stock Option Plan (the "1980 Option Plan"), which was terminated in November 1983. Apple currently has 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 were initially reserved for issuance. By subsequent amendments adopted by the Board in April 1982 and June 1983 and approved by the shareholders in January 1983 and January 1984, the authorized number of shares has been increased to 12,000,000. Each of these plans is administered by the Stock Option Committee of 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 on the date of grant. Any options which are cancelled or not exercised within the option period become available for future grants, except that no future grants may be made under the 1978 and 1980 Plans. As of September 28, 1984, options to purchase a total of 8,351,824 shares were outstanding to 2,793 employees under Apple's 1978, 1980 and 1981 Option Plans at a weighted average exercise price of \$21.15 per share expiring in January 1985 through October 1994. A total of 3,617,278 shares remain available for grant 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 by all officers as a group during fiscal 1984.

	<u>John Sculley</u>	<u>William V. Campbell</u>	<u>Kenneth R. Zerbe</u>	<u>Delbert W. Yocam</u>	<u>All Officers as a Group (13 Persons)</u>
Granted—10/1/83 to 9/28/84:					
Number of shares subject to options.....	370,000	160,000	100,000	135,000	1,463,500
Weighted average per share exercise price	\$ 21.36	\$ 27.28	\$ 21.19	\$ 23.78	\$ 23.11
Exercised—10/1/83 to 9/28/84:					
Net value realized (market value less exercise price).....	\$175,000	-0-	-0-	\$555,000	\$1,321,583

In October 1981, June 1982 and October 1983 Apple's Board of Directors offered certain holders of outstanding options the opportunity to exchange such options for non-statutory options at \$16.9375, \$13.3125 and \$21.1875 per share, respectively, the fair market value on the date of the Board's action. The effect of these exchanges was to reduce the weighted average exercise price of outstanding options from \$26.73, \$17.56 and \$28.23 per share to \$16.93, \$13.73 and \$17.29 per share, respectively.

Employee Stock Purchase Plan

Apple'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 were 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 Apple's Board of Directors or by a committee appointed by the Board. The Board may change the duration of any offering period without shareholder approval. Employees are eligible to participate if they are customarily employed by Apple 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 at the beginning or at the end of each offering period. Employees may end their participation in the offering at any time during the offering period and participation ends automatically upon termination of employment with Apple. The first offering period under the Purchase Plan commenced on December 11, 1980.

As of September 28, 1984 a total of 639,199 shares had been issued to employees at a weighted average purchase price of \$18.33 per share pursuant to offerings under the Purchase Plan and 360,801 shares remained available for future issuance under the Purchase Plan. Of a total of 4,737 employees eligible to participate in the Plan, 2,609 were participating on September 28, 1984.

The following table sets forth as to certain officers and all officers as a group (i) the number of shares of Apple's Common Stock purchased under the Purchase Plan during fiscal 1984, (ii) the aggregate purchase price thereof, and (iii) the amount of payroll deductions accumulated through September 28, 1984 for the current offering period under the Purchase Plan which commenced July 30, 1984.

<u>Name of Individual or Identity of Group</u>	<u>Number of Shares Purchased</u>	<u>Aggregate Purchase Price</u>	<u>Accumulated Payroll Deductions(1)</u>
John Sculley.....	1,197	\$24,993	\$11,539
Kenneth R. Zerbe	539	11,254	3,692
All present officers as a group (12 persons)	3,563	\$74,395	\$26,751

(1) Payroll deductions made from salaries of foreign employees have been converted to U.S. dollars on the basis of the exchange rates in effect on September 28, 1984.

Apple Savings and Investment Plan

During fiscal 1984, the Board of Directors adopted the Apple Savings and Investment Plan (the "Savings Plan") pursuant to which employees may defer compensation for income tax purposes under section 401 (k) of the Internal Revenue Code of 1954, as amended (the "Code"). All qualifying domestic Apple employees are eligible for the Savings Plan and may contribute to their accounts between \$10 and \$40 per week through payroll deductions and/or may on a quarterly basis contribute a portion of sales commissions or profit-sharing checks. Participants are not taxed on amounts in their accounts until distribution upon termination of employment, disability, death or withdrawal from the Savings Plan. Amounts in each participant's account are invested at the direction of the participant into any of three available trustee funds. In connection with the initiation of the Savings Plan, Apple contributed \$100 to the account of each employee electing to participate prior to July, 1984.

Payroll Stock Ownership Plan

During fiscal 1984, the Board of Directors adopted the Payroll Stock Ownership Plan (the "PAYSOP"), which is a qualifying plan under section 44G of the Code. All qualifying domestic Apple employees are participants in the PAYSOP. Apple receives federal tax credits based upon participants' compensation. An amount equal to this credit is contributed to the PAYSOP and is invested in Apple common stock for each participant's trustee account, which is determined on a pro-rata basis. Participants are not taxed on stock in their accounts until distribution upon termination of employment, disability, death or withdrawal from the PAYSOP.

RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has appointed Arthur Young & Company, independent public accountants, to audit Apple's consolidated financial statements for the fiscal year ending September 27, 1985, and recommends that the shareholders vote for ratification of such appointment. In the event of a negative vote on such ratification, the Board of Directors will reconsider its selection.

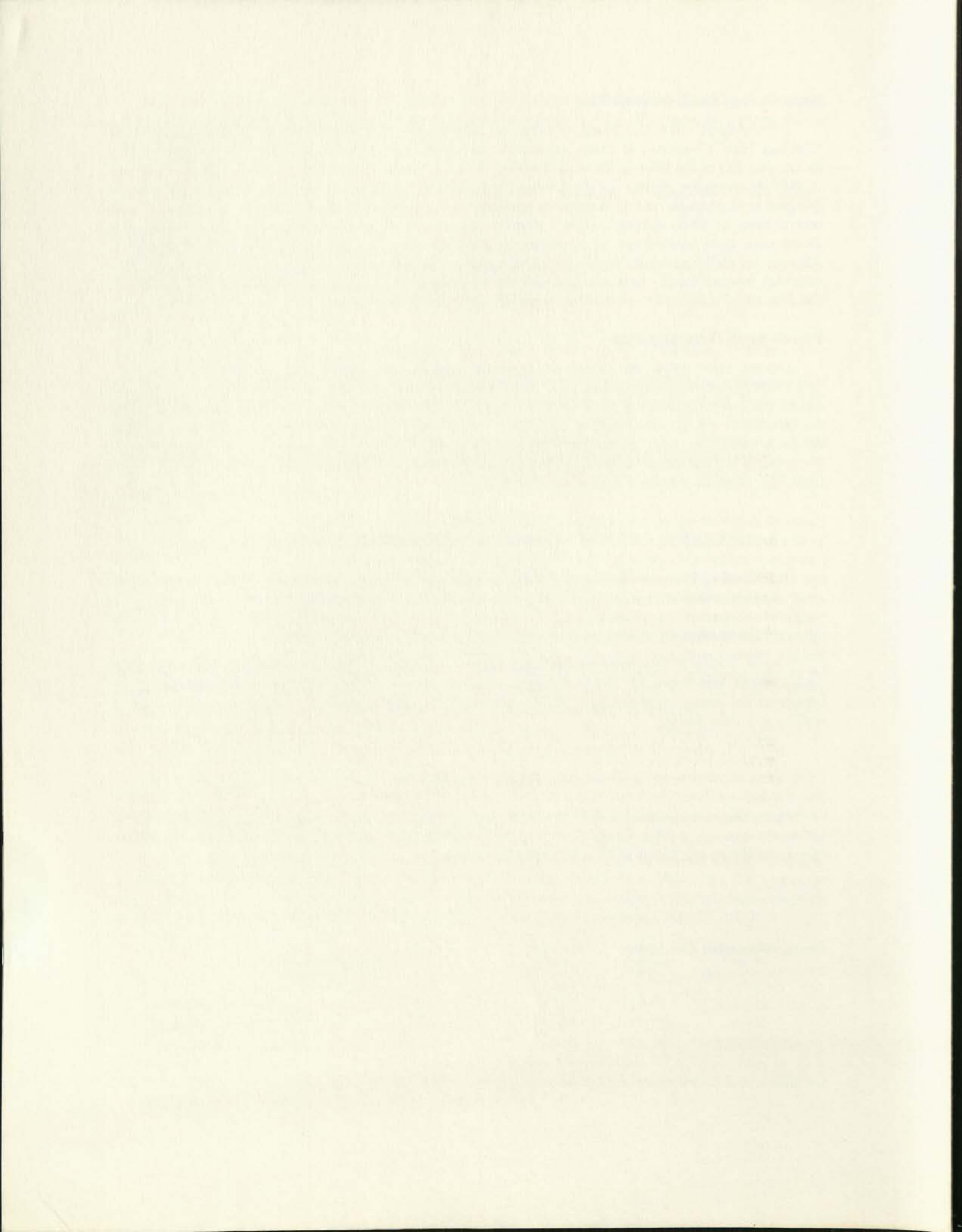
Arthur Young & Company has audited Apple's consolidated financial statements since the fiscal period ended September 30, 1977. Representatives of Arthur Young & Company are expected to be present at the meeting and will have the opportunity to respond to appropriate questions and to make a statement if they desire.

OTHER MATTERS

Apple knows of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named on the enclosed proxy card to vote the shares they represent as the Board of Directors may recommend.

THE BOARD OF DIRECTORS

Dated: December 14, 1984



“The personal computer is the heart of Apple. We do not view the world through the eyes of a mainframe. Since we don't have to protect other parts of our business, we do not have conflicting priorities that force product compromises.”

“We have just one goal: to lead the industry in innovation. For those who use personal computers daily — and especially for the millions who have *never* used a personal computer — we want to provide the most flexible and technologically advanced computer solutions available.”

Apple Computer
October 17, 1984

Financial Highlights

Apple Computer, Inc.

For the fiscal years ended September 28, 1984, and September 30, 1983.

(Dollars and shares in thousands, except per share amounts)

	1984	1983	Change
Net sales	\$1,515,876	\$982,769	+54%
Net income	\$ 64,055	\$ 76,714	-17%
Earnings per share	\$ 1.05	\$ 1.28	-18%
Pretax profit margin	7.2%	14.9%	-7.7 pts.
Income tax rate	41.3%	47.5%	-6.2 pts.
Return on net sales	4.2%	7.8%	-3.6 pts.
Working capital	\$ 432,367	\$340,207	+27%
Total assets	\$ 788,786	\$556,579	+42%
Shareholders' equity	\$ 464,565	\$377,901	+23%
Return on equity	15%	24%	-9 pts.
Return on assets	10%	17%	-7 pts.
Research and development	\$ 71,136	\$ 60,040	+18%
Marketing and distribution	\$ 392,866	\$229,961	+71%
Employees	5,382	4,645	+16%
Common and common equivalent shares	60,887	59,867	+2%



Front Cover:
One of the most memorable television images of the year. The Apple 1984 commercial announced the resurgence of Apple and the arrival of Macintosh.

Above:
Apple's 1984 commercial aired on January 22 during the Super Bowl — and was talked about for months. The spot showed viewers the destruction of an Orwellian future and told them they would soon see "why 1984 won't be like '1984.'" Two days later, the world met Macintosh.

In less than 100 days, Macintosh became a milestone product. The commercial won an award in every competition in which it was entered.

To Our Shareholders:

It is 1984. As expected, the shakeout in personal computers is in full swing. Some companies have been sold; a few are bankrupt. The shakeout is even thinning the retail network and the third-party software industry. Apple has not only survived the shakeout, but emerged as the innovative leader in the industry. And it's clear now that it's a close race. Apple and IBM are the industry leaders, playing two distinct roles: IBM as the traditionalist with a mission of institutionalizing personal computers; Apple as the innovator with a vision of creating personal computers for people.

1984 was the year many industry followers claimed IBM would own it all. Some even proclaimed IBM had already won. Apple's best years were behind it, they said. Why didn't Apple wake up and realize IBM was the standard? We knew as we entered 1984 that we were in a life-or-death struggle. We had to change the way we approached our business.

We've made many hard choices this year. We chose a **new product strategy** that focused on two simple product lines. We chose Lisa® technology as the revolutionary technology that would shape our future through the 1980s, and built that technology into Macintosh™. We chose to increase the performance of our already successful Apple II technology. A key strategic step was to cut the price of the Apple® IIe in the critical 1983 holiday season and launch an ambitious marketing campaign to support it, so that we could enter 1984 with the momentum we needed to successfully introduce the Macintosh personal computer. We chose to reaffirm our commitment to the Apple II's future by introducing the IIc so we could offer our customers a *range* of quality products. We chose to work hard to ship the Macintosh 512K four months early to meet customer demands for more memory. And we chose to restructure our company so we could do all of this and return to attractive levels of profitability.

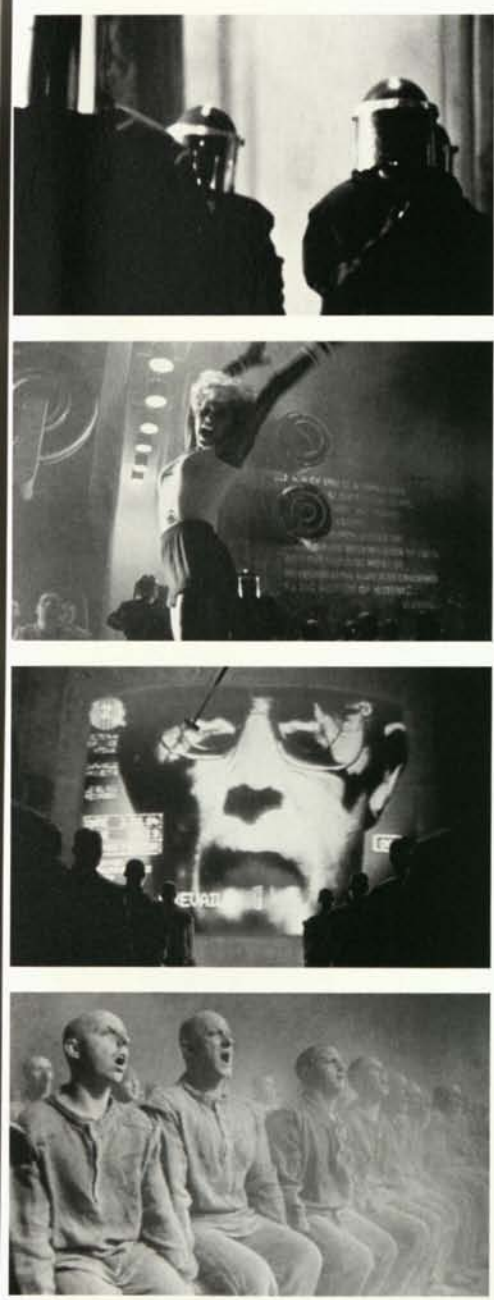
But none of this would have made any difference if Apple were not perceived as a winner. 1984 was a transition year in which we had to invest in our identity. We would not have survived the shakeout if we hadn't established our clear identity as a leader. There's no fulfillment in following the industry on the coattails of the leaders; we had to *be* a leader.

The logical role for us was to be the leader in innovation. Apple has always stood for innovation, in products and in marketing. It was Apple's innovation that sparked the personal computer industry in 1977 with the original Apple II, that created the K-12 education market, that created the computer retailing network, and that introduced personal computing to universities and colleges with Macintosh.

But that was before the heavyweight competition from IBM. To survive the shakeout, we had to make it clear we were still the innovator, even with the most formidable competition ever mounted.

It's clear that IBM is the best-managed traditional corporation in the world. They are superb at sales and service. They are extremely aggressive. To lack respect for IBM would be to underestimate their strength. The IBM® PC is the juggernaut of the industry; even IBM's mistakes earn more revenue than most other companies' successes.

But IBM is looking at the personal computer industry through the eyes of the world's largest mainframe manufacturer. Increasingly they seem to be viewing the personal computer as a very intelligent terminal for an IBM mainframe. They don't see the excitement in personal computers, the excitement that Apple created with the Apple II and repeated with the Macintosh. It is the



On January 24th,
Apple Computer will introduce
Macintosh.
And you'll see why 1984
won't be like "1984"

contrast between IBM's mainframe-centric view of the market and Apple's vision of personal computers for individuals that makes us certain that we're the innovative leader in the industry. For Apple, our identity is innovation, and our vision is our belief that a computer is first and foremost a desktop appliance. To us, innovation means bringing computing power to people who have never used computers before. It means giving people a tool so they can create more easily, think more clearly, communicate more effectively in their jobs and in their lives. To us, it means giving people the freedom to realize their own potential through technology.

Innovation is best reflected in our products—products that are technically both superior to and different from anything on the market. The people we are trying to reach with these products are not just in the 100 key corporations that make up a significant part of IBM's mainframe business; they are in the five million small and medium-sized businesses scattered throughout America and around the world. They are students in elementary schools, high schools, and major universities. They are managers writing reports and preparing presentations in an increasingly complex world where performance and quality are demanded. And most of them don't have the 20 to 40 hours it takes to learn to use a conventional personal computer. Our success hinges on our ability to reach these **noncomputer experts**.

We realize that we are only at the threshold of a brand new market, and we have the opportunity and responsibility to shape its direction by essentially creating a new computer industry.

Our product innovation must be matched by our marketing innovation. Our marketing must convey the strategically important message that Apple is both an innovator and a leader. So we want to become a great marketing company.

In 1984 we changed forever the ground rules for marketing in the personal computer industry. Our product introductions, advertising, and marketing programs were the most talked about and most innovative in the industry. The introductions of the Macintosh and Lisa 2 in January, and the Apple IIc less than 100 days later, were nothing short of spectacular. They had to be. We had some crucially important news to tell, and we had to articulate, loudly but still clearly, what our message was. We had to cut through the curtain of mediocrity in computer marketing with sensational, memorable ads. Our advertising budget in fiscal 1980 was about \$4.2 million. In calendar 1984 we will spend approximately \$100 million, making us one of the nation's leading advertisers. We must get our message through; we must make a bold statement about our products and our image.

Along with introducing products, we also introduced some innovative marketing techniques this year. **"Event Marketing"** gained us attention from the public and imitation from IBM. It's become Apple's trademark to have a highly visible event accompanying a product introduction.

The advertising and events, and the product development and manufacturing, cost both money and manpower. In 1984 we raced to attain the critical mass necessary to support these costs. Critical mass means having sufficient resources for research and development of innovative new products for new markets. It means being able to afford far-reaching, comprehensive marketing programs. It means automating manufacturing to drive down costs and increase quality. Sometimes it means changing some very fundamental things about the way you get your products to your customers.

To reach **critical mass** we had to invest. Profits during the first three quarters of 1984 were lower, in part, because we invested heavily in new product development and marketing. We laid



Steve Jobs
Chairman of the Board

John Sculley
President and
Chief Executive Officer

Announcer:
This is a highly
sophisticated business
computer and to use
it, all you have to do
is learn this...



Announcer:
This is Macintosh
from Apple, also
a highly sophisticated
business computer, and
to use it, all you
have to do is learn this.

Now, you decide which
one is more sophisticated.

Macintosh,
the computer for the rest of us.

—Television commercial,
1984



out specific goals for returns on that investment, quarter by quarter, which we met or exceeded in every case. The investment paid off visibly in our survival of the shakeout, and in four successive quarters of increasing profitability. In the fourth fiscal quarter, Apple achieved record quarterly profits with \$30.8 million in net income, or \$.50 per share. For the year, we made record sales of \$1.5 billion, a 54 percent increase over 1983 sales. And we believe the investment will continue to pay off during the lives of the products we introduced in 1984.

Clearly we couldn't grow Apple to critical mass just by pumping money into it. To remain innovative we needed to make sure we continued to foster a working environment conducive to innovation. Uncontrolled growth can stifle that kind of environment. So in 1984 we focused on two product lines and created two new product divisions—the Apple II and the Macintosh. These divisions are each responsible for their own profits and accountable for their own expenses, and they're in control of their own marketing, product design, and manufacturing.

It hasn't escaped our notice that the Japanese have taken over and dominated every consumer electronics industry in the last fifteen years. While American companies have been generally focusing on innovation in the labs, the Japanese have been innovating on the factory floor. The only way to avoid eventual Japanese domination of personal computers is to match or better their use of **automated manufacturing technology**. Our goal is to be as good in manufacturing technology as the best Japanese electronics companies will be three to four years from now.

The Macintosh factory has clearly been a great success. But the real measure of success will come when we learn how to build the next factory even better, and the one after that better still. Therefore, we are writing off our capital investment in factories as rapidly as possible. We want to avoid the mistakes of some American industries, which have let their manufacturing plants become noncompetitive with the Japanese.

Up through 1984 we had used independent manufacturers' representatives to sell our products to our dealers. But to succeed we feel that we must be closer to our dealers, more responsive to day-to-day store traffic, and better able to work with our dealers as partners, helping both of us improve the merchandising and marketing of our products. So in June we announced that we would not renew our contracts with the independent manufacturers representatives, effective October 1.

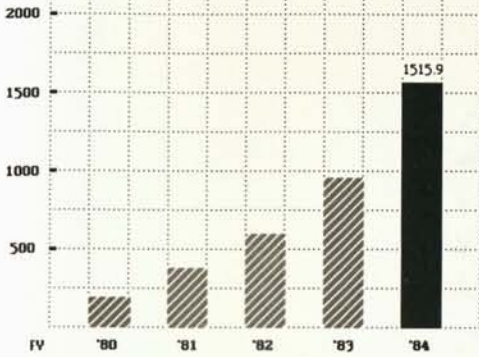
In just 100 days between June and October, we recruited an entire **sales force**—350 new Apple sales and support people. These salespeople will call on our existing authorized Apple dealers, as well as on the several hundred new dealers we've added through Central Buy Agreements with Sears Business System Centers, Businessland, the Genra Group, ComputerLand, and others.

For better accountability by region and channel, we grouped this new sales organization with our Distribution, Service and Support division. Having a new, young, aggressive sales team working in partnership with our dealers, and a distribution team that's tightly coupled to sales, is an important part of our future strategy.

Creating an entire sales organization of the size we created in just 100 days has never been done before in this industry. Introducing two major products within 100 days was also a major accomplishment. To do both in the same year, and achieve record sales, was an awesome challenge. But we did it.

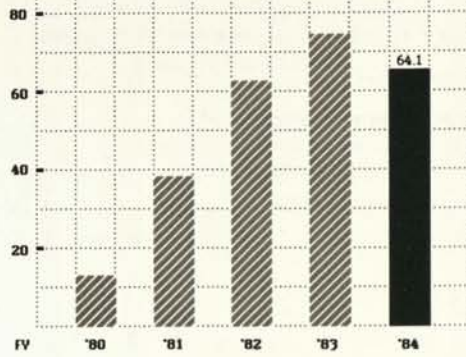
Net Sales

\$ Millions



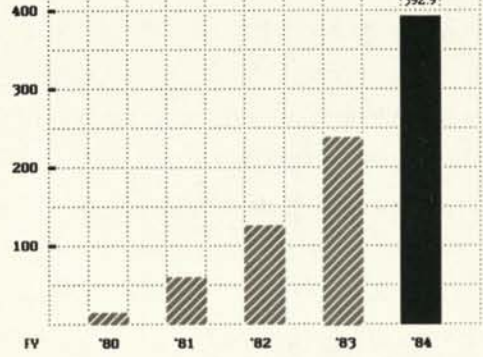
Net Income

\$ Millions



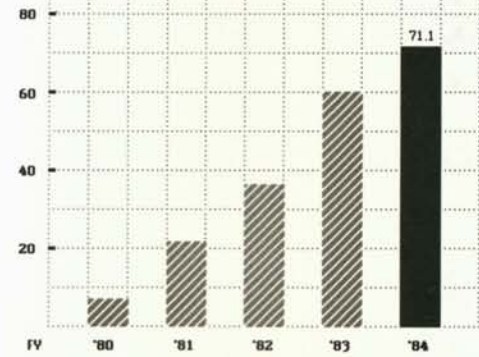
Marketing & Distribution

\$ Millions



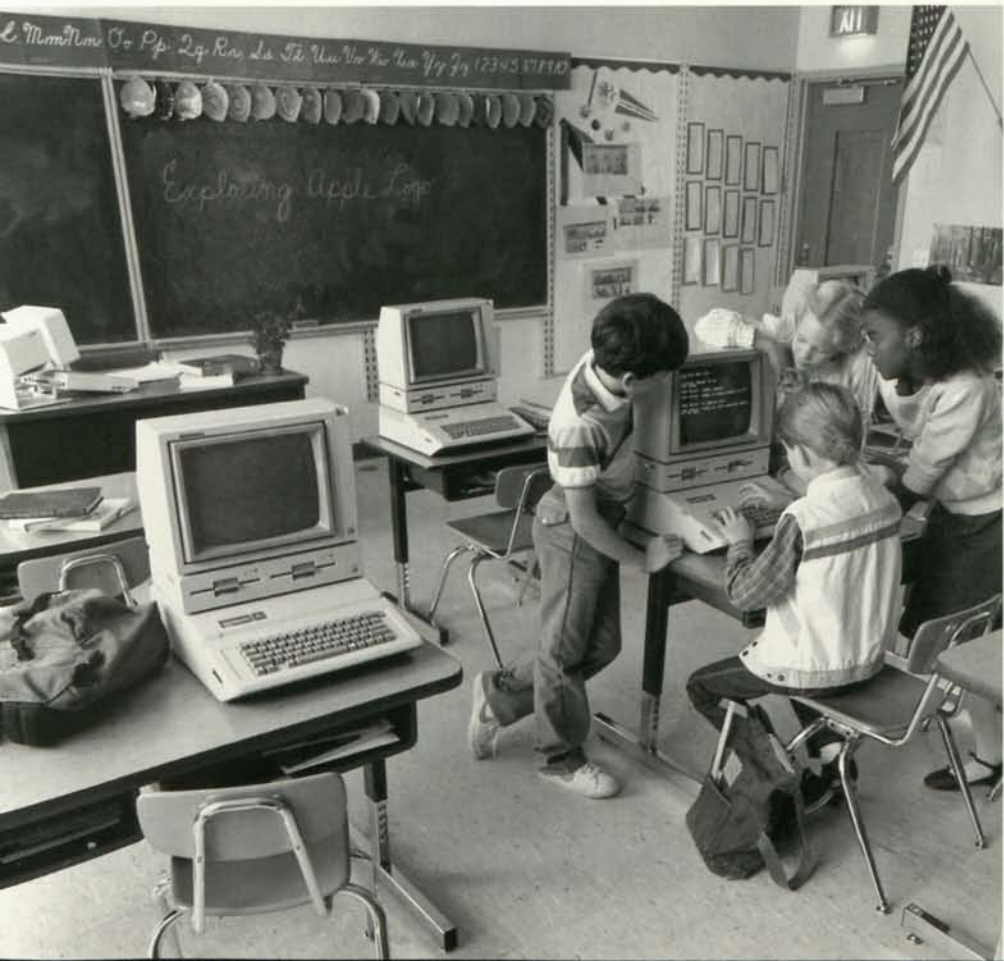
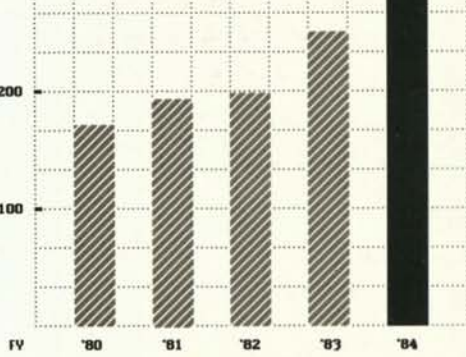
Research & Development

\$ Millions



Net Sales per Employee

\$ Thousands



The most popular classroom computer in America, the Apple IIe, was joined this year by the Apple IIc, a transportable addition to the enduring Apple II family. Both models use the Apple II software library, which includes the industry's largest collection of educational programs.

In 1983, an enhanced Apple II (the Apple IIe) was an important step toward bolstering our market leadership position in education, small business, and the home.



**In 1984, we reaffirmed our
commitment to the Apple
II's future by introducing
the Apple IIc and several
important peripheral
products for both the IIe
and the IIc.**

**These new products
solidified our leadership in
the education, small
business, and home
markets.**



In the fourth quarter of 1984 we proved that our product, marketing, and organizational strategies were working, and we believe our improvement in sales and profits was impressive. In 1985 we are going forward with some of those strategies to become a multibillion-dollar company.

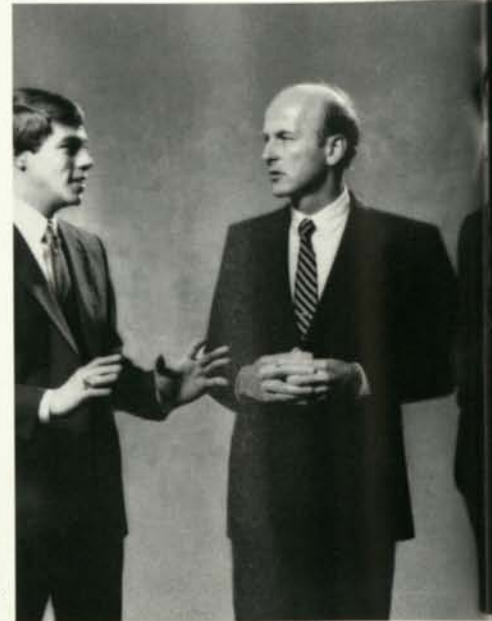
In 1984 the burden of the company's future was on Engineering and Marketing; in 1985 the burden shifts to Sales and Distribution, Service and Support. Now that we have identified ourselves as the innovative leader of the industry, we must shift our focus to **implementation**. It is great implementation that separates great companies from mediocre ones, and there are several things we need to implement in 1985 to make our strategies successful.

- First, we must prove that Macintosh can be a leader in the business market. This means extending Macintosh from a personal productivity tool for individuals to a line of products for small work groups in offices: sharing information, communicating visually and electronically, and preparing complex reports and presentations.
- Second, maintaining the momentum of the Apple II family is key if we are to remain a true multiproduct company.
- Third, we need to maintain our focus on two simple product lines. We'll only get the economies of scale and maximum advertising impact if we concentrate on doing a few things very well. We need to reinforce the fact that there are three industry-standard products and two of them are Apple's.
- Fourth, we need to sharpen our implementation skills in sales and distribution to fully realize our innovative product and marketing ideas. Improving our partnership with our dealers is key to this.
- But most of all we need to remain innovative while growing larger. This is the hardest thing we have to do, and the most crucial. To grow into a multibillion-dollar company from our garage beginnings just eight years ago might have seemed impossible. But the kind of people who come to Apple are the kind who like to do impossible things. Beyond a billion dollars we need to keep attracting these people but still give them the discipline needed to run a large company. Strategies like event marketing help this; the training and coordination that are involved, and the camaraderie that's generated, build a discipline to ship products and programs on schedule. You can't get discipline like that out of a rule book.

In last year's Annual Report we said Apple would be more disciplined; that discipline is coming, but it's coming through strategy, not policy. That's far more appealing to employees whose average age is 29, who want the freedom to get things done, not the constraints of a rule book.

To attract and keep great people, we have to hold management levels to a minimum so each person has more influence on the direction in which the company's moving. At Apple the chief executive officer is just one reporting level away from the more than 70 middle managers who run the company day to day. We know of no other Fortune 500 company in which the chief executive is so close to middle management.

Our **mission** is clear: to produce high-quality, low-cost, easy-to-use products that incorporate high technology for the individual. We are proving that high technology does not have to be intimidating for noncomputer experts.





Apple's general management team successfully led the company through 1984—a key transition year. Shown from left are Chuck Berger, Mike Muller, Bill Campbell, Ken Zerbe, Roy Weaver, Al Eisenstat, John Sculley, Joe Graziano, Del Yocam, Steve Jobs, and Jay Elliot. Mike Spindler, not pictured.



The April introduction of the Apple IIc at San Francisco's Moscone Center was a prime example of "event marketing." The all-day show earned considerable press coverage and launched the new Apple IIc into nationwide popularity.





Disk: Drive 2

ADD FILES

Escape: Main Menu

Main Menu

ADD FILES

Get files from:

1. The current disk: Drive 2

2. [highlighted]

Make a new file for the:

Word Processor

Data Base

Spreadsheet

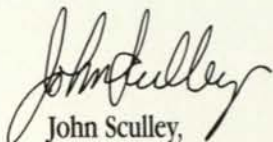
Use number, or use arrows, then press Return

50K Avail.

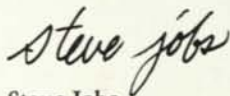
As we look ahead at the personal computer industry, we know one thing: it's going to be very, very big. Yet we don't seek bigness for its own sake. To continue as one of the industry's leaders, we are, by necessity, going to end up as a very large company. And we know our vision of the personal computer can survive only if we remain well enough and strong enough to make it survive.

The critical mass we attained this year must be maintained next year. We must keep our marketing prominent. We must keep our product lines simple, providing a few high-volume, high-quality products while encouraging the aftermarket to complete the customer's solution. And we must remain innovative in our products and the way we implement our strategies. We don't want to become just another multibillion-dollar company; we want to be a **great multibillion-dollar company**. The employees, customers, and shareholders of Apple deserve nothing less.

We've been through a tough time. Many thought that Apple's sudden and unprecedented leap into corporate history had been a fluke, and that the shakeout would resign Apple to a role as just another pioneer who couldn't last. But Apple Computer has emerged not only as a survivor, not only as a healthy, profitable company with a clear and distinct role and strong sales momentum, but as a company with a passion to shape the future. We are an exciting company on the leading edge of the personal information renaissance. We can attract the very best people to work with us. And we intend to work with those people, their passion, to change our world.



John Sculley,
President and Chief Executive Officer



Steve Jobs,
Chairman of the Board



John Sculley with Steve Jobs. While the rest of the industry increasingly conformed to IBM standards, Jobs and Sculley worked closely together to maintain Apple's role as the industry innovator.

Apple met the intense challenges of 1984 through innovation — innovation by talented, hardworking teams of people throughout the entire company.

These pages introduce some of the teams that made Apple's success in 1984.



The **Apple II** has always been the backbone of Apple, and early in fiscal 1984 the Apple IIe, the second successor to the original Apple II, was selling in record quantities. The IIe had a strong following in the education, home, and small business markets. Its expandability and huge software base made it the most versatile personal computer available. The challenge was not just to make it better; the challenge was to open up brand new markets for a seven-year-old computer.

A team of engineers and designers in the Apple II group, under General Manager Del Yocam, was already planning for a new Apple II. The new machine would have to fill out the family line to give buyers a choice. It had to be innovative and exciting to propel the Apple II through the eighties.

To create a family of Apple II computers, we needed a new machine that would share the IIe's basic features, accessories, and software. This would mean compatibility—but balancing innovation with compatibility is one of the hardest engineering tasks in our business. The hardware design team led by Peter Quinn started with the same custom-designed circuitry used in the IIe and added the most popular accessories—a disk drive, communication interfaces, extended memory, and an 80-column display—to make the new Apple IIc both complete and compatible.

The all-in-one design of the IIc gave Dave Larson and the marketing team an opportunity to sell the Apple II to previously reluctant customers. The expandability of the IIe, though a great selling point to schools and enthusiasts, means the average user has to put together boxes and cards, components and cables. And once the system's together, it tends to stay put. It's hard to sell that package to an impulse buyer, a style-conscious family, or a traveler on the move who wants a computer to take along. These buyers need an Apple II that's complete, stylish, and transportable, and that sets up easily and quickly. By packing the IIc hardware into a sleek, lightweight case, and by adding high-quality, good-looking accessories, plus a novel set of four interactive training disks, the Apple II team created a package that could attract buyers the Apple IIe couldn't.

To make it clear to customers which Apple II is right for them, the team put together a coordinated look and feel to the product's image. Featuring the IIc's clean design and compact profile, the advertising and merchandising materials create a young, lively presence, while reinforcing the IIe as the larger, more expandable machine. As intended, the IIc is not a replacement of the IIe; it's an expansion of the Apple II product line.

The IIc had to be kept quiet, however, until we could tell the full story. Rumors of an upcoming improvement to, or replacement of, the Apple IIe might have hurt IIe sales in the busy holiday season, just when we needed to build up momentum to take us through 1984. Working under a string of 12 code names, the IIc team raced to complete its program while the world's attention was focused on the Macintosh introduction. Then, fewer than 100 days after the Macintosh event, our entire North American dealer force (and a couple of reporters, too) flew to a massive San Francisco celebration called **Apple II Forever**. In one day we introduced a new product to the world, took more than 50,000 orders, and sent every dealer home with a new Apple IIc.

The Apple IIc is now well established as Apple's most consumer-oriented product. The coming year challenges the Apple II team to continue to expand the audience for its family of products and to stretch the success of the Apple II through next year, toward its tenth birthday—and forever.

An innovative company has to keep moving forward, not just to new technologies, but also to new management techniques. The technological innovations of the **Macintosh** in 1984 were matched by innovations in management, creating new ways to design, manufacture, and market personal computers—ways that are now being adopted throughout Apple.

Any new group forms its own culture and atmosphere. With the Macintosh group, the culture was set by the earliest members of the group, headed by Steve Jobs. Rather than setting off with a management team and a business plan, Steve gathered a small group of engineers into a special task force, working independently to determine the basic design for the machine.

But innovation is hard to maintain in a corporate atmosphere concerned with existing products and problems. Everybody, from vocal dealers to the Board of Directors, wants to help design a new computer. And computers designed by everyone rarely thrill anyone. So the Macintosh group was secluded from the rest of Apple until the design was complete. In a building a half-mile from the main Apple "campus," the Macintosh group worked in a cramped office more like a four-bedroom apartment than the cubicles and aisles inhabited by the rest of the company. With working hours determined not by a clock but by the work to be done, the group essentially lived together for a year finishing the design.

This required amazing dedication. It's difficult to get people to work so hard for so long. But the Macintosh group was inspired with a fervor, not just for the machine they were designing, or the brand new markets they would open up, but for the thrill of working with great people. This fervor even hid the clear fact that no sane person believed the design would ever be finished.

But the design did get finished. Even then, still more work had to be done before Macintosh could meet its market. Though the design group was small enough to be managed by consensus, the group to build and ship the product had to be much larger—over 100 people. The challenge was to set up management that could coordinate the tremendous job of the Macintosh introduction while retaining the entrepreneurial ideals that spawned the project.

The answer was not to bring in professional management from outside, but to trust team members to become as good at management as they had been at their other work. Bob Belleville, previously Software Manager, was named the Director of Engineering, responsible for making sure the Macintosh design was reliable, tested, and manufacturable. Debi Coleman, previously the group's Controller, took the wheel of our automated factory as the Operations Manager, while Susan Kelly Barnes took Debi's position as Controller of Apple's newest multimillion-dollar division.

Mike Murray was named Director of Marketing, based on his qualifications as a former milkman in Washington. (And his Stanford MBA and two years already spent in product marketing during Macintosh's design phase.)

This young, idealistic management team—Steve Jobs' staff—turned a 25-person design group into a 100-person ship team, then built it into today's 700-person Macintosh Division with the same unconventional bent that characterized its development. With each new program—such as promotions that give local retailers the benefits of national advertising, or techniques in automated manufacturing that are leading the industry—this management team has magnified the innovative spirit of Macintosh, from a single product into a way of doing business.

The new challenge for the Macintosh group is to make Macintosh the second standard in business. This challenge requires continued innovation in product development, reliable volume-manufacturing, and marketing that is at once universally understandable and compellingly unconventional.

Of course it's difficult for a company to hold an independent, unconventional group within itself. The Macintosh management team has the peculiar duty of encouraging the group to be creative and independent, while making sure it fits in with the rest of Apple. Naturally there's conflict. But gradually the Macintosh management team is proving its point: that independence is the best route to innovation, and that the best people to do an impossible job are those who don't know it's impossible.

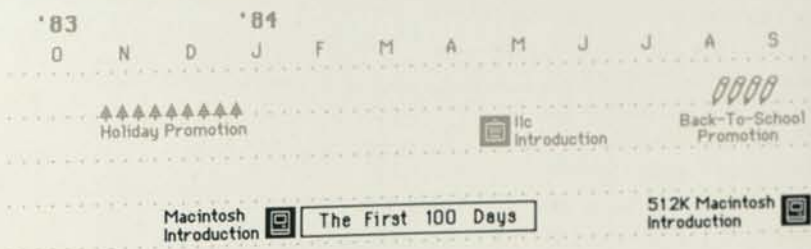


At rates as high as one every 27 seconds, Macintoshes are built at Apple's new factory in Fremont, California. The factory uses some of the most advanced robotics and manufacturing techniques in American business.





The Macintosh team: from left, Mike Murray, director of marketing; Steve Jobs, executive vice president and general manager, Macintosh; Susan Kelly Barnes, controller; Bob Belleville, director of engineering; and Debi Coleman, operations manager.



Our vision of the personal computer is of a high-quality, low-cost tool for people. We put the highest technology we can into affordable packages. But we can't make our products affordable with clever design alone; we need to sell huge quantities of what we design to get the economies of large-scale manufacturing. That's why we sell our products mostly at retail—using sheer volume to bring high technology to more people at a low cost.

We don't own our retailers. Over 2,000 North American authorized dealerships that sell Apple computers are independently owned and operated, franchises, or members of large chains. The original Apple II essentially gave rise to this independent retail network, and we believe its diversity and competition provide a vitality not found in manufacturer-owned chains.

Previously, Apple's only way to reach this large and diverse dealer base was with independent manufacturers' representatives. Apple was simply not large enough to support the massive direct-to-dealer sales force needed to reach so many outlets. A direct sales force is better, naturally; it brings a design, manufacturing, and marketing company like Apple closer to the innovations in retail selling that occur each day on the sales floor, and helps make the company more responsive to dealers' needs.

Our growth in 1984 made it not only possible to build **our own dealer sales force**, but necessary to do so. With two product lines and their complex promotions, not to mention the rapid changes in strategy necessary to meet a changing market, we couldn't afford the added distance from our dealers. We needed the best sales force in the world, dedicated to Apple alone, to sell our dealers all the computers we could make.

So in May we announced we would not renew our representatives' contracts, effective October 1. Over the next 100 days, Executive Vice President Bill Campbell and a team from Sales and Human Resources built a brand-new sales organization, with 350 new Apple employees, to sell to our North American dealers.

The job was immense. Ads in the *Wall Street Journal*, *New York Times*, and local and trade press brought over 12,000 applications, overflowing the Cupertino post office for a week. With that kind of response, it would have been easy to hire only 15-year veterans with top sales records in electronics retailing. But Deborah Biondolillo and her Human Resources team screened resumes, not just for experience, but for zeal and character. Beginning in June, they hired eight groups of about 45 applicants each and brought them to Cupertino for training.

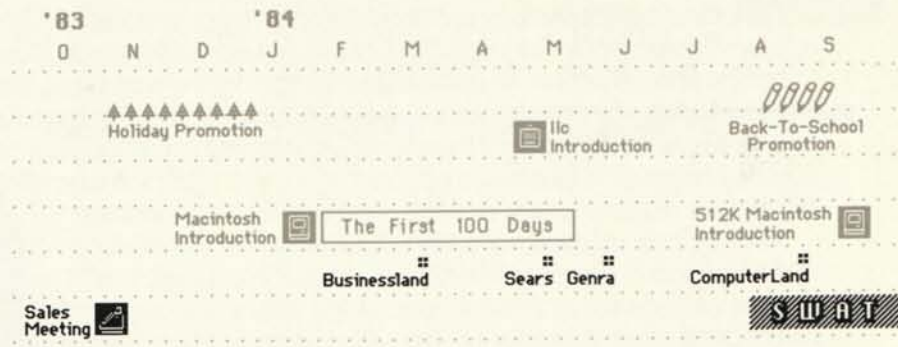
Training Managers Dennis Mahoney and Beth Richardson put together a three-week crash course called Sell With Apple Training, or SWAT. These "boot camps" introduced new recruits to Apple's product lines and the corporate resources they'd be using in their new jobs. Every part of Apple sent people, each week for 16 weeks, to teach the new salespeople about Apple's history and organization. Those Apple salespeople even practiced their new techniques in a mock retail store set up by Mahoney's team.

The last wave of the retail sales force had just finished its training when Bill Campbell convened Apple's annual Sales Conference in mid October. With Director of U.S. Sales Dave Bowman introducing his new sales force to Apple's other direct domestic and European sales teams, Apple brought together what may be the strongest, youngest, brightest sales team the industry has ever seen.

That sales team has now joined with Roy Weaver's Distribution organization to form one coordinated group that's responsible for getting Apple's products from the factory to the customer. They've got a lot of work to do. Our years of investment in research and development have created the Macintosh and Apple II families, and it's now the job of Sales and Distribution to take Apple forward to become a multibillion-dollar company.



The Sales team: from left, Dave Bowman, director, U.S. Sales; Deborah Biondolillo, HR manager, Sales; Bill Campbell, executive vice president, Sales; Beth Richardson, program manager, Sales Training Center; Dennis Mahoney, manager, sales training and development; Roy Weaver, vice president and general manager, field operations.



Excellence in products is not enough—we've got to communicate that excellence to the public. We know that our customers judge us on our products' looks as well as their performance, and on our corporate image as well as our products' reputation.

That's why Apple incorporates award-winning design into everything we do. The famous Apple logo is an example: eye-catching and classic, it's one of the most recognized corporate symbols in the world. And the original Apple II design, with its innovative plastic case, friendly beige color, and distinctive wedge shape, made a bold statement of the direction we wanted personal computers to take.

By early 1984, as Apple added new products and programs, each new product took on its own character—and its own look. A customer could certainly tell the Apple IIe, Macintosh, and Lisa apart, but might have had a hard time realizing they all came from the same company. Even such common corporate functions as advertising and public relations had a slightly different "feel" from product to product.

So we started to bring the looks together into **one Apple look**. We wanted a look that's not only salable and attention-getting, but also the look of a truly international company, with world-class design that would carry us through the eighties.

We started with the products themselves. In Munich we found Hartmut Esslinger and his *frogdesign* studio, already famous for the SONY Walkman® design. Hartmut and his team researched colors, forms, and materials for new computer designs. The Apple IIc is the debut of that work: its sleek design, clean white packaging, and stylish accents are the model for Apple's future products.

Once the products are designed, our Creative Services group, managed by James Ferris, wraps it with packaging and promotional materials that complement the look. Creative Director Tom Suiter sees to it that each look pervades the product's brochures, manuals, posters, and in-store materials. For the IIc, the graphics are bold and young, to attract the new audience the IIc was built for. For the Macintosh, Art Director Tom Hughes and his team, including designer Clement Mok, created a clean "Picasso" look, as artistic as the computer it represents. Accessories for all Apple products share a common "corporate" look, blending the clean white Macintosh look with the colorful Apple logo.

That same clean look also gives Apple's **television advertising** its unique appeal. Lee Clow and Steve Hayden at Chiat/Day Advertising create a mood that is at once professional and playful. (The clean look, however, is intentionally violated once in a while—as in the arresting 1984 commercial, which may become the most-remembered single commercial in the history of advertising.) Our television, radio, newspaper, and magazine advertisements have won numerous awards from the advertising industry. The innovative Macintosh and IIc advertising inserts, a joint effort by Chiat/Day, Creative Services, and the divisions' marketing groups, have even received the most sincere flattery of all: imitation by IBM.

The look of Apple's products and our attention-getting advertising help to define the company's image. Apple also wants the public to *understand* our products and strategies—we want them to know *why* we've set the course we have for the years ahead. We reach the public with our messages by being honest and accessible to the press, industry consultants, and analysts. Regis McKenna, who has helped form Apple's strategic marketing and public relations directions from the company's beginnings, continues to work with Apple's management and internal press and investor relations groups to shape our communications strategy.

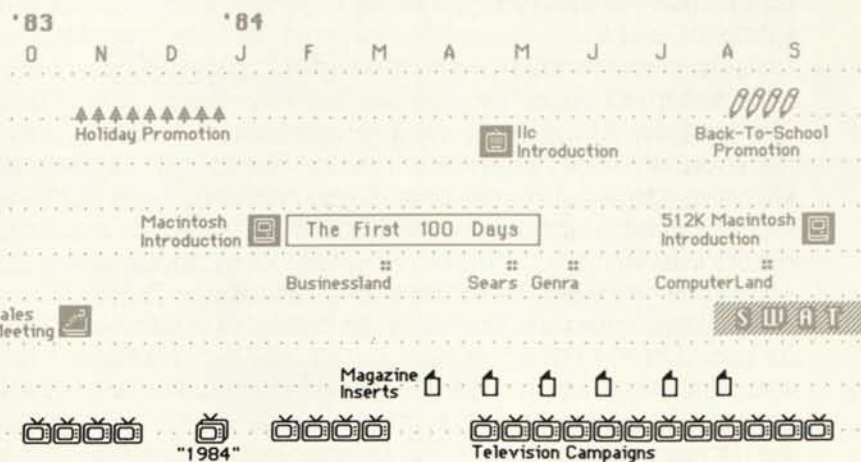
Nowhere is the excellence of Apple's communications forces—from advertising to public relations—more evident than in something we call "event marketing." The term simply means focusing attention and excitement around Apple products or programs for a short amount of time. It doesn't have to be an actual event, like the introduction of Macintosh or the Apple IIc, although those are examples of event marketing at its best. It can also be marketing programs and advertising like the 1984 commercial or the advertising inserts found in virtually every major U.S. magazine. Whatever the event, we want it to be so innovative, so perfectly designed, and so interesting that it becomes talked about all over the world.

To many people, computers seem cold, inhuman, and slightly frightening. We want to make sure people know that when they buy an Apple they're buying the most attractive, innovative, and *personal* computer that's made. We also want them to know that when they buy a IIc, IIe, Macintosh, or Lisa, they're buying an Apple.



The Creative team: from left, Tom Hughes, senior art director, Macintosh; Tom Suiter, creative director, Creative Services; Denys Gilmour, art director, Apple II; Clement Mok, art director, corporate; Susan Kare, Macintosh artist; Hartmut Esslinger, president, frogdesign; James Ferris, manager, Creative Services; Regis McKenna, president, Regis McKenna Inc.

Team from Chiat/Day shown below: from left, Lee Clow, creative director; Jay Chiat, chairman; Steve Hayden, associate creative director.



Even as a billion-dollar corporation, Apple still acts like an eight-man garage shop in some ways—most notably in the way employees get their jobs done. With a minimal hierarchy of management (typically only two or three levels between a general manager and an individual contributor) and Apple's breakneck do-it-now scheduling, people spend a lot of their time in action. The pace and the movement sometimes leave people little time to slow down and *learn*.

For short periods this might work. But when Apple introduces two major products within 100 days, then hires and builds an entire sales force in the next 100 days, there's a tendency to live from crisis to crisis, for management and individual contributors alike. But we can't afford to have reactive-mode managers; we need leaders inspired with vision, not managers preoccupied with problems.

Helping to turn managers into leaders is the hardest job of the Human Resources organization. How do we, with this pace, keep people creative? How do we get people to learn about other innovative companies and apply what they learn to their jobs? And how do we keep people feeling that Apple is a special place to work?

Vice President of Human Resources and Administration Jay Elliot finds the answer in innovation. New programs introduced this year are getting Apple employees to learn more about themselves, and about how Apple and other companies stay innovative.

One of these programs is Apple University, our "university without walls" directed by Sue Cook. Offering classes from brown-bag seminars to weekend retreats, the University arranges forums and experiences for Apple people to challenge their beliefs and assumptions. A pilot program run this year was our Leadership Conference, a one-night retreat in northern California. Taking a team off to a remote spot to work together on a new problem builds a rapport you can't get in a business meeting or training class.

While introspection and teamwork are important, sometimes it's hard to get Apple people to look up and realize that there are other industries out there. That's why the newest offering at Apple University is our **Leadership Forums**. We invite people who make news with their leadership—people like Lee Iacocca of Chrysler, Fred Smith of Federal Express, and Andrew Grove of Intel—to chat with Apple managers. We ask them to discuss how they run their companies—companies that lead their industries. Seeing innovation in other places helps us to recognize where we can improve our own ways of doing things.

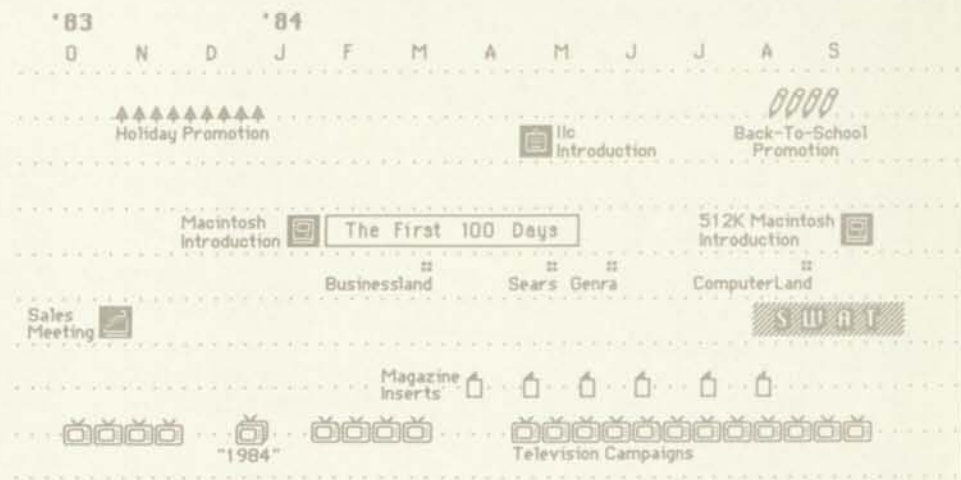
Employee development programs aren't all we do, though, to keep Apple's people inspired. The journey has other rewards—many of them financial. Our latest financial benefit for Apple employees is the Apple Savings and Investment Plan, a 401(k) individual retirement account linked to our payroll. An employee can save a portion of earnings, before taxes, and invest it in a tax-free account that can be borrowed from without penalty and repaid with interest. Each employee has a choice of three portfolios (with various yields and risks). Sixty-three percent of Apple employees signed up for this plan immediately.

Enrollment in this and other programs is handled by a Human Resources group in each division. Rather than send employees to a personnel center in a faraway building, Apple has done something unique: we have decentralized our Human Resources staff, putting complete responsibility in the hands of each division's Human Resources manager. This way the Human Resources team can know each person by name, which is essential to maintaining the close "family" atmosphere of Apple.

Any good company can attract high-quality people. But it takes a great company to keep them. Though Apple's pace could jar some peoples' focus, programs like Apple University help restore it. Apple pays competitive salaries and provides innovative benefit programs to let Apple people know that Apple cares about them. And while the Human Resources team works hard to make these things happen, they do it without fanfare: because we want Apple people to spend more time thinking about their work, and less time worrying about their jobs.



The Human Resources team: from left, Jim Schmidt, HR manager, Apple II; Dorothy Largay, leadership specialist; Joe Shepela, HR manager, Administration; Jay Elliot, vice president, Human Resources and Administration; Ranny Riley, leadership consultant; Mary Fortney, HR manager, Macintosh; Jack Ruffer, HR manager, APG; Sue Cook, HR manager, Apple University.

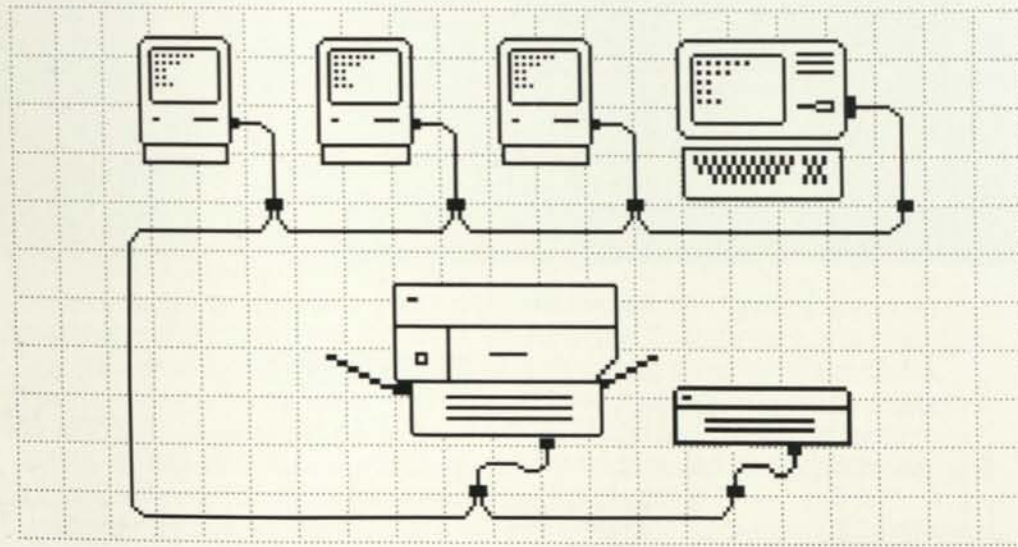



- Leadership Forum Speakers**
- Bill Gates
Microsoft
 - Andrew Grove
Intel
 - Lee Iacocca
Chrysler
 - Tom Peters
"In Search of Excellence"
 - Fred Smith
Federal Express

Apple builds computers for individuals. Not surprisingly, we use a lot of those computers right here at Apple. Most people have one in their office for the letters they write, the numbers they crunch, and the information they organize day to day. But Apple people don't spend all their time sitting alone at a desk. In fact you've just seen them at their best: when they're working together in a small team. We think our products should work the same way.

In 1985 we'll introduce the **Macintosh Office**—a small team of great products, because people work better when they communicate effectively; they look better when they can prepare impressive and persuasive reports, papers, and presentations; they think better when they can share all the information that makes their business run; and we believe they'll feel better when they can do all this on a Macintosh, without the cost and complexity of a mainframe computer.

The Macintosh Office. An important step for Apple in 1985.



Financial Results, 1984 

Selected Financial Information

Annual

Five years ended September 28, 1984
(In thousands, except per share amounts)

	1984	1983	1982	1981	1980
Net sales	\$ 1,515,876	\$ 982,769	\$ 583,061	\$ 334,783	\$ 117,126
Net income	\$ 64,055	\$ 76,714	\$ 61,306	\$ 39,420	\$ 11,698
Earnings per common and common equivalent share	\$ 1.05	\$ 1.28	\$ 1.06	\$.70	\$.24
Common and common equivalent shares used in the calculations of earnings per share	60,887	59,867	57,798	56,161	48,412
Cash and temporary cash investments	\$ 114,888	\$ 143,284	\$ 153,056	\$ 72,834	\$ 363
Total assets	\$ 788,786	\$ 556,579	\$ 357,787	\$ 254,838	\$ 65,350
Non-current obligations under capital leases	\$ —	\$ 1,308	\$ 2,052	\$ 1,909	\$ 671

Apple has not paid any cash dividends on its common stock. The present policy is to reinvest earnings to finance future growth.

Quarterly (Unaudited)

(Dollars in thousands, except per share amounts)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
1984				
Net sales	\$ 477,400	\$ 422,144	\$ 300,103	\$ 316,229
Gross margin	\$ 207,063	\$ 175,051	\$ 121,775	\$ 133,401
Net income	\$ 30,806	\$ 18,295	\$ 9,132	\$ 5,822
Earnings per common and common equivalent share	\$.50	\$.30	\$.15	\$.10
Price range per common share	\$ 30-\$24 $\frac{1}{8}$	\$ 33 $\frac{3}{8}$ -\$23 $\frac{3}{8}$	\$ 28 $\frac{7}{8}$ -\$23 $\frac{1}{8}$	\$ 24 $\frac{7}{8}$ -\$17 $\frac{3}{4}$
1983				
Net sales	\$ 273,210	\$ 267,284	\$ 227,982	\$ 214,293
Gross margin	\$ 115,893	\$ 128,310	\$ 116,916	\$ 115,885
Net income	\$ 5,108	\$ 24,204	\$ 23,883	\$ 23,519
Earnings per common and common equivalent share	\$.08	\$.40	\$.40	\$.40
Price range per common share	\$ 47 $\frac{1}{2}$ -\$22 $\frac{3}{4}$	\$ 62 $\frac{5}{8}$ -\$39 $\frac{3}{8}$	\$ 48 $\frac{1}{8}$ -\$27 $\frac{1}{2}$	\$ 33 $\frac{3}{8}$ -\$18 $\frac{1}{8}$

The price range per common share is the biggest and lowest closing bid quotation for Apple's common stock during each quarter.

At September 28, 1984, there were approximately 43,000 shareholders of record.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

1984 Compared with 1983

Net sales in 1984 were \$1,516 million, an increase of \$533 million or 54% over 1983. The primary reasons for the increased sales were the introductions of the Macintosh and the Apple IIc during the second and third fiscal quarters, respectively. Sales of the Apple IIe continued to be strong throughout 1984, especially in the education market, although the Company reduced prices to meet competitive pressures. Sales of Lisa increased substantially over 1983 sales on lower unit prices. During 1984 Apple also increased sales volume by expanding its distribution channels to include central buying agreements with national retail organizations, and by emphasizing its national accounts program. In addition, Apple continued to implement sales incentive programs that offered price reductions on various bundled systems, resulting in significant contributions to the increased sales.

Gross margin was 42% of sales in 1984, a 6.5 percentage point decrease from 1983. This decrease was due in part to the price reductions brought on by competition within the industry and sales incentive programming, as discussed above. In addition, Apple's increased sales to the education market with lower gross margins had an unfavorable impact. During 1984, significant costs were incurred during the introduction period of the Macintosh and Apple IIc, resulting in a lower initial gross margin on these products. Additional costs were also incurred throughout the year to reserve for excess inventory and purchase commitments relating to new products replacing certain older products and for air freight to meet high demand for new products.

Research and development expenses decreased as a percentage of net sales to 4.7%, from 6.1% in 1983. Research and development spending resulted in the introduction of the Macintosh and the Apple IIc during 1984. Although expenditures decreased as a percentage of net sales due to the completion of the development cycle of these two major new products, actual research and development spending increased 18% from 1983 to \$71 million. This increase in expenditures reflects Apple's continuing emphasis on product development and is expected to result in additional new product introductions during 1985.

Marketing and distribution expenses increased to 26% of net sales, compared with 23% in 1983. The increase in expenses is due primarily to increased levels of advertising on television and in the print media for Macintosh and Apple IIc, and sales promotion programming throughout the year. Marketing and distribution expenses also increased in the fourth quarter due to a decision to terminate Apple's independent manufacturer's representative relationships and develop an internal sales force.

General and administrative expenses decreased slightly during 1984 as a percentage of net sales.

Interest and other income, net of interest expense, increased from \$16 million to \$18 million in 1984. The increase was primarily due to a litigation settlement and the sale of certain technical data during 1984.

The effective income tax rate decreased to 41.3% in 1984, from 47.5% in 1983. This was due to the reversal in the fourth quarter of deferred taxes previously provided on the accumulated earnings of the Domestic International Sales Corporation in accordance with the Tax Reform Act of 1984.

The impact of inflation on Apple's financial position and results of operations are discussed in the notes to the consolidated financial statements.

1983 Compared with 1982

Net sales in 1983 were \$983 million, a 69% increase over 1982. Sales of Apple II products increased during 1983, reflecting the increased demand for these products and the introduction of the Apple IIe, an enhanced version of the Apple II, in the second fiscal quarter. In addition, sales incentive programs offering price reductions on purchases of bundled Apple II systems contributed to the increase in sales. Lisa sales increased each quarter after its introduction in the second quarter of 1983.

Gross margin was 48.5% of sales in 1983, a 2.1 percentage point decrease from 1982. This decrease was due to the price reductions discussed above, as well as additional costs incurred during the year, which were partially offset by lower material costs. Additional costs incurred in the fourth quarter of 1983 were due to reserves for excess inventory and purchase commitments, and a decision to obtain certain disk drives from external sources rather than manufacture them internally. In addition, the fourth quarter of 1983 included costs resulting from the consolidation of certain Apple manufacturing operations. Gross margin was also negatively impacted by costs associated with the initial shipments of Lisa and the air freight incurred to meet the demand for the Apple IIe.

Research and development expenses decreased as a percentage of net sales to 6.1%, from 6.5% in 1982. Research and development spending in 1982 resulted in the introduction of the Apple IIe and Lisa in the second quarter of 1983. Although expenses decreased as a percentage of net sales, actual research and development spending increased to \$60 million from \$38 million in 1982, reflecting Apple's emphasis on new product development.

Marketing and distribution expenses increased to 23% of net sales, from 21% in 1982, due to higher levels of advertising and promotion expenses and increased selling expenses resulting from sales to the education market. In addition, the costs associated with the "Kids Can't Wait" program were charged to marketing and distribution expenses in the fourth quarter. Under this program, more than 8,000 computer systems were donated to California schools.

General and administrative expenses remained constant at 6% of net sales.

Interest income, net of expense, was \$16 million in 1983, an increase of \$2 million over 1982. This increase was due to higher average short-term investments during 1983, which more than offset declining interest rates.

Liquidity and Capital Resources

Apple relies primarily on the results of its operations to generate the cash necessary to meet its liquidity needs. In addition, Apple's liquidity is enhanced by the proceeds from the sale of common stock under stock option plans and the related tax benefit recognized upon the exercise of nonqualified stock options. The tax benefit arises because the Company receives a compensation deduction for tax reporting purposes for the difference between the option exercise prices and the fair value of the shares at the time of exercise.

1984 Compared with 1983

Net working capital increased \$92 million or 27% during 1984. Apple's actual cash and temporary cash investments, however, decreased 20% to \$115 million during 1984. The major sources of liquidity in 1984 were \$122 million from operations, \$19 million from the sale of common stock to employees under stock option plans (including \$7 million in tax benefits), and \$6 million from the sale of common stock under the employee stock purchase plan.

Apple's liquidity was reduced during 1984 by increases in accounts receivable, inventories, and property, plant, and equipment. Net accounts receivable increased 89% to \$258 million in 1984. This increase was due to the significant increase in sales during the second half of 1984 and an increase in the number of days' sales outstanding to 49 days. Net inventories

increased 86% to \$265 million in 1984. The increase in inventories reflects requirements for increased sales as the inventory turnover rate decreased only slightly during the year. Net additions to property, plant, and equipment were \$40 million in 1984, thereby continuing the expansion of Apple's manufacturing facilities and corporate headquarters.

At September 28, 1984, unused sources of liquidity consisted primarily of \$115 million in cash and temporary cash investments, and available credit lines with domestic and foreign banks of \$125 million. Apple's capital resource commitments at the end of 1984 consisted principally of obligations under operating lease agreements.

1983 Compared with 1982

Apple's liquidity remained strong during 1983, with cash and temporary cash investments of \$143 million at the end of 1983. The major sources of liquidity during the year were \$135 million from operations, \$39 million from the sale of stock to employees under stock option plans (including \$29 million in tax benefits), and \$4 million from the employee stock purchase plan.

Apple's liquidity was reduced during 1983 by increases in accounts receivable, inventories, and property, plant, and equipment. Net accounts receivable were \$136 million at September 30, 1983, compared with \$71 million at the end of 1982. Net inventories were \$142 million at September 30, 1983, an 89% increase over the \$75 million at the end of 1982. Net additions to property, plant, and equipment were \$53 million during 1983.

Consolidated Statements of Income

Three years ended September 28, 1984

(Dollars and shares in thousands, except per share amounts)

	1984	1983	1982
Net sales	\$1,515,876	\$982,769	\$583,061
Costs and expenses:			
Cost of sales	878,586	505,765	288,001
Research and development	71,136	60,040	37,979
Marketing and distribution	392,866	229,961	119,945
General and administrative	81,840	57,364	34,927
	1,424,428	853,130	480,852
Operating income	91,448	129,639	102,209
Interest and other income, net	17,737	16,483	14,563
Income before taxes on income	109,185	146,122	116,772
Provision for taxes on income	45,130	69,408	55,466
Net income	\$ 64,055	\$ 76,714	\$ 61,306
Earnings per common and common equivalent share	\$ 1.05	\$ 1.28	\$ 1.06
Common and common equivalent shares used in the calculations of earnings per share	60,887	59,867	57,798

See accompanying notes.

Consolidated Balance Sheets

September 28, 1984, and September 30, 1983
(Dollars in thousands)

1984

1983

Assets

Current assets:

Cash and temporary cash investments	\$114,888	\$143,284
Accounts receivable, net of allowance for doubtful accounts of \$10,831 (\$5,124 in 1983)	258,238	136,420
Inventories	264,619	142,457
Prepaid income taxes	26,751	27,949
Other current assets	23,055	18,883

Total current assets	687,551	468,993
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Property, plant, and equipment:

Land and buildings	24,892	19,993
Machinery and equipment	68,099	51,445
Office furniture and equipment	30,575	22,628
Leasehold improvements	26,008	15,894

	149,574	109,960
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Accumulated depreciation and amortization	(73,706)	(42,910)
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Net property, plant, and equipment	75,868	67,050
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Other assets	25,367	20,536
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	\$788,786	\$556,579
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Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable	\$109,038	\$ 52,701
Accrued compensation and employee benefits	20,456	15,770
Income taxes payable	11,268	—
Accrued marketing and distribution	50,638	21,551
Other current liabilities	63,784	38,764

Total current liabilities	255,184	128,786
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Non-current obligations under capital leases	—	1,308
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Deferred income taxes	69,037	48,584
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Commitments and contingencies	—	—
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Shareholders' equity:

Common stock, no par value, 160,000,000 shares authorized, 60,535,146 shares issued and outstanding in 1984, and 59,198,397 shares issued and outstanding in 1983	208,948	183,715
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Retained earnings	259,101	195,046
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Accumulated translation adjustment	(633)	—
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	467,416	378,761
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Notes receivable from shareholders	(2,851)	(860)
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Total shareholders' equity	464,565	377,901
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	\$788,786	\$556,579
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See accompanying notes.

Consolidated Statements of Shareholders' Equity

<i>(Dollars and shares in thousands)</i>	Common Stock		Retained Earnings	Accumulated Translation Adjustment	Notes Receivable from Shareholders	Total Shareholders' Equity
	Shares	Amount				
Balance at September 25, 1981	55,309	\$123,317	\$ 57,026	\$ —	\$(2,956)	\$177,387
Sale of common stock under stock option plans and related tax benefits	1,741	16,354	—	—	—	16,354
Sale of common stock under employee stock purchase plan	110	1,624	—	—	—	1,624
Repayments of notes receivable from shareholders, net of shares repurchased	(37)	(225)	—	—	646	421
Net income	—	—	61,306	—	—	61,306
Balance at September 24, 1982	57,123	141,070	118,332	—	(2,310)	257,092
Sale of common stock under stock option plans and related tax benefits	1,914	38,837	—	—	—	38,837
Sale of common stock under employee stock purchase plan	231	3,972	—	—	—	3,972
Repayments of notes receivable from shareholders, net of shares repurchased	(70)	(164)	—	—	1,450	1,286
Net income	—	—	76,714	—	—	76,714
Balance at September 30, 1983	59,198	183,715	195,046	—	(860)	377,901
Sale of common stock under stock option plans and related tax benefits	1,091	19,356	—	—	(2,342)	17,014
Sale of common stock under employee stock purchase plan	246	5,877	—	—	—	5,877
Repayments of notes receivable from shareholders	—	—	—	—	351	351
Accumulated translation adjustment	—	—	—	(633)	—	(633)
Net income	—	—	64,055	—	—	64,055
Balance at September 28, 1984	60,535	\$208,948	\$259,101	\$ (633)	\$(2,851)	\$464,565

See accompanying notes.

Consolidated Statements of Changes in Financial Position

Three years ended September 28, 1984
(In thousands)

1984 1983 1982

Working capital was provided by:

Operations:

Net income	\$ 64,055	\$ 76,714	\$ 61,306
Charges to operations not affecting working capital:			
Depreciation and amortization	37,963	22,440	16,556
Deferred income taxes (non-current)	20,453	35,697	7,625
Total working capital provided by operations	122,471	134,851	85,487
Increases in common stock and related tax benefits, net of changes in notes receivable from shareholders	23,242	44,095	18,399
Increases in non-current obligations under capital leases	—	—	1,172
Total working capital provided	145,713	178,946	105,058

Working capital was applied to:

Purchase of property, plant, and equipment, net of retirements	39,614	52,666	26,470
Other	13,939	11,531	4,421
Total working capital applied	53,553	64,197	30,891
Increase in working capital	\$ 92,160	\$114,749	\$ 74,167

Increase (decrease) in working capital by component:

Cash and temporary cash investments	\$ (28,396)	\$ (9,772)	\$ 80,222
Accounts receivable	121,818	64,942	29,148
Inventories	122,162	67,089	(22,972)
Prepaid income taxes	(1,198)	25,860	2,089
Other current assets	4,172	9,660	1,156
Accounts payable	(56,337)	(27,576)	1,488
Accrued compensation and employee benefits	(4,686)	(3,996)	(4,015)
Income taxes payable	(11,268)	15,307	(6,686)
Accrued marketing and distribution and other current liabilities	(54,107)	(26,765)	(6,263)
Increase in working capital	\$ 92,160	\$114,749	\$ 74,167

See accompanying notes.

Notes to Consolidated Financial Statements

Summary of Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Apple and its wholly owned subsidiaries. In 1984, Apple acquired a minority interest in Apple de Mexico, a newly formed joint venture. This investment is recorded at cost plus equity in the undistributed earnings (losses) of the joint venture since acquisition. All intercompany accounts and transactions have been eliminated in consolidation. Apple's fiscal year-end is the last Friday in September.

Inventories

Inventories are valued at the lower of cost or market. Cost is computed using currently adjusted standards that approximate actual cost on a first-in, first-out basis. Market is based on estimated net realizable value.

Service Parts

Service parts totaling \$14,791,000 for 1984 and \$14,654,000 for 1983 are included in other assets. Service parts are valued at the lower of cost or market, which approximates actual cost on a first-in, first-out basis. The carrying value of these parts is being amortized on a straight-line basis over 36 months.

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost. Depreciation and amortization is computed principally by use of declining balance methods over the estimated useful lives of the assets.

Taxes on Income

The provision for income taxes takes into consideration all income and expenses for the current year, regardless of when such items are recognized for tax reporting purposes. Furthermore, federal and state income taxes are provided on earnings of foreign subsidiaries each year, assuming the eventual remittance of such earnings back to the parent company. Investment tax credits are recognized on the flow-through method as a reduction of income tax expense in the year the assets are placed in service.

Foreign Currency Translation

Effective October 1, 1983, Apple adopted Statement of Financial Accounting Standards No. 52, whereby the assets and liabilities of most foreign operations are translated at rates of exchange in effect at year-end, and the income statements are translated at the average rates of exchange for the year. Gains and losses resulting from foreign currency translation are accumulated as a separate component of shareholders' equity until the foreign entity is sold or liquidated. Gains and losses resulting from foreign currency transactions are not material and are included in the statements of income for each of the three years presented. The financial statements for years prior to fiscal 1984 have not been restated, as the effect of this accounting change on those years, as well as on fiscal 1984, was not material.

Earnings per Share

Earnings per share are computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period.

Inventories

Inventories consist of the following:

<i>(In thousands)</i>	1984	1983
Raw materials and purchased parts	\$ 88,868	\$ 44,488
Work in process (including materials held by subcontractors)	48,550	28,069
Finished goods	127,201	69,900
Total	\$264,619	\$142,457

Borrowing Arrangements

Apple has arranged with certain domestic and foreign banks to make available short-term unsecured credit facilities totaling \$125 million. These credit arrangements require no compensating balances or fees and are cancelable at any time by either the banks or Apple. There were no borrowings against these credit facilities at September 28, 1984.

Preferred Stock

Five million shares of preferred stock have been authorized for issuance 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.

Taxes on Income

The provisions for taxes on income consist of the following:

<i>(In thousands)</i>	1984	1983	1982
Federal:			
Current	\$27,682	\$28,705	\$40,548
Deferred	6,537	26,981	4,008
	34,219	55,686	44,556
State:			
Current	6,835	9,760	9,365
Deferred (prepaid)	671	(366)	(756)
	7,506	9,394	8,609
Foreign:			
Current	4,850	5,218	2,505
Deferred (prepaid)	(1,445)	(890)	(204)
	3,405	4,328	2,301
Provision for taxes on income	\$45,130	\$69,408	\$55,466

Pretax earnings from foreign operations were approximately \$63,000,000 in 1984, \$58,800,000 in 1983, and \$23,700,000 in 1982.

Deferred (prepaid) taxes on income result from timing differences between years in the recognition of certain revenue and expense items for financial and tax reporting purposes.

Included in prepaid income taxes are \$26,751,000 and \$12,061,000 in 1984 and 1983, respectively, relating to timing differences. The sources of all timing differences and the related tax effect are as follows:

<i>(In thousands)</i>	1984	1983	1982
Warranty and other expenses not currently deductible	\$ (5,225)	\$ (3,780)	\$ (1,869)
Income reported on installment method for tax reporting purposes	4,754	—	—
Inventory valuation differences	(14,333)	(3,693)	(4,866)
Income of Domestic International Sales Corporation (DISC)	(4,107)	2,450	3,070
Income of foreign subsidiaries not taxable in current year	26,014	25,533	8,987
Financial statement depreciation in excess of current tax deduction	(3,540)	(4,899)	(3,090)
Other individually immaterial items	2,200	10,114	816
Total deferred (prepaid) taxes	\$ 5,763	\$ 25,725	\$ 3,048

A reconciliation of the total provision for taxes on income with the amount computed by applying the statutory federal income tax rate (46%) is as follows:

<i>(In thousands)</i>	1984	1983	1982
Computed expected tax, net of surtax exemption	\$50,206	\$67,192	\$53,696
State taxes, net of federal benefit	4,054	5,073	4,649
Tax benefit on accumulated earnings of DISC	(4,900)	—	—
Investment tax credits	(1,350)	(1,200)	(1,100)
Research and development tax credit	(2,350)	(5,000)	(3,400)
Other	(530)	3,343	1,621
Provision for taxes on income	\$45,130	\$69,408	\$55,466
Effective tax rate	41.3%	47.5%	47.5%

The DISC tax benefit shown above is attributable to the reversal of deferred taxes previously provided on DISC earnings accumulated through September 28, 1984, in accordance with the Tax Reform Act of 1984, and has been reflected as a reduction in the provision for taxes in the fourth quarter of fiscal 1984. Included in this benefit is \$4,000,000 attributable to earnings accumulated in years prior to fiscal 1984.

Leases

Apple leases various facilities and equipment under noncancelable lease arrangements. The major facilities leases are for terms of five to ten years and generally provide renewal options of five additional years.

Future minimum lease payments under all noncancelable operating leases as of September 28, 1984, are as follows:

<i>(In thousands)</i>	Operating Leases
1985	\$ 26,129
1986	23,261
1987	19,855
1988	14,396
1989	9,495
Later years	15,859
Total minimum lease payments	\$108,995

Rent expense under all operating leases was \$20,994,000, \$17,363,000, and \$11,698,000 in 1984, 1983, and 1982, respectively.

Employee Benefit Plans

Stock Option Plans

Apple has three stock option plans under which officers, directors, employees, and contractors may be granted options to purchase shares of Apple's common stock at the fair market value on the date of grant. The options become exercisable over varying periods and expire six years to ten years and one month after the grant date. The 1981 Stock Option Plan permits the granting of both incentive stock options and nonqualified stock options. Proceeds from the exercise of stock options, including income tax benefits of \$6,805,000, \$28,581,000, and \$14,591,000 in 1984, 1983, and 1982, respectively, have been added to shareholders' equity.

Summarized information regarding stock option plans as September 28, 1984, is as follows:

<i>(In thousands, except per share amounts)</i>	Number of Shares	Price per Share
Outstanding	8,352	\$19-\$59.31
Exercisable	1,601	\$19-\$59.31
Reserved for issuance	13,885	
Available for future grant	5,533	

In October 1983, the Board of Directors adopted a resolution allowing employees to exchange certain higher-priced options for new options at \$21.19, the fair market value on the date of the Board's action.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted 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.

Litigation

In February and March, 1984, six class action complaints were filed against the Company and fourteen of its officers and directors alleging violations of federal and state securities laws, including allegations of fraud and insider trading based on the Company's alleged failure to make certain disclosures of material facts during the time period from November 12, 1982 to September 23, 1983. The Company believes that the suits are without merit and intends to litigate vigorously the asserted claims in these actions. The Company maintains a directors and officers insurance policy that it believes should defray a substantial portion of any liability and costs of defense.

In February, 1983, a terminated distributor of Apple products for the Middle East brought suit against the Company in California Superior Court seeking \$10 million plus punitive damages for alleged breach of the distributor agreement. The complaint was subsequently amended to assert violations of California antitrust laws. The Company has denied these claims, raised various affirmative defenses, and filed a cross complaint for breach of contract and unfair competition.

In October, 1984, a state court action was commenced by an Apple dealer in Wisconsin against the Company and the University of Wisconsin alleging violations of state and federal law and seeking to enjoin the sale of Apple products by the Company to the University for resale to its students and faculty.

In December, 1981, six dealers filed suit against Apple seeking to restrain the Company from implementing a prohibition of mail order sales of Apple products. On November 28, 1983, Apple's Motion for Summary Judgment was granted on rehearing. No written opinion has yet been published.

In January, 1984, Apple settled the lawsuit brought against Franklin Computer Corporation for copyright infringement, unfair competition, and misappropriation. Pursuant to the settlement, Franklin admitted liability, agreed to discontinue marketing any infringing products, and paid Apple certain amounts.

In October, 1984, an action brought against Apple in Milan, Italy, by a former Apple distributor was settled without material impact to the Company.

In the opinion of Apple's management, the outcome of all of the above litigation will result in no material loss to Apple.

Industry Segment and Geographic Information

Apple operates in one principal industry segment: the design, manufacture, sale, and servicing of personal computers and related software and peripheral products. Apple's products are sold primarily to the business, education, and home markets. The principal methods of distribution are the independent retail dealer, national retail accounts, and direct sales.

Apple's foreign operations consist of manufacturing facilities in Ireland and Singapore; distribution facilities in Europe, Canada, and Australia; and a sales office in Japan. After consolidating adjustments, total assets and liabilities of foreign subsidiaries are as follows:

(In thousands)	1984	1983	1982
Total assets	\$ 254,924	\$108,716	\$ 56,485
Total liabilities	\$ 87,899	\$ 20,687	\$ 23,967

Geographic financial information for 1984, 1983, and 1982 is as follows:

(In thousands)	1984	1983	1982
Net sales to unaffiliated customers in:			
United States	\$1,187,839	\$764,416	\$440,895
Europe	192,187	124,571	92,725
Other	135,850	93,782	49,441
Total net sales	\$1,515,876	\$982,769	\$583,061
Transfers between geographic areas (eliminated in consolidation):			
United States	\$ 94,392	\$ 88,641	\$ 69,745
Europe	20,533	26,760	16,448
Other	211,987	152,540	36,673
Total transfers	\$ 326,912	\$267,941	\$122,866
Operating income:			
United States	\$ 49,100	\$ 78,833	\$ 80,976
Europe	14,559	19,834	15,423
Other	32,791	32,463	6,225
Eliminations	(5,002)	(1,491)	(415)
Unallocated	17,737	16,483	14,563
Income before taxes on income	\$ 109,185	\$146,122	\$116,772
Identifiable assets:			
United States	\$ 534,251	\$337,494	\$161,118
Europe	104,081	58,812	37,160
Other	46,385	19,888	7,100
Eliminations	(10,819)	(2,899)	(647)
Corporate assets	114,888	143,284	153,056
Total assets	\$ 788,786	\$556,579	\$357,787

Transfers between geographic areas are recorded at amounts generally above cost and in accordance with the rules and regulations of the respective governing tax authorities. Operating income is total revenue less operating expenses, and does not include either interest and other income or taxes on income. Identifiable assets of geographic areas are those assets used in Apple's operations in each area. Corporate assets are cash and temporary cash investments.

Supplementary Financial Information Adjusted for Changing Prices (Unaudited)

The following supplementary financial information, which adjusts current earnings for changing prices, has been prepared using procedures specified by the Financial Accounting Standards Board. The information adjusts the historical operating expenses and depreciation of the primary earnings statement related to inventories and property, plant, and equipment to reflect the impact of inflation. The constant dollar information adjusts for general inflation as measured by the Consumer Price Index-Urban. The current cost information adjusts the specific items mentioned above to their present-day cost. Sales, income taxes, and other income and expense items have not been restated.

Following is a summary of certain financial information for the year ended September 28, 1984, adjusted for changing prices:

(In millions, except per share amounts)	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales	\$1,515.9	\$1,515.9	\$1,515.9
Cost of sales	878.6	887.3	879.1
Other operating costs and expenses	545.8	547.0	546.4
Interest and other income	17.7	17.7	17.7
Provision for taxes on income	45.1	45.1	45.1
Net income	\$ 64.1	\$ 54.2	\$ 63.0
Earnings per common and common equivalent share	\$ 1.05	\$.89	\$ 1.03
Depreciation expense included in costs and expenses above	\$ 30.8	\$ 33.0	\$ 31.9
Inventories and property, plant, and equipment (net) at September 28, 1984	\$ 340.5	\$ 342.6	\$ 343.7
Decrease in current cost of inventories and property, plant, and equipment (net) held during the year			\$ 1.4
Effect of increase in general price level			9.5
Excess of increase in general price level over decrease in specific prices (\$4.1 in 1983)			\$ 10.9

Constant Dollar

Inflation caused the value of inventory sold during 1984 to increase when stated in average 1984 dollars. This resulted in an increase of approximately \$7.7 million to cost of sales for the year. Inflation also caused the value of property, plant, and equipment acquired before 1984 to increase, resulting in an increase of \$2.2 million in depreciation expense. Apple's net assets, stated in average 1984 dollars, were \$464.7 million at September 28, 1984 (\$377.1 million at September 30, 1983). Constant dollar net income for 1983, stated in average 1984 dollars, was \$75.8 million, or \$1.27 per share.

Current Cost

Inventory and cost of sales were not adjusted (other than the restated depreciation component), as historical cost approximates current cost. During 1984, increases in specific prices for property, plant, and equipment acquired before 1984 resulted in a \$1.1 million increase in depreciation expense. The current cost of net assets, stated in average 1984 dollars, was \$461.5 million at September 28, 1984 (\$374.1 million at September 30, 1983). Current cost net income for 1983, stated in average 1984 dollars, was \$79.3 million, or \$1.32 per share.

Other Information

Apple's net monetary position is also impacted by inflation. In periods of inflation, companies that hold cash and other monetary assets lose purchasing power, since these assets will purchase fewer goods and services. Conversely, companies that have liabilities of fixed amounts gain purchasing power during periods of inflation because these obligations are payable in dollars of reduced value. The net effect is the gain or loss in the purchasing power of net monetary assets. Apple held more monetary assets than liabilities during 1984 and consequently experienced a purchasing power loss on net monetary assets of \$9.9 million. Apple's purchasing power loss in 1983, stated in average 1984 dollars, was \$4.6 million.

Following is a five-year comparison of selected financial information adjusted for changing prices:

Fiscal Year	Net Sales in Millions of Constant 1984 Dollars	Market Price per Common Share at Year End in Constant 1984 Dollars	Average Annual Consumer Price Index-Urban (CPI-U)
1984	\$1,515.9	\$24.60	307.9
1983	\$1,022.8	\$23.84	296.0
1982	\$ 627.9	\$19.16	286.0
1981	\$ 387.2	\$15.71	266.2
1980	\$ 150.5	—	239.7

Prior to December 12, 1980, Apple's common stock was not publicly traded. The average annual CPI-U for 1984 is estimated.

*To the Shareholders and Board of Directors of
Apple Computer, Inc.*

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. at September 28, 1984 and September 30, 1983 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 28, 1984. 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.

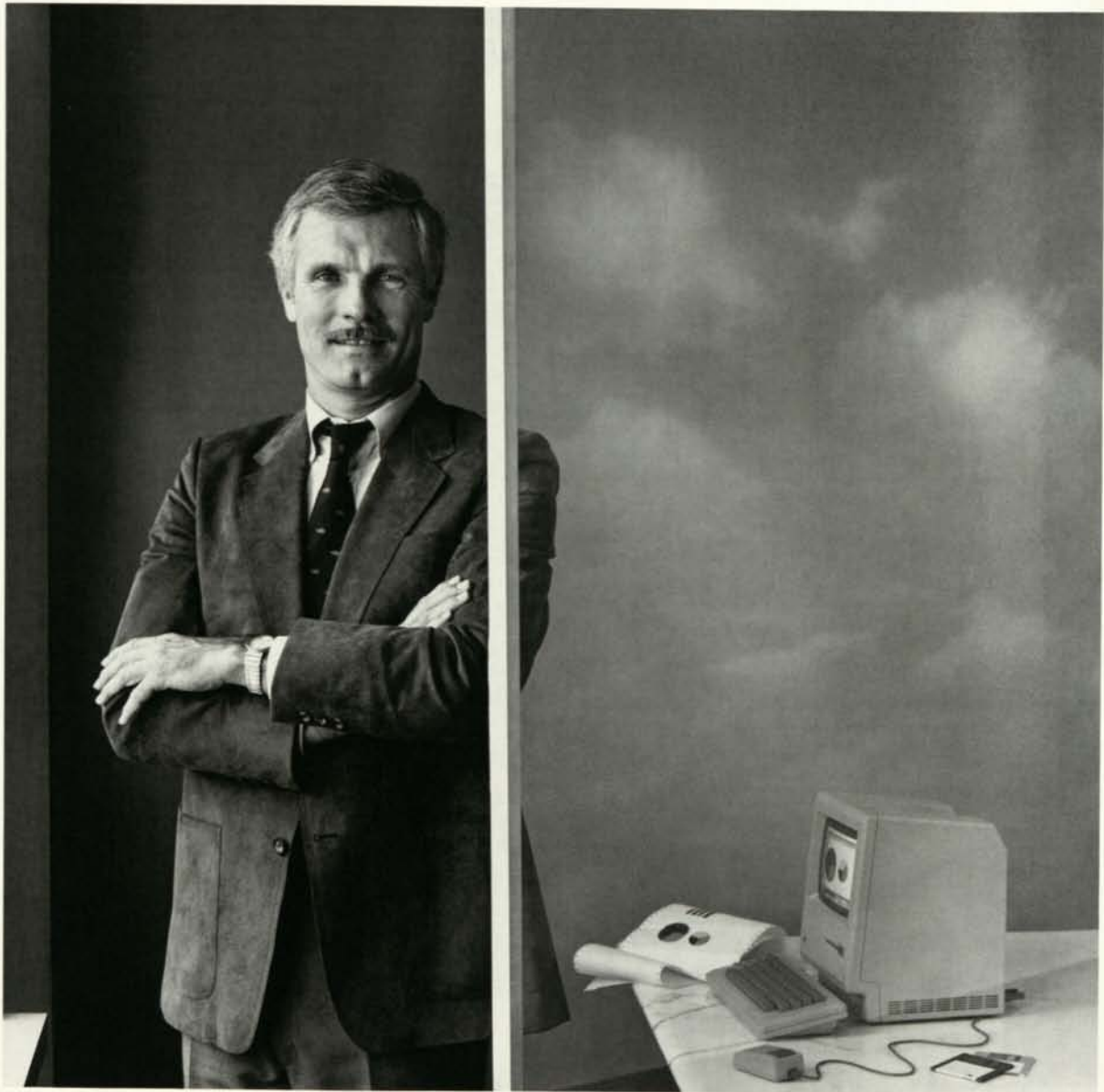
In our opinion, the statements mentioned above present fairly the consolidated financial position of Apple Computer, Inc. at September 28, 1984 and September 30, 1983, and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 28, 1984, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
October 16, 1984

Even the inventors of Macintosh are only beginning to perceive what can result when a great imagination encounters Macintosh. On the pages that follow, we present eleven great imaginations that have already encountered Macintosh, and some results of those encounters.


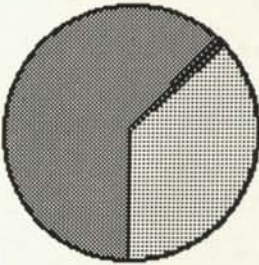
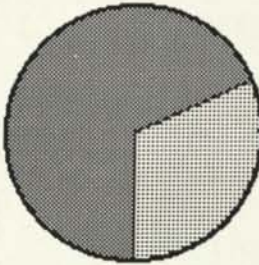
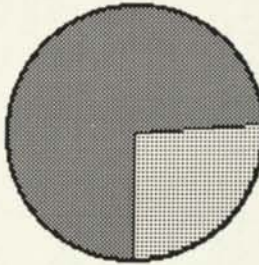




TED TURNER

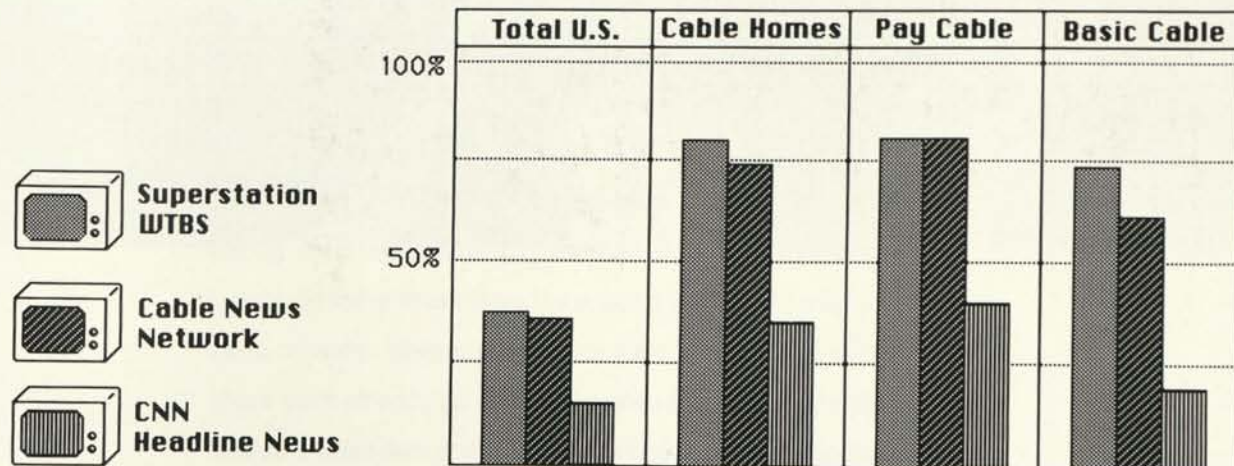
Entrepreneur, Sportsman

COMPOSITION OF TBS HOMES: PAY vs. BASIC • JULY 1984

	Superstation WTBS	Cable News Network	CNN Headline News
 000's of HOMES (% of HOMES)			
Pay Cable	18,604 (60.0)	19,489 (68.4)	9,384 (73.6)
Basic Cable	11,317 (36.5)	9,003 (31.6)	3,366 (26.4)
Non-Cable	1,085 (3.5)		
TOTAL	31,006 (100.0)	28,492 (100.0)	12,750 (100.0)

PENETRATION SUMMARY • JULY 1984

Penetration of TBS Services within each Category





KURT VONNEGUT

Novelist

G A L A P A G O S

a novel

by Kurt Vonnegut

Chapter One

The thing was:

One million years ago, back in 1986 A.D. Guayaquil was the chief seaport of the little South American democracy of Ecuador, whose capital was Quito, high in the Andes Mountains. Guayaquil was two degrees south of the Equator, the imaginary bellyband of the planet, after which the country itself was named. It was always very hot there, and humid, too, for the city was built in the Doldrums — on a springy marsh through which the mingled waters of several rivers draining the mountains flowed.

This seaport was in fact several kilometers from the open sea.

Rafts of vegetable matter often clogged the soupy waters leading to the open sea, engulfing pilings and anchor lines.

Human beings had much bigger brains back then than they do today, and so they could be beguiled by mysteries. One such mystery in 1986 was how so many creatures which could not swim great distances had reached the Galapagos Islands, an archipelago of volcanic peaks due west of Guayaquil — separating from the mainland by one-thousand kilometers of water, very cold water fresh from the Antarctic, and often a kilometer deep or more. When human beings discovered those islands, there were already geckos and iguanas and rice rats and lava lizards and spiders and ants and beetles and grasshoppers and mites and ticks in residence, not to mention enormous land tortoises.

What form of transportation had they used?

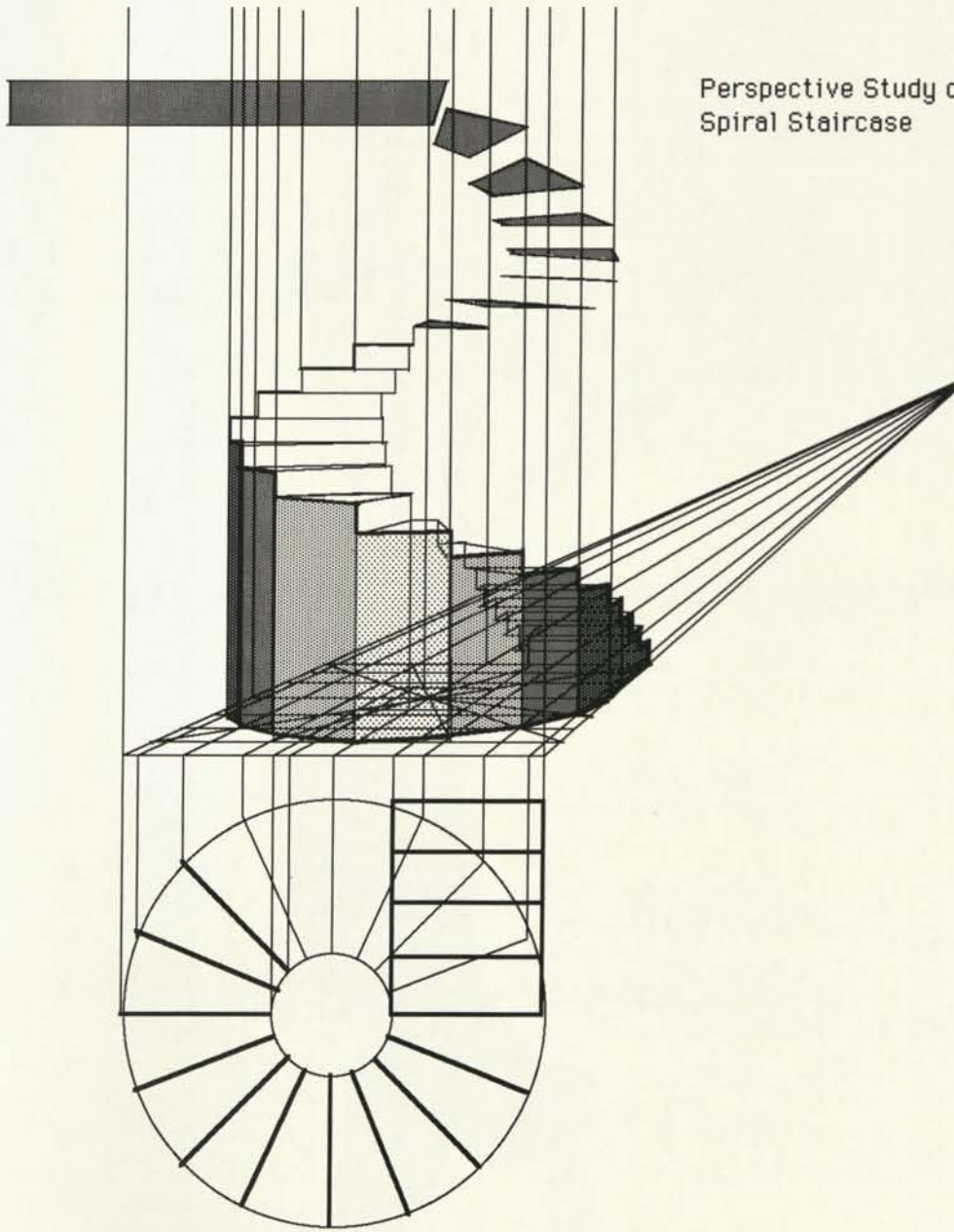
Many people were able to satisfy their big brains with this answer: They came on natural rafts.

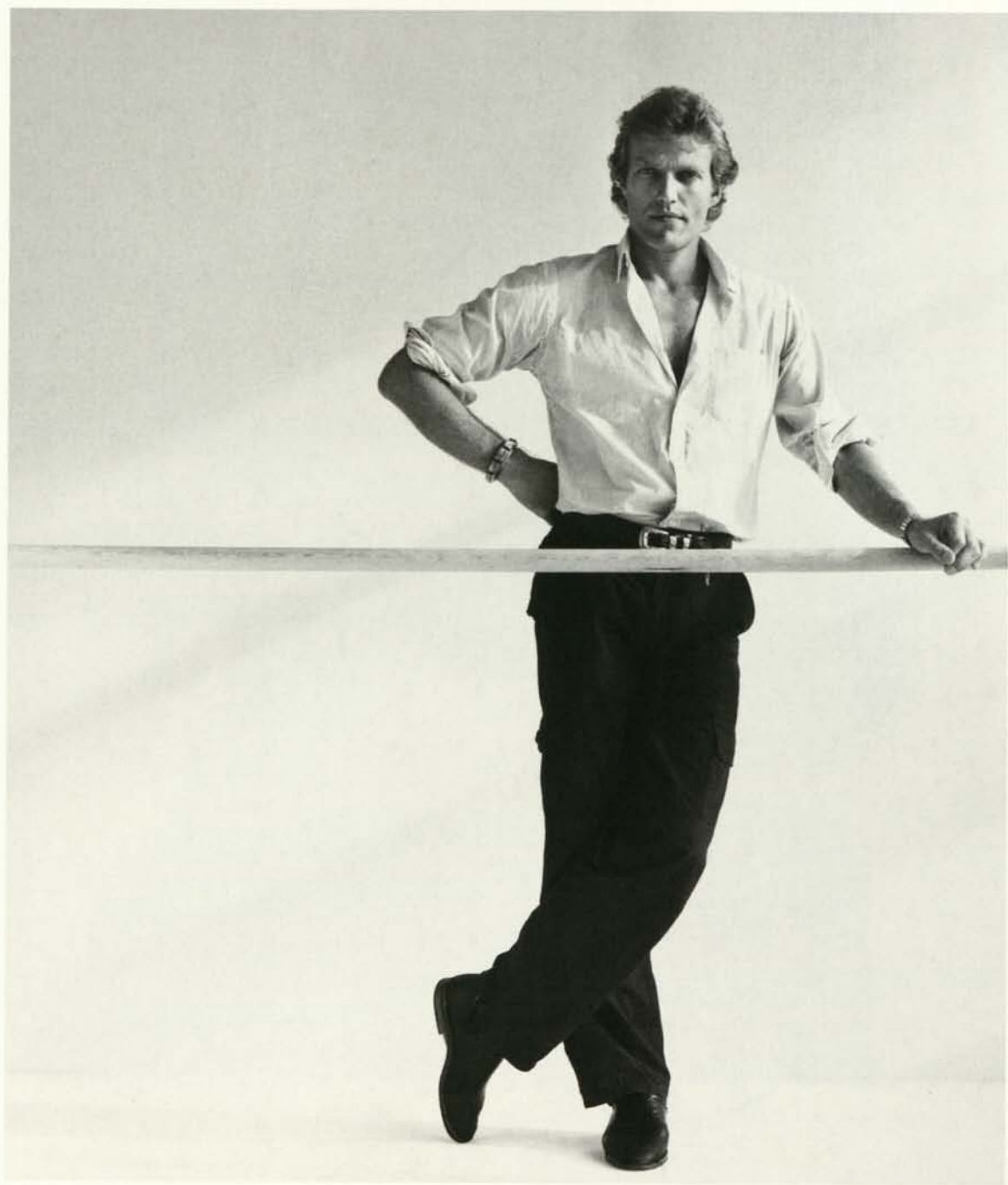


MAYA LIN

*Architecture Student
Designer, Vietnam Veterans Memorial*

Perspective Study on
Spiral Staircase





PETER MARTINS

Ballet Master

Martin's Choreography					
Ballet	Composer	Premiere	Cast	Music	TU
Calcium Light Night	Charles Ives	10/77	2	Orchestra	X
Rossini Pas de Deux	G.Rossini	6/ 8/78	2	Piano	
Sonate di Scarlatti	D.Scarlatti	7/19/79	10	Piano	
Eight Easy Pieces	I.Stravinsky	1/16/80	3	Piano	X
Lille Suite	Carl Nielson	8/23/80	18	Orchestra	
Suite from Histoire du Soldat	I.Stravinsky	1/29/81	22	Orchestra	
Capriccio Italien	P.Tschaikovsky	5/ 9/81	23	Orchestra	
Symphony No.1	P.Tschaikovsky	6/ 6/81	28	Orchestra	
The Magic Flute	R.Drigo	1/21/82	50	Orchestra	X
Piano-Rag-Music	I.Stravinsky	6/10/82	5	Piano	X
Concerto for Two Solo Pianos	I.Stravinsky	6/13/82	15	Piano	X
Waltzes	F.Schubert	1/28/83	18	Piano	
Delibes Divertissement	Leo Delibes	2/ 3/83	13	Orchestra	
Rossini Quartets	G.Rossini	2/10/83	8	Orchestra	
Tango	I.Stravinsky	1/28/83	2	Piano	X
R Schubertiad	F.Schubert	1/26/84	16	Piano	
Rejouissance	J.S.Bach	5/17/84	30	Orchestra	

Calcium Light Night

Composer: Charles Ives
 Costume: Steve Rubyn
 Set: Steve Rubyn
 Lighting: Ronald Bates
 Premiere: 10/77
 Cast: 2
 Music: Orchestra
 T.O.: X

Rossini Pas de Deux

Composer: G.Rossini
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 6/ 8/78
 Cast: 2
 Music: Piano
 T.O.:

Sonate di Scarlatti

Composer: D.Scarlatti
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 7/19/79
 Cast: 10
 Music: Piano
 T.O.:

Eight Easy Pieces

Composer: I.Stravinsky
 Costume: Santo Loquasto
 Set: Santo Loquasto
 Lighting: Ronald Bates
 Premiere: 1/16/80
 Cast: 3
 Music: Piano
 T.O.: X

Lille Suite

Composer: Carl Nielsen
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 8/23/80
 Cast: 18
 Music: Orchestra
 T.O.:

Suite from Histoire du Soldat

Composer: I.Stravinsky
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 1/29/81
 Cast: 22
 Music: Orchestra
 T.O.:

Capriccio Italien

Composer: P.Tschaikovsky
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 5/ 9/81
 Cast: 23
 Music: Orchestra
 T.O.:

Symphony No.1

Composer: P.Tschaikovsky
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 6/ 6/81
 Cast: 28
 Music: Orchestra
 T.O.:

The Magic Flute

Composer: R.Drigo
 Costume: Ben Benson
 Set: David Mitchell
 Lighting: Ronald Bates
 Premiere: 1/21/82
 Cast: 50
 Music: Orchestra
 T.O.: X

Piano-Rag-Music

Composer: I.Stravinsky
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 6/10/82
 Cast: 5
 Music: Piano
 T.O.: X

Concerto for Two Solo Pianos

Composer: I.Stravinsky
 Costume: Ben Benson
 Set: Ben Benson
 Lighting: Ronald Bates
 Premiere: 6/13/82
 Cast: 15
 Music: Piano
 T.O.: X



MILTON GLASER

Designer

TODAY'S WEATHER
Show this morning followed by brisks

The Blaser Gazette

YOUR AD HERE
212-889-3161
No Reasonable Offer
Will Be Refused!

HEALTH TRENDS!

The Horizontal Club!!!!!!!

We have to forsake the "quarter latin" atmosphere of the basement for what is rumored to be a "luxuriously appointed health spa in a magnificent situation"!!! It will transcend utility and zoom into the next century with its futuristic design!!! Featuring skipping ropes upside down bars, parallel ropes and two Olympic size pools, individual trampolines, sauna, jacuzzi, smooth boozey... etc. etc. And from what my *little birds* tell me - Chuck and his Horizontal Club will eclipse the most extravagant Hollywood Film Set!!! **THIS IS NO BARGAIN BASEMENT!!!!**

UPSTAIRS, DOWNSTAIRS

Sorry, but the elevator's broken

WBMG are blissfully happy in their exceptionally modern luxury suite on the troisième etage. "Upstairs" has an atmosphere of serenity and calm maintained by staff smoking themselves out "Downstairs". The Grand Master Suite lavishly decorated affords extraordinary views of the East River and the Empire State Building. Blah, blah, blah, blah.



Milton Glaser teaches a computer for the first time... says "it wasn't as bad as I thought it would be."

An Apple a Day... or After the Fall

Our Fearless Leader - MG - the apple of our eye - a man who looks for flaws even in perfection - a man who has trouble answering his own phone...

He can entertain entertaining possibilities beyond the means and patience of less technological men. He can be like some perverses alchemist, tireless in pursuit of a formula for turning gold into lead...

Anyway when it comes to dabbling with our state-of-the-art Macintosh, MG, who has an understandable fear of machines (not of cars, though...he loves cars), was heard to say, "it hardly hurt at all."

WBMG REPORTS

Bring Back the Honey-mooners

Diamonds are a girl's best friend & a man's best friend is his dog.

The O... meeting collapsed into hysterics yesterday while they all discussed marriage, divorce, hearts & flowers. The giggles were heard on 29th street!!!!

As it... been... Romance story - a Cosmo story - an Inquire story - they puzzled ??? Was it all too too soon for words?



You can't teach an old dog new tricks

Milton thinks that German Shepherds are over-designed dawgs (???????) You know what he means. (!!!)

The Blaser Gazette

GAMES

RED DOT TOT

"Yes Sir, That's My Baby"

Little Tommy B.G., Caroline's Boy, can be seen chasing his own tail on Grand Union's latest Red Dot Special.

The diaper package design features a gridded back ground and comes in several sizes, each size color-coded to baby size. Red package for small red babies, purple for medium-sized purple babies, and so on. We'd love to show it to you, but Caroline has taken all our samples.

CLASSIFIEDS

Cow for sale - Husu moo Ormond. Zoo River. Zoo giver. Harvest moo. All is moo. And nothing is fair. \$500.00

Heavy Hands Needed - I dropped some in Washington Sq. Park

Wanted - Another fan to my personality besides shoes.

Wanted - Girl - Colleen, please come back. We forgive everything. Phone home.

Wanted - Live-in multi-lingual English Nanny. Must be maleable, compulsive cleaner, Cordon Bleu cook, obedient, quiet, get up all through nite. BB, need no sleep, be independently wealthy, love animals, hate cockroaches, small children, blah, blah.

Whiteprint Editions in the publishing & distribution division for Milton Glaser. Through this dimension, MG posters, limited editions & originals are sold. In fact, Milton will get it for you wholesale! Stop in to browse & don't (please) ruffle the dust.

Chop Busters - Stop busting my chops! One more crumb, one more empty & you're all fired! You know who you are!!!

Wanted - An open window with sunny breezy fresh air - JK from MJ

Are you the mechanical type? Ready to comp out? Do you see any Futuze? Losing your sass? Spec too much from life? Are you in a complete stat of disarray? Call the Graphic Disease Hotline: 8893161.

Square. Looking for French curves. Mechanical a must.

INSIDE DOPES

Keep America Beautiful
Well, Goldilocks and the 3 bears and Hansel & Gretel got their mums, and their feelings are deeply hurt and wounded. Cinderella left the crumbs or was it Humpty Dumpty or the Itsy Bitsy Spider?????????

Where oh where shall we have our jolly Yuletide lunch this year???????

H&H
Lutece - "a real piece of Paris" declares MG

Tortilla Flats - (too new wave, he adds)

Four Seasons - Too old fashioned (no, don't swim in the Pool Room)

21 - (you have to be over 21)

Café des Artistes - (too close to home)

MacDonalds - (don't take plastic ???)

Bah Humbug!

We are all rather edgy about visiting the unknown. First impressions are so important! Even as I write, names are flying hither and thither - "Poulet roti", mon plaisir, "La brasserie du Coin", "Quoi de Bon? Bratsé", Chicken MacNuggets, "Szechuan Sushi".

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MacDonalds - (don't take plastic ???)

Back from Frogland
April, AKA "Seeks", bought only 66 pairs of shoes - whereas Monica II is rumored to have 73 new pairs!!!!

Bijou
Pied-a-terre
I hear that DF has found just that - acres and acres of NSWE exposures - wood floors, paneled library, hot & cold running porters, 6 bathrooms, 10 bedrooms, 78 windows...

Catty Gossip
"Miaow" - Susie Q's pet has flown East and settled into her 30th St. Pad - "Miaow"

Gladys the Goose
Christina let the goose out of the bag on Tuesday!!!
Hoak! Hoak!

Hooray for Hollywood!!!!
KJ will be attending yet another beautiful gourmet cocktail party at the top of the Eiffel Tower, wearing Milton's shoes, George's Parache spectacles, April's socks and Kozoff's shimmering tights.

The Blaser Gazette



This tropical paradise is yet another place we won't be making this Holiday Season.

Bah Humbug!

We are all rather edgy about visiting the unknown. First impressions are so important! Even as I write, names are flying hither and thither - "Poulet roti", mon plaisir, "La brasserie du Coin", "Quoi de Bon? Bratsé", Chicken MacNuggets, "Szechuan Sushi".

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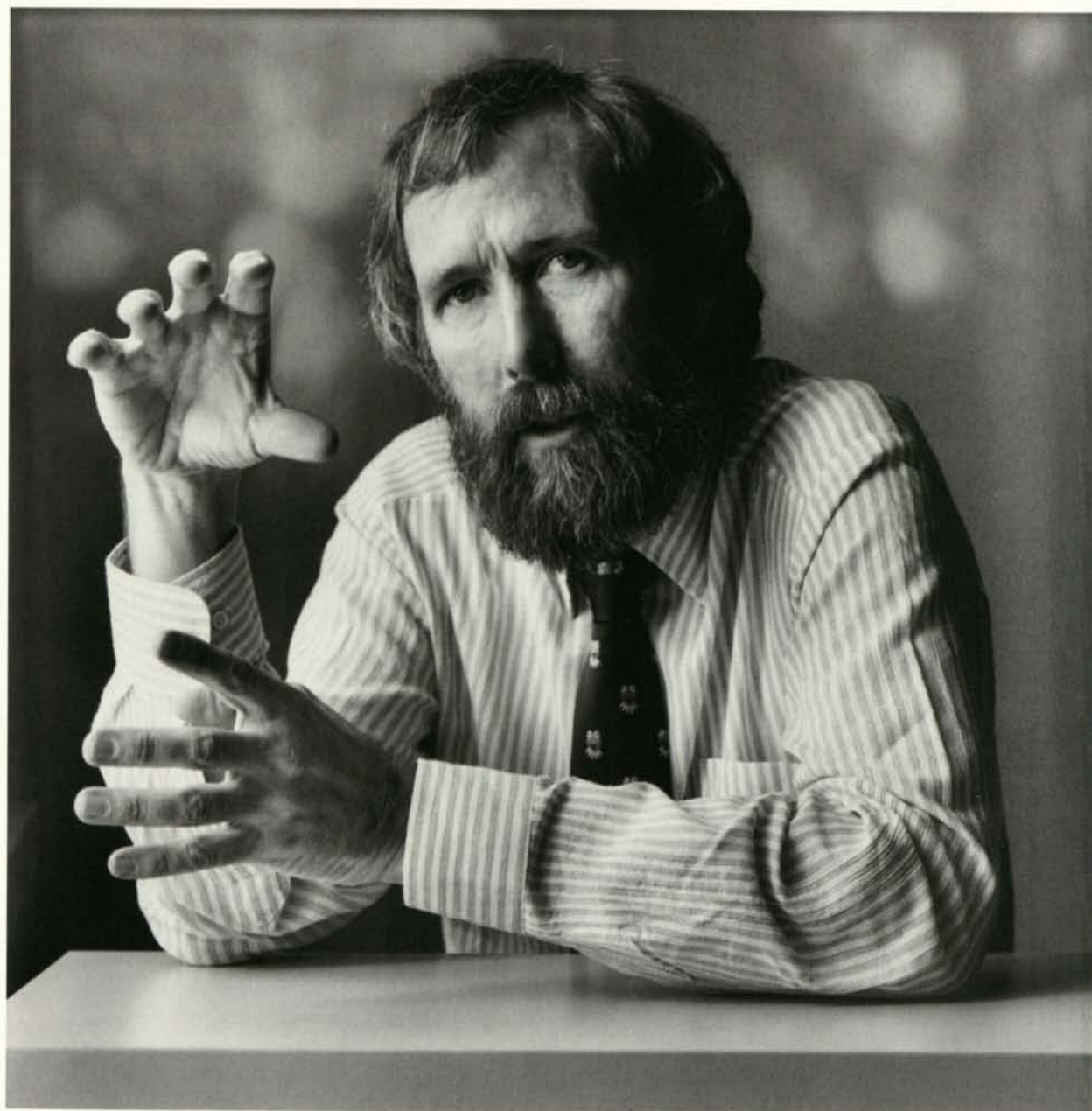
Topo Gigio
A little mouse tells me that Giorgio is having private (?) Italian lessons! Que Bellati!

OK Marlene, where are our Macadamia nuts!!!

GAWP!!!
(Look at him)

Downtown's brite site life tentie, AREA's Festiv of the Month is gone possessed it, our very own, one and only Juan!! A little plus for the Spanish community.

Design for living
Timmy H does it again! He's been saving up for weeks! For a Sergio Valenti solid platinum Cat Food Bowl!!! And one for his car!!!



JIM HENSON

Muppet Creator





DIANNE FEINSTEIN

Mayor of San Francisco



Appointments for OCTOBER 10, 1984

Time	Glance	Comment
8:00	Staff	Scheduling session
9:00	PUC	Re Historic Trolley Festival
10:15	Assbly	Hearing re Proposition 41
11:00	APPLE	Instruction, photo session
12:00	Museum	Opening: Jewish Cmty Museum
2:00	Campaign	Women-to-Women kickoff event
3:00	Desk	Staff & paperwork
4:30	Legis	Legislative update
6:15	Cork	Cork Sister City Committee
7:00	Dinner	Lawyers honor Sala Burton
Travel		
Expenses		



STEPHEN SONDHEIM

Composer, Lyricist

Pacific Overtures



PROMENADE THEATRE

NEW YORK

Welcome to Kanagawa

Revision: October 20, 1984

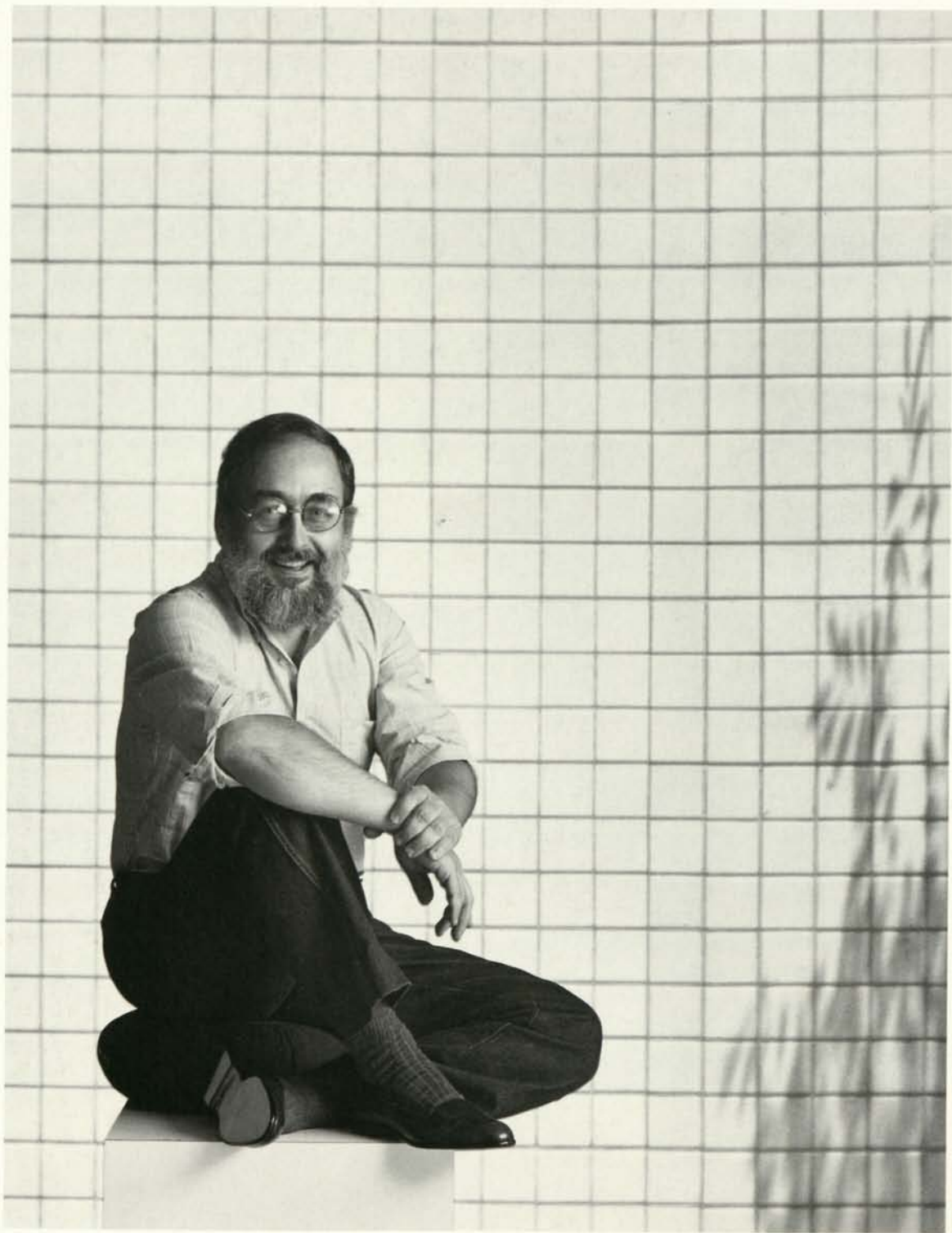
(M:) (I:)

That you do light ly, Just with your toes Yo-ho

(M:) (II:)

That you hold tight ly when you're toy-ing with those Yo-ho

Stephen Sondheim



BOB CIANO

Art Director, LIFE Magazine



LEE IACOCCA

*Chairman of the Board and Chief Executive Officer,
Chrysler Corporation*

L.A. Iacocca
Ethnic Heritage Council of the Pacific Northwest
Seattle, Washington
October 20, 1984

-12-

We aren't spending \$230 million just so the Statue won't fall into the harbor and become a hazard to navigation. We aren't fixing up Ellis Island so people will have a nice place to go on Sunday afternoon. We're doing it because we want to remember, and to honor, and to save the basic values that made America great.

Values like hard work, dignified by decent pay. Like the courage to risk everything and start over. Like the wisdom to adapt to change. And maybe most of all -- self confidence. To believe in ourselves. Nothing is more important than that.

We make a mistake if we think the Statue of Liberty is just a **historical** monument. We're missing the boat if we think she stands for the **past**. She has **never** stood for the past. Every immigrant, every returning GI and doughboy who sailed by her, was **escaping** the past and entering the **future**.

She may be almost 100 years old, but the values she stands for better **not** be as weathered as she is. And I don't think they are. Maybe when we get her polished up, more people will see that.

We're not just preserving a Statue here, we're preserving all that she stands for.

And if that's not worth remembering, and honoring, and saving...if that's not worth passing on to our kids...then let me ask you, ladies and gentlemen -- what is?



DAVID ROCKEFELLER

Chairman, The Rockefeller Group

30 Rockefeller Plaza
New York, N. Y. 10112

Remarks by David Rockefeller
At American Bankers Association
International Banking Policy Forum
Washington, D.C.
September 22, 1984

Help Wanted: Apostles of Aid

THANK YOU, HARRY TAYLOR, FOR THAT VERY GENEROUS INTRODUCTION. I AM DELIGHTED TO LEARN THAT I HAVE A FRIEND AT MANUFACTURERS HANOVER!

HAVING RETIRED SOME THREE AND A HALF YEARS AGO FROM ANOTHER FRIENDLY LITTLE LOAN COMPANY, I AM ALSO QUITE FLATTERED TO HAVE BEEN OFFERED THE LAST WORD AT THIS IMPORTANT AND TIMELY CONFERENCE.

IT'S WONDERFUL FOR A FORMER BANKER TO BE ABLE TO GET TOGETHER WITH SO MANY OF HIS YOUNGER COUNTERPARTS. IT'S ALSO, I SHOULD ADD, REASSURING TO SEE THAT — EVEN AFTER TWO DAYS OF DISCUSSING INTERNATIONAL DEBT— YOU ALL LOOK SO SPRY AND HEALTHY!

TO DISPEL ANY CURIOSITY YOU MAY HAVE ABOUT ME, I SHOULD REPORT TO YOU THAT RETIREMENT IS GREAT FUN AND HAS MANY ADVANTAGES — NOT THE LEAST OF WHICH IS BEING ABLE TO SAY WHATEVER YOU WANT. WHEN I WAS AT CHASE, I ALWAYS COULD BE CERTAIN OF ONE THING WHENEVER I GAVE A SPEECH. WHAT I SAID WOULD AROUSE THE RIGHTEOUS INDIGNATION OF SOME SEGMENT OR ANOTHER OF OUR CUSTOMERS OR SHAREHOLDERS.

Board of Directors

Steven P. Jobs
Chairman of the Board
Apple Computer, Inc.

A. C. Markkula, Jr.
Vice Chairman of the Board
Apple Computer, Inc.

Peter O. Crisp
General Partner
Venrock Associates
Venture capital investments

Arthur Rock
Principal in Arthur Rock & Co.
Venture capital investments

Philip S. Schlein
Chairman of the Board
Macy's California
Retail department store chain

John Sculley
President and Chief Executive Officer
Apple Computer, Inc.

Henry Singleton
Chairman of the Board
Teledyne, Inc.
Diversified manufacturing company

Officers

John Sculley
President and
Chief Executive Officer

Steven P. Jobs
Executive Vice President and
General Manager, Macintosh Division

William V. Campbell
Executive Vice President, Sales

Delbert W. Yocam
Executive Vice President and
General Manager, Apple II Division

Albert A. Eisenstat
Vice President
Secretary and General Counsel

Jay R. Elliot
Vice President, Human Resources and
Administration

Joseph A. Graziano
Vice President, Finance and
Chief Financial Officer

Michael Muller
Vice President and
General Manager, Accessory Products

Michael Spindler
Vice President and
General Manager, Europe

Roy Weaver, Jr.
Vice President, Field Operations

Kenneth R. Zerbe
Vice President and
General Manager, Americas, Far East, and Africa

Charles W. Berger
Treasurer

Company Profile

Apple Computer, Inc. develops, manufactures, and markets personal computer systems—the productivity tools of the 1980s—for business, education, science, industry, and the home.

Stock Trading

Apple Computer's common stock is traded in the over-the-counter market and is listed on the NASDAQ National List under the symbol AAPL.

Transfer Agent and Registrar

The First National Bank of Boston,
Boston, Massachusetts.

Certified Public Accountants

Arthur Young & Company,
San Jose, California.

SEC Form 10-K

If you would like a copy of our Annual Report or SEC Form 10-K for the fiscal year ended September 28, 1984, you may obtain it without charge. Direct your request to Dan Eilers, Assistant Treasurer, Apple Computer, Inc., 20525 Mariani Avenue, Cupertino, California 95014.

Corporate Information

Please direct inquiries to Dan Eilers, Assistant Treasurer, Apple Computer, Inc., 20525 Mariani Avenue, Cupertino, California 95014.

Annual Meeting

The annual meeting of shareholders will be held January 23, 1985, at 10 A.M. local time at Flint Center, DeAnza Community College, 21250 Stevens Creek Boulevard, Cupertino, California.

Apple, the Apple logo, and Lisa are registered trademarks of Apple Computer, Inc. Macintosh is a trademark licensed to Apple Computer, Inc. by McIntosh Laboratory, Inc. IBM is a registered trademark of International Business Machines Corporation. SONY and Walkman are registered trademarks of the SONY Corporation.

Mr. Sondheim's output is from "ProComposer," by Mark of the Unicorn. Ms. Lin's output is from "MacDraw." Ms. Feinstein's output is from "Habadox" by Haba Systems, Inc. Mr. Martin's output is from "OverVUE" by ProVUE Development Corp.

The 1984 Annual Report was created and produced by a small team of Apple people: Maryanne Beckford, Mark Brown, Dan Eilers, Chris Espinosa, Dennis Gobets, Susan Kare, Clement Mok, Tom Suiter, and Vicki Takla.

Photography: ©Julie Chase 1984 — pages 5 & 14. ©John Greenleigh 1984 — pages 10 & 11. ©Will Mosgrove 1984 — front cover and pages 6, 7, 9 & 15. ©Cheryl Rossum 1984 — Macintosh factory and participants' portraits. ©Norman Seeff 1984 — Apple group portraits. Design: Clement Mok and Tom Suiter.

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Printed in U.S.A.



Apple Computer, Inc.
20525 Mariani Avenue
Cupertino, California 95014

Third quarter report



Apple Computer, Inc.

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Highlights

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Nine Months Ended	
	<i>July 1, 1983</i>	<i>June 25, 1982</i>	<i>July 1, 1983</i>	<i>June 25, 1982</i>
Net sales	\$267,284	\$142,681	\$709,559	\$407,253
Net income	\$ 24,204	\$ 15,193	\$ 71,606	\$ 42,572
Earnings per share	\$.40	\$.26	\$ 1.20	\$.74

**To Our
Shareholders:**

Apple's worldwide net sales for the third fiscal quarter of 1983 increased 87 percent to \$267.3 million from \$142.7 million a year ago. Net income for the quarter rose 59 percent to \$24.2 million, or \$.40 per share, from \$15.2 million or \$.26 per share, in the comparable period last year.

For the first nine months of fiscal 1983 Apple's sales were \$709.6 million, 74 percent higher than the \$407.3 million in the first nine months of 1982. Net income grew 68 percent to \$71.6 million, or \$1.20 per share, from \$42.6 million, or \$.74 per share a year ago.

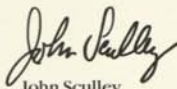
Accelerated production of the Apple IIe during the quarter resulted in product supply that caught up with demand, thus ending shortages at the retail level. Unit shipments increased each month and sales to the education market were particularly strong during the quarter.

Net income did not keep pace with the sharp increase in sales mainly because of costs incurred to meet the unexpectedly high worldwide demand for the Apple IIe, costs associated with the initial shipments of the Lisa system and price reductions on the Apple III.

New software offerings for the Apple IIe and Apple III continue to improve and grow more sophisticated, enhancing the value and utility of this product family. As the quarter ended, the one-millionth Apple personal computer was produced. The IIe is the microcomputer offered by Apple in the company's Kids Can't Wait school donation program, the first deliveries of which were made in July.

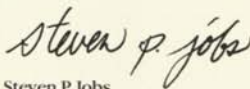
Customer shipments of the Lisa system began on schedule and we remain pleased with its market acceptance, order rate and dealer enthusiasm. Lisa is clearly being recognized as an important force in the office market. New software under development will broaden Lisa's market reach to include small businesses as well.

We ended the quarter with cash and cash equivalents of \$188.6 million, shareholders' equity of \$360.7 million, and total current assets of \$467.2 million.



John Sculley

President and Chief Executive Officer



Steven P. Jobs

Chairman of the Board

July 27, 1983

Kids Can't Wait

By participating in Apple's Kids Can't Wait program, approximately 9,000 public and private schools at the elementary and secondary level in California will receive an Apple personal computer for student instruction. State tax legislation has allowed Apple to offer this gift as a means for young people to become familiar with computers. Apple considers the program an important step toward student familiarity with a technology that is certain to be a part of their future.

In the program, each school receives an Apple IIe system, monitor, one external disk drive with controller, and Logo—the interactive programming language. Participating dealers will offer all necessary assistance to the schools, including training and instruction.



Consolidated Statements of Income (Unaudited)

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Nine Months Ended	
	<i>July 1, 1983</i>	<i>June 25, 1982</i>	<i>July 1, 1983</i>	<i>June 25, 1982</i>
Net sales	\$267,284	\$142,681	\$709,559	\$407,253
Costs and expenses:				
Cost of sales	138,974	69,897	348,448	202,749
Research and development	14,159	11,401	39,247	28,349
Marketing and distribution	55,608	28,727	152,942	81,708
General and administrative	15,025	7,621	41,914	22,774
	223,766	117,646	582,551	335,580
Operating income	43,518	25,035	127,008	71,673
Interest, net	3,941	3,904	13,397	9,416
Income before taxes on income	47,459	28,939	140,405	81,089
Provision for taxes on income	23,255	13,746	68,799	38,517
Net income	\$ 24,204	\$ 15,193	\$ 71,606	\$ 42,572
Earnings per common and common equivalent share	\$.40	\$.26	\$ 1.20	\$.74
Common and common equivalent shares used in the calculation of earnings per share	60,441	57,890	59,740	57,674

Certain distribution and other costs, which were previously included in cost of sales, have been included in marketing and distribution and general and administrative expenses for the three months and nine months ended July 1, 1983. The consolidated statements of income for the comparable fiscal 1982 periods have been reclassified to conform to the current presentation.

Consolidated Balance Sheets (Unaudited)

<i>(Dollars in thousands)</i>	<i>July 1, 1983</i>	<i>June 25, 1982</i>
Assets		
Current assets:		
Cash and temporary cash investments	\$188,631	\$122,521
Accounts receivable	119,595	62,734
Inventories	135,651	90,115
Other current assets	23,334	8,067
Total current assets	467,211	283,437
Property, plant and equipment:		
Land and buildings	10,015	6,546
Machinery and equipment	42,223	23,508
Office furniture and equipment	21,531	12,025
Leasehold improvements	16,071	10,094
	89,840	52,173
Accumulated depreciation and amortization	(37,979)	(18,729)
Net property, plant and equipment	51,861	33,444
Other assets	6,120	7,080
	\$525,192	\$323,961

<i>(Dollars in thousands)</i>	<i>July 1, 1983</i>	<i>June 25, 1982</i>
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ -	\$ 6,666
Accounts payable	63,343	21,689
Accrued compensation and employee benefits	19,393	10,788
Income taxes payable	5,432	12,000
Accrued advertising	7,209	4,263
Other current liabilities	31,824	20,971
Total current liabilities	127,201	76,377
Non-current obligations under capital leases	1,460	2,131
Deferred taxes on income	35,785	10,919
Shareholders' equity:		
Common stock, no par value: 160,000,000 shares authorized, 58,704,309 shares issued and outstanding	171,993	137,684
Retained earnings	189,938	99,598
	361,931	237,282
Notes receivable from shareholders	(1,185)	(2,748)
Total shareholders' equity	360,746	234,534
	\$525,192	\$323,961



Apple Computer, Inc.
20525 Mariani Avenue
Cupertino, California
95014

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Apple Computer, Inc. First Quarter Report 1984



Financial Highlights

<i>Three months ended</i> <i>(In thousands, except per share amounts)</i>	December 30, 1983	December 31, 1982
Net sales	\$316,229	\$214,293
Net income	\$ 5,822	\$ 23,519
Earnings per share	\$.10	\$.40

On January 24, 1984, Apple introduced its newest personal computer: Macintosh. The sketch on the front cover, which will appear on Macintosh packaging, is representative of the simplicity of use designed into this highly advanced personal computer.

To Our Shareholders:

Net sales for the first quarter of fiscal 1984 which ended on December 30, 1983 were \$316.2 million, a 48% increase from \$214.3 million reported in the first quarter of 1983. Net income for the quarter was \$5.8 million or \$.10 per share, compared to \$23.5 million or \$.40 per share in the comparable period last year.

Sales increased 16% over the \$273.2 million reported for the immediately preceding quarter and net income was up 14% from \$5.1 million in that period.

During the quarter we reduced the price of the Apple IIe which contributed to the quarter's strong sales performance. This along with the impact of product strategy and organization decisions resulted in a 42% gross margin, equal to the immediately preceding quarter.

We continued to substantially increase our investment in the development of new products and aggressive marketing support for the entire product line. Research and development expenses were \$25.3 million, a 76% increase over the comparable period last year and a 22% increase over the fourth quarter of 1983. Principally due to increased promotion and television advertising, marketing and distribution expenses were \$87.3 million, an 87% increase from the first quarter of 1983 and a 13% increase over the immediately preceding quarter.

Employment and general and administrative expenses actually declined from the levels experienced in the fourth quarter of 1983 as we continued to take measures to control the growth of the infrastructure.

The litigation between Apple and Franklin Computer Corporation has been settled.

original Lisa are being offered an opportunity to upgrade to a Lisa 2/5 without charge until June 1, 1984.

Every Lisa and Macintosh has a built-in hardware interface which will allow them to be connected to each other via AppleBus: a point-to-point interconnect system being developed to connect all Apple 32 SuperMicros and peripheral devices. In upcoming months, Apple will announce a variety of low cost peripheral and server products which will be accessible from Lisa and Macintosh, via this virtually cost-free interconnect solution. Additionally, AppleLine will allow Macintosh and Lisa to communicate with IBM mainframe computers by emulating a 3278 terminal. Macintosh and Lisa will both emulate DEC VT 100, VT 52, and TTY through MacTerminal and LisaTerminal.

Through the Apple University Consortium program, 24 leading universities including the Ivy League schools have committed to purchase more than \$50 million in Apple products, mainly Macintosh computers. Over 100 leading independent software companies, including prominent firms such as Microsoft, Lotus Development Corp., and Software Publishing Corp. are currently writing programs for Macintosh and more than 500 individual application programs are expected to be on the market by the end of 1984.

Macintosh is being produced in our recently opened automated factory. We feel this plant is the most advanced in the industry and represents a continued dedication to low-cost, high-quality manufacturing technology.

The strength of the market for the Apple// was clearly demonstrated in December when we sold in excess of 100,000 Apple//e's worldwide. We continue to dedicate significant development and marketing support resources to the Apple// as we expect it to be a mainstream product throughout the eighties.

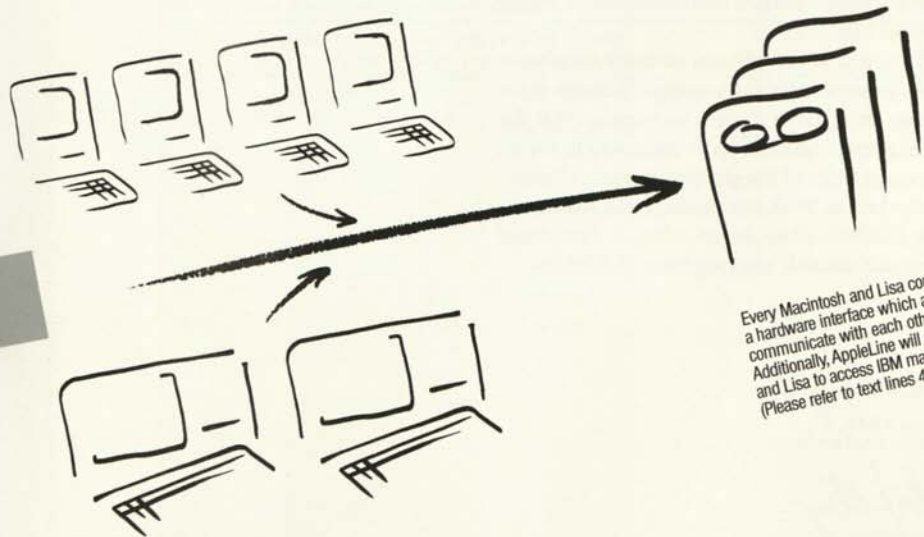
Apple announced a mouse device which is attachable to any Apple//e or Apple//Plus through an easily installed interface card. At the same time, we introduced MousePaint, a drawing program which employs the mouse interface, pull-down menus and other Lisa-



Apple 32 SuperMicros™



Together, Macintosh and the new Lisa products form a product family called the Apple 32 SuperMicros. These systems employ a 32-bit microprocessor and share the user interface first introduced with Lisa, making them extremely easy to use. (Please refer to text lines 5-45 on page 2.)



Every Macintosh and Lisa computer contains a hardware interface which allows them to communicate with each other via AppleBus. Additionally, AppleLine will allow Macintosh and Lisa to access IBM mainframe computers. (Please refer to text lines 4-20 on page 4.)

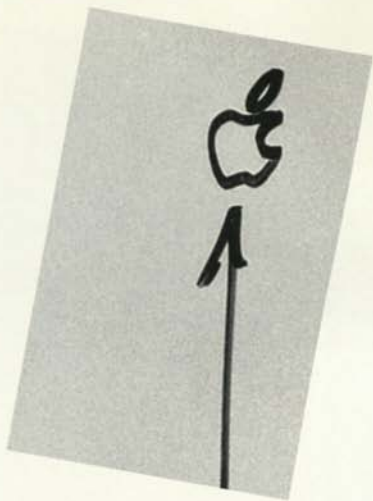
like features. We expect this to be the first of many easy to use software programs which will become available for the Apple// product family and employ the mouse technology. We also introduced ProDos, a new operating system which allows Apple// users to access Apple's Profile 5 megabyte Winchester disk drive. ProDos also enables users to interchange data files between an Apple// and Apple III.

A new integrated software package called Apple Works was announced during the quarter. This software, which will be available in March of 1984, allows a user to move quickly between its word processing, data base management and spread sheet programs and to cut-and-paste between these applications.

The Apple III continued to hold its position in numerous vertical markets and Europe. On December 15, 1983, we announced a new version of the Apple III, the Apple III Plus. The Apple III Plus complies with all FCC regulations, has a built-in clock chip and a number of other enhancements.

Apple ended the quarter with \$187.5 million in cash and temporary cash investments, total assets of \$607.5 million and shareholders' equity of \$386.2 million.

Although we are pleased with the number and significance of the accomplishments made during this quarter, there is no question that the management team at Apple continues to realize the magnitude of the challenges facing them in the future. With our product line strategy now firmly in place, we are taking a disciplined approach towards meeting these challenges.



Steven P. Jobs

Steven P. Jobs
Chairman of the Board

John Sculley

John Sculley
President and Chief Executive Officer

January 27, 1984

Consolidated Statements of Income (Unaudited)

Three months ended <i>(In thousands, except per share amounts)</i>	December 30, 1983	December 31, 1982
Net sales	\$316,229	\$214,293
Costs and expenses:		
Cost of sales	182,828	98,408
Research and development	25,269	14,339
Marketing and distribution	87,303	46,683
General and administrative	15,368	13,805
	310,768	173,235
Operating income	5,461	41,058
Net interest and other income	5,125	5,058
Income before taxes on income	10,586	46,116
Provision for taxes on income	4,764	22,597
Net income	\$ 5,822	\$ 23,519
Earnings per common and common equivalent share	\$.10	\$.40
Common and common equivalent shares used in the calculation of earnings per share	60,036	59,030

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)	December 30, 1983	December 31, 1982*
Assets		
Current assets:		
Cash and temporary cash investments	\$187,485	\$191,865
Accounts receivable	174,497	85,800
Inventories	105,971	70,225
Prepaid income taxes	19,854	2,492
Other current assets	22,709	10,683
Total current assets	510,516	361,065
Property, plant and equipment:		
Land and buildings	25,228	8,722
Machinery and equipment	54,896	29,333
Office furniture and equipment	24,336	14,977
Leasehold improvements	19,320	10,085
Accumulated depreciation and amortization	123,780 (48,557)	63,117 (27,368)
Net property, plant and equipment	75,223	35,749
Other assets	21,743	11,343
	\$607,482	\$408,157

* Reclassified for comparative purposes.

(Dollars in thousands)	December 30, 1983	December 31, 1982*
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 668	\$ 969
Accounts payable	49,482	26,483
Accrued compensation and employee benefits	16,459	14,545
Income taxes payable	1,211	18,247
Accrued marketing and distribution	47,895	13,506
Other current liabilities	46,848	21,126
Total current liabilities	162,563	94,876
Non-current obligations under capital leases	1,158	1,803
Deferred taxes on income	57,608	21,735
Shareholders' equity:		
Common stock, no par value:		
160,000,000 shares authorized,		
59,409,868 shares issued and outstanding	186,592	149,259
Retained earnings	200,868	141,851
Accumulated translation adjustment	(798)	—
Notes receivable from shareholders	386,662	291,110
	(509)	(1,367)
Total shareholders' equity	386,153	289,743
	\$607,482	\$408,157

Apple Computer, Inc.
20525 Mariani Avenue
Cupertino, California 95014

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First quarter report



Apple Computer, Inc.

1 9 8 3

Highlights

Three months ended <i>(In thousands, except per share amounts)</i>	<i>December 31, 1982</i>	<i>December 25, 1981</i>
Net sales	\$214,293	\$133,553
Net income	\$ 23,519	\$ 13,562
Earnings per share	\$.40	\$.24

**To Our
Shareholders:**

Apple's worldwide net sales for the first quarter of fiscal 1983 increased 60 percent, to \$214.3 million, from \$133.6 million a year ago. Net income for the quarter rose 73 percent to \$23.5 million, or \$.40 per share, from \$13.6 million, or \$.24 per share, in the comparable period last year.

Compared to the immediately preceding quarter, sales and net income in the first fiscal quarter were up 22 percent and 26 percent, respectively.

We are pleased with our performance in this period, particularly in light of current economic conditions around the world. Our domestic and foreign sales were both strong, reflecting the continued high popularity of the Apple II and increased volume for the Apple III personal computer, as well as peripheral products and software.

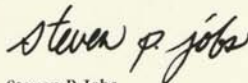
December sales reached a one-month high of \$88.3 million, making Apple the first company to reach the billion-dollar sales rate in personal computer products on an annualized basis. We wish to extend special thanks to all of our vendors, suppliers and our dealers, for their efforts in this achievement. Our expanded product line, which now includes two Apple-branded printers in addition to the ProFile five-megabyte mass storage device, all contributed to the increase in first quarter sales.

Investment in research and development totaled \$14.3 million, 81 percent above the year-earlier figure and an increase of \$2.9 million over the highest previous quarter. At the Annual Shareholders Meeting on January 19, Apple unveiled two major new products that represent the beginning of a new era for Apple and the personal computer industry. These products, the Lisa System and the Apple IIe, are described on the next page of this report.

Personal computer buyers are no longer interested in "bot hardware" alone but in purchasing complete solutions to problems. This trend continues to favor Apple because of the extensive range of Apple-compatible applications software and peripherals currently available.



A.C. Markkula, Jr.
President and Chief Executive Officer



Steven P. Jobs
Chairman of the Board

January 26, 1983

New Products

Two new personal computers from Apple represent industry milestones in technology and value.

Below left, the Lisa™ system revolutionizes the way work is performed in office environments. Lisa, an acronym for Local Integrated Software Architecture, employs extensive graphics and a palm-sized device known as a "mouse" to electronically manipulate the various kinds of data and material dealt with daily by individuals who work in offices. The result is a personal computer system specifically designed for simplicity of use: the first-time user can begin putting it to productive work in less than thirty minutes.

Shown beside the Lisa system is the Apple IIe, the revised and enhanced version of the Apple II, the world's best-selling personal computer. The Apple IIe is the latest and most extensive of thirteen revisions to the Apple II since the product was introduced in 1977. The IIe is priced below a comparably configured Apple II Plus and includes 64K of random access memory, upper and lower case characters, an expanded keyboard and the ability to accept a low-cost 80-column card for text editing.



Consolidated Statements of Income (Unaudited)

Three months ended <i>(In thousands, except per share amounts)</i>	December 31, 1982	December 25, 1981
Net sales	\$214,293	\$133,553
Costs and expenses:		
Cost of sales	98,408	67,149
Research and development	14,339	7,929
Marketing and distribution	46,683	27,531
General and administrative	13,805	7,719
	173,235	110,328
Operating income	41,058	23,225
Interest, net	5,058	2,607
Income before taxes on income	46,116	25,832
Provision for taxes on income	22,597	12,270
Net income	\$ 23,519	\$ 13,562
Earnings per common and common equivalent share	\$.40	\$.24
Common and common equivalent shares used in the calculation of earnings per share	59,030	57,415

Certain distribution and other costs, which were previously included in cost of sales, have been included in marketing and distribution and general and administrative expenses. The consolidated statement of income for the quarter ended December 25, 1981 has been reclassified to conform to the current presentation.

Consolidated Balance Sheets (Unaudited)

	December 31, 1982	December 25, 1981
<i>(Dollars in thousands)</i>		
Assets		
Current assets:		
Cash and temporary cash investments	\$191,865	\$ 76,157
Accounts receivable	85,800	65,043
Inventories	75,889	100,970
Other current assets	13,175	6,990
Total current assets	366,729	249,160
Property, plant and equipment:		
Land and buildings	8,722	6,586
Machinery and equipment	29,333	16,972
Office furniture and equipment	14,977	8,520
Leasehold improvements	10,085	6,794
	63,117	38,872
Accumulated depreciation and amortization	(27,368)	(11,006)
Net property, plant and equipment	35,749	27,866
Other assets	5,679	8,160
	\$408,157	\$285,186

<i>(Dollars in thousands)</i>	<i>December 31, 1982</i>	<i>December 25, 1981</i>
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 969	\$ 12,358
Accounts payable	26,483	20,128
Accrued compensation and employee benefits	14,545	9,187
Income taxes payable	18,247	17,361
Accrued advertising	7,247	6,188
Other current liabilities	27,385	18,730
Total current liabilities	94,876	83,952
Non-current obligations under capital leases	1,803	1,688
Deferred taxes on income	21,735	7,254
Shareholders' equity:		
Common stock, no par value: 160,000,000 shares authorized, 57,648,244 shares issued and outstanding	149,259	124,568
Retained earnings	141,851	70,588
	291,110	195,156
Notes receivable from shareholders	(1,367)	(2,864)
Total shareholders' equity	289,743	192,292
	\$408,157	\$285,186



Apple Computer, Inc.
20525 Mariani Avenue
Cupertino, California
95014

Second quarter report



Apple Computer, Inc.

1 9 8 3

Highlights

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	<i>April 1, 1983</i>	<i>March 26, 1982</i>	<i>April 1, 1983</i>	<i>March 26, 1982</i>
Net sales	\$227,982	\$131,019	\$442,275	\$264,572
Net income	\$ 23,883	\$ 13,817	\$ 47,402	\$ 27,379
Earnings per share	\$.40	\$.24	\$.80	\$.48

We wish to express our appreciation for the immeasurable contributions made by Mike Markkula during the past six years at Apple, first as chairman of the board and then as president and chief executive officer. Mike has been a key management factor in lifting our company into the ranks of the Fortune 500. As vice chairman of the board and a director, he will continue to bring his vision and skills to the task of building Apple.

The Board of Directors
Apple Computer, Inc.

April 28, 1983

**To Our
Shareholders:**

Apple's worldwide net sales for the second fiscal quarter of 1983 increased 74 percent, to a record \$228 million from \$131 million a year ago. Net income for the quarter rose 73 percent to \$23.9 million, or \$.40 per share, from \$13.8 million, or \$.24 per share, in the comparable period last year.

For the first fiscal half of 1983 Apple's sales were \$442.3 million, 67 percent bigger than the \$264.6 million in the year-ago period. Net income increased 73 percent to \$47.4 million from \$27.4 million in 1982. Earnings per share amounted to \$.80 in the first fiscal half of 1983 versus \$.48 in the prior year.

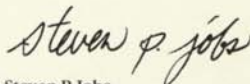
Worldwide sales of Apple products remained strong during the quarter, paced by the new Apple IIe personal computer introduced in January. Demand for the Apple IIe exceeded our expectations, causing temporary shortages at the retail level. We have accelerated production of this system at both our domestic and European plants to meet growing market requirements.

Apple has now standardized on the 256K Apple III configuration, capable of accommodating more sophisticated software programs. We have recently reduced prices for this powerful business system, a move made possible by lower component costs and greater manufacturing efficiency.

We are extremely pleased with the market acceptance and orders to date for our Lisa™ personal office system. Assembly operations for Lisa have begun at our volume manufacturing facility in Dallas and customer shipments, as previously announced, will begin by June.

The company ended the period with cash of \$209.5 million, shareholders' equity of \$325.7 million, and total current assets of \$413.8 million.

We are delighted that John Sculley, former president of Pepsi-Cola Company, has joined Apple as president and chief executive officer. Mr. Sculley's management skills and values are ideally matched to Apple's needs as we move into the next phase of our evolution as a major American company.



Steven P. Jobs
Chairman of the Board



A. C. Markkula, Jr.
Vice Chairman of the Board

April 28, 1983

Product Review

There are now nearly a million Apple computers at work in business, the home, education, science and industry—more than any other computer in their class. Today Apple's growing product family, and its range of application software and peripherals, represents the industry's widest selection of personal computing solutions.

Apple IIe (shown at right) is everything necessary to get started in personal computing. Sixty-four K bytes of user memory and availability of another 64K provides more than enough room for personal computing needs. A keyboard designed for utility and comfort satisfies typical business and scientific requirements.



Eight expansion slots allow customizing the system to personal needs, such as doubling the amount of text on the monitor screen with a low-cost 80-column card, and portable (12 lbs.) design provides added flexibility.



A more powerful version of the Apple II series designed principally for business applications, the Apple III (pictured at left) has inspired development of hundreds of sophisticated new applications software packages to supplement the more than 16,000 programs it can run in Apple II emulation mode. A varied business-oriented selection of peripherals and accessory products is also now available. Apple III applications software has become increasingly high quality and highly integrated, leading to a standardized 256K Apple III.

Lisa (below), the only product of its kind, represents the personal computer industry's first real technological innovation since advent of the Apple II in 1976. Lisa technology was designed to allow users, especially



office workers with no computer knowledge, to perform useful tasks faster, more efficiently, and more easily than with any other kind of computer system.

(For the name of the Apple dealer nearest you, or for information on Apple's National Account Program, call 800-538-9696.)

Consolidated Statements of Income (Unaudited)

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	<i>April 1, 1983</i>	<i>March 26, 1982</i>	<i>April 1, 1983</i>	<i>March 26, 1982</i>
Net sales	\$227,982	\$131,019	\$442,275	\$264,572
Costs and expenses:				
Cost of sales	111,066	65,703	209,474	132,852
Research and development	10,749	9,019	25,088	16,948
Marketing and distribution	50,651	25,450	97,334	52,981
General and administrative	13,084	7,434	26,889	15,153
	185,550	107,606	358,785	217,934
Operating income	42,432	23,413	83,490	46,638
Interest, net	4,398	2,905	9,456	5,512
Income before taxes on income	46,830	26,318	92,946	52,150
Provision for taxes on income	22,947	12,501	45,544	24,771
Net income	\$ 23,883	\$ 13,817	\$ 47,402	\$ 27,379
Earnings per common and common equivalent share	\$.40	\$.24	\$.80	\$.48
Common and common equivalent shares used in the calculation of earnings per share	59,748	57,717	59,389	57,566

Certain distribution and other costs, which were previously included in cost of sales, have been included in marketing and distribution and general and administrative expenses for the three months and six months ended April 1, 1983. The consolidated statements of income for the comparable fiscal 1982 periods have been reclassified to conform to the current presentation.

Consolidated Balance Sheets (Unaudited)

<i>(Dollars in thousands)</i>	<i>April 1, 1983</i>	<i>March 26, 1982</i>
Assets		
Current assets:		
Cash and temporary cash investments	\$209,538	\$101,313
Accounts receivable	102,812	58,122
Inventories	87,680	97,893
Other current assets	13,786	5,812
Total current assets	413,816	263,140
Property, plant and equipment:		
Land and buildings	8,779	6,496
Machinery and equipment	35,164	19,862
Office furniture and equipment	15,850	10,977
Leasehold improvements	12,894	8,615
	72,687	45,950
Accumulated depreciation and amortization	(32,164)	(14,335)
Net property, plant and equipment	40,523	31,615
Other assets	5,118	7,634
	\$459,457	\$302,389

<i>(Dollars in thousands)</i>	<i>April 1, 1983</i>	<i>March 26, 1982</i>
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable to banks	\$ -	\$ 11,935
Accounts payable	45,035	21,831
Accrued compensation and employee benefits	18,139	11,163
Income taxes payable	4,583	6,075
Accrued advertising	7,115	3,307
Other current liabilities	28,182	17,989
Total current liabilities	103,054	72,300
Non-current obligations under capital leases	1,617	1,680
Deferred taxes on income	29,042	11,120
Shareholders' equity:		
Common stock, no par value: 160,000,000 shares authorized, 58,294,864 shares issued and outstanding	161,209	135,658
Retained earnings	165,734	84,405
	326,943	220,063
Notes receivable from shareholders	(1,199)	(2,774)
Total shareholders' equity	325,744	217,289
	\$459,457	\$302,389



Apple Computer, Inc.
20525 Mariani Avenue
Cupertino, California
95014

Apple Computer



Report for the period ended
June 26, 1981

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Third Quarter 1981

To Our Shareholders

Apple Computer's profits increased more than 300% in the third quarter of fiscal 1981 while sales increased 179% over the comparable 1980 period. Profits were \$11.9 million, or \$.21 per share, for the current quarter as compared to \$2.7 million, or \$.06 per share, for the same quarter last year. Sales were \$90.7 million compared to \$32.6 million last year.

In the first nine months of fiscal 1981, Apple earned \$28.5 million, or \$.51 per share, compared to \$8.2 million, or \$.17 per share last year. Sales for the nine months increased to \$237.1 million from \$75.7 million in the comparable 1980 period. Compared to the second quarter of this year, third quarter net income grew 29% and sales increased 15%.

Our pre-tax profit margin rose to 26% of net sales in the third quarter from 23% in the second. Much of this change reflected lower prices for semiconductor components, a general improvement in Apple manufacturing efficiencies, and reduced emphasis on sales of non-Apple peripheral products, which typically yield lower margins.

Research and development expenditures were \$5.5 million for the quarter and \$14.7 million for the nine months of fiscal 1981, reflecting Apple's continuing emphasis on new product development. We are pursuing programs related to advanced microcomputer hardware and software which we believe will reinforce Apple's position in the expanding market for personal computers.

Recently, Apple has signed cooperative agreements in software publishing with Scott Foresman and Co. and with Children's Television Workshop, the creator of Sesame Street. These typify the extensive generation of new application programs by third parties which broaden the usefulness of Apple computer systems. Scott Foresman is developing business educational programs while Children's Television Workshop will provide family-oriented software and educational games—to test motor skills,

reading, vocabulary, math, logic and problem-solving—which Apple will publish and distribute.

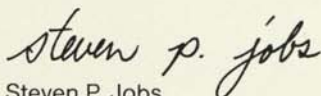
Shipments of the Apple III computer increased moderately during the third quarter. We are firmly committed to the Apple III, an excellent system whose market will develop more rapidly as additional software, now in the process of completion, becomes available. Additional peripheral products for the Apple III will also be announced in the near future.

Apple anticipates a far more vigorous competitive environment in coming quarters, with entries into the personal computer market by companies of proven capability including IBM, Xerox and one or two Japanese firms. We feel their presence will stimulate worldwide demand for the products which Apple originated. There are now over 250,000 Apples in use — an installed base which drives the creation of an enormous amount of applications software and which itself contributes to the growth of our industry.

Apple's balance sheet and liquidity position remain strong as we enter the last quarter of fiscal 1981. We are pleased with the third quarter sales volume and the overall momentum of our business, in light of the negative pressures of high interest rates and a lackluster economy. Demand for Apple products continues to be healthy in this expanding personal computer market.



A. C. Markkula, Jr.
President and Chief Executive Officer



Steven P. Jobs
Chairman of the Board

July 21, 1981

Consolidated Statement of Income, Unaudited

	Nine Months Ended		Quarter Ended	
	June 27, 1980	June 26, 1981	June 27, 1980	June 26, 1981
	(In thousands, except per share amounts)			
Revenues:				
Net sales	\$75,659	\$237,105	\$32,569	\$90,719
Interest income	714	7,801	168	3,623
	<u>76,373</u>	<u>244,906</u>	<u>32,737</u>	<u>94,342</u>
Costs and expenses:				
Cost of sales	42,896	129,704	19,083	47,087
Research and development	5,379	14,656	2,206	5,545
Marketing	6,985	27,440	3,507	11,062
General and administrative	4,224	15,326	2,285	6,807
Interest	22	872	9	135
	<u>59,506</u>	<u>187,998</u>	<u>27,090</u>	<u>70,636</u>
Income before taxes on income	16,867	56,908	5,647	23,706
Provision for taxes on income	<u>(8,697)</u>	<u>(28,454)</u>	<u>(2,912)</u>	<u>(11,848)</u>
Net income	<u>\$ 8,170</u>	<u>\$ 28,454</u>	<u>\$ 2,735</u>	<u>\$11,858</u>
Earnings per common and common equivalent share	<u>\$.17</u>	<u>\$.51</u>	<u>\$.06</u>	<u>\$.21</u>
Common and common equivalent shares used in the calculation of earnings per share	47,910	55,780	48,943	57,240

Consolidated Balance Sheet, Unaudited

Assets

	June 27, 1980	June 26, 1981
	(In thousands)	
Current assets:		
Cash and temporary cash investments	\$ 415	\$ 77,638
Receivables	15,069	45,012
Inventories	22,370	78,108
Prepaid expenses	76	504
Total current assets	<u>37,930</u>	<u>201,262</u>
Property, plant and equipment, at cost	3,149	18,015
Accumulated depreciation and amortization	<u>(677)</u>	<u>(4,096)</u>
Net property, plant and equipment	<u>2,472</u>	<u>13,919</u>
Reacquired distribution rights	—	4,272
Other assets	<u>1,305</u>	<u>2,894</u>
	<u>\$41,707</u>	<u>\$222,347</u>

Liabilities and Shareholders' Equity

	June 27, 1980	June 26, 1981
	(In thousands)	
Current liabilities:		
Notes and accounts payable	\$11,618	\$ 29,387
Accrued liabilities	3,097	18,387
Income taxes payable	5,892	268
Deferred taxes on income	369	1,872
Total current liabilities	<u>20,976</u>	<u>49,914</u>
Non-current obligations under capital leases	427	1,390
Deferred taxes on income	523	6,964
Shareholders' equity:		
Common stock, no par value:		
160,000,000 shares authorized, 55,135,942 shares issued and outstanding (46,158,480 in 1980)	6,742	121,501
Retained earnings	<u>14,078</u>	<u>46,060</u>
	20,820	167,561
Notes receivable from shareholders	<u>(1,039)</u>	<u>(3,482)</u>
Total shareholders' equity	<u>19,781</u>	<u>164,079</u>
	<u>\$41,707</u>	<u>\$222,347</u>



10260 Bandley Drive
Cupertino, California 95014
(408) 996-1010

Apple Computer Inc.



Report for the 3 months
ended December 26, 1980

First Quarter 1981

Consolidated Statement of Income / unaudited

THREE MONTHS ENDED

	Dec. 28, 1979	Dec. 26, 1980
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(In thousands,
except per
share amounts)

Revenues:

Net sales	\$ 19,540	\$ 67,621
Interest income	290	314
	<u>19,830</u>	<u>67,935</u>

Costs and expenses:

Cost of sales	10,545	38,017
Research and development	1,568	3,814
Marketing	1,438	6,820
General and administrative	811	4,056
Interest	4	387
	<u>14,366</u>	<u>53,094</u>

Income before taxes on income	5,464	14,841
Provision for taxes on income	<u>(2,817)</u>	<u>(7,420)</u>
Net income	<u>\$ 2,647</u>	<u>\$ 7,421</u>

Earnings per common and common equivalent share	<u>\$ 0.06</u>	<u>\$ 0.14</u>
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Common and common equivalent shares used in the calculation of of earnings per share	46,945	52,770
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To Our Shareholders

Apple Computer Inc. achieved record sales and net income for the first quarter of fiscal 1981, the three months ended December 26, 1980.

Sales were \$67.6 million, a 246 percent increase over the \$19.5 million reported in the same quarter last year. Net income was \$7.4 million, 180 percent higher than the \$2.6 million earned in the comparable 1980 period. Earnings per share amounted to \$.14, up 133 percent from \$.06 per share a year earlier.

In the fourth quarter of fiscal 1980, the three months ended September 26, 1980, Apple Computer had sales of \$41.5 million, net income of \$3.5 million, and earnings per share of \$.07.

Results for the first quarter reflected strong, continuing demand for the Apple II system and related peripheral and software products. This growth has occurred across the full range of our markets, with particular strength in the professional-managerial and educational segments.

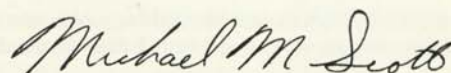
Demand in the first quarter of fiscal 1981 was greater than anticipated. Management considers it unlikely that we will sustain this rate of sales growth, on a consecutive quarterly basis, in the second fiscal quarter.

In October, the company began production of Apple II computers and floppy disk drives in a new 43,000 sq. ft. plant in Cork, Ireland, primarily designed to serve Europe. Our new 150,000 sq. ft. plant in Dallas, Texas commenced operations in June and is now the major U.S. production facility for the Apple II.

Shipments of the Apple III system began to dealers in October and to customers in November. We are now beginning volume production of this advanced personal computer system.

Profit margins in the first quarter of fiscal 1981, compared to the prior year, were affected by start up costs associated with the Cork facility and by the introduction of the Apple III computer. Spending for research and development during the quarter was \$3.8 million, up 143 percent over the same quarter last year.

Despite the current recessionary environment, the outlook for the personal computer markets served by Apple continues to be positive, both in the U.S. and abroad.



Michael M. Scott
President and Chief Executive Officer

Consolidated Statement of Income / unaudited

	THREE MONTHS ENDED	
	Dec. 28, 1979	Dec. 26, 1980
	(In thousands, except per share amounts)	
Revenues:		
Net sales	\$ 19,540	\$ 67,621
Interest income	290	314
	<u>19,830</u>	<u>67,935</u>
Costs and expenses:		
Cost of sales	10,545	38,017
Research and development	1,568	3,814
Marketing	1,438	6,820
General and administrative	811	4,056
Interest	4	387
	<u>14,366</u>	<u>53,094</u>
Income before taxes on income	5,464	14,841
Provision for taxes on income	(2,817)	(7,420)
Net income	<u>\$ 2,647</u>	<u>\$ 7,421</u>
Earnings per common and common equivalent share	<u>\$ 0.06</u>	<u>\$ 0.14</u>
Common and common equivalent shares used in the calculation of of earnings per share	46,945	52,770

Consolidated Balance Sheet / unaudited

Assets

	Dec. 28, 1979	Dec. 26, 1980
		(In thousands)
Current assets:		
Cash and temporary cash investments	\$ 4,968	\$ 74,688
Accounts receivable	9,920	32,484
Inventories	8,088	38,051
Prepaid expenses	76	497
Total current assets	<u>23,052</u>	<u>145,720</u>
Property, plant and equipment, at cost	1,486	11,146
Accumulated depreciation and amortization	(298)	(1,918)
Net property, plant and equipment	<u>1,188</u>	<u>9,228</u>
Reacquired distribution rights	0	4,965
Other assets	396	2,209
	<u>\$ 24,636</u>	<u>\$ 162,122</u>

Liabilities/Shareholders' Equity

	Dec. 28, 1979	Dec. 26, 1980
		(In thousands)
Current liabilities:		
Notes and accounts payable	\$ 3,609	\$ 15,625
Accrued liabilities	2,455	8,741
Income taxes payable	3,887	4,339
Deferred taxes on income	1,738	161
Total current liabilities	<u>11,689</u>	<u>28,866</u>
Non-current obligations under capital leases	197	800
Deferred taxes on income	376	1,451
Shareholders' equity:		
Common stock, no par value: 160,000,000 shares authorized, 54,621,932 shares issued and outstanding (43,575,240 in 1979)	4,523	109,942
Retained earnings	8,555	25,027
	<u>13,078</u>	<u>134,969</u>
Notes receivable from shareholders	(704)	(3,964)
Total shareholders' equity	<u>12,374</u>	<u>131,005</u>
	<u>\$ 24,636</u>	<u>\$ 162,122</u>

NOTES

1. On December 12, 1980, the company issued 4,400,000 of its common stock pursuant to a public offering which was registered under the Securities Act of 1933. The net proceeds received, \$90,330,000, were used to repay short-term bank indebtedness of approximately \$7,850,000 and to increase working capital.
2. The cost of property, plant and equipment increased by approximately \$5.8 million during the current quarter due to the addition of a new production plant in Cork, Ireland.